



CHAIRMAN'S STATEMENT

This first half of the year marked great achievement of the Group in terms of profitability and business development. Not only did we attain a record high six-month net profit but also achieved positive EBITDA for our fixed telecommunications network services, the first time ever since its service commencement. These are encouraging results given the economic uncertainty that has clouded the market.

The two main businesses of the Group, IDD and fixed telecommunications network services, have both fared strongly. Our IDD business is in its harvest stage and we continue to benefit from its strong performance. Riding on our strong market position, the management has decided to put enhancing profitability of the IDD business as a key objective while maintaining market share. This objective has been realized with positive growth recorded in all aspects including revenue, gross and operating margin and cash flow. As market competition subsided, our average tariffs increased by 9%, contributing to further returns to the Group.

Equally encouraging is the fact that the fixed telecommunications network business has begun to bear fruits after years of diligent development. The broadband Internet and local telephony services reported strong growth in revenue and customer base, resulting in a reduction of operating loss and a positive EBITDA.

INTERIM DIVIDEND

The directors have declared an interim dividend of HK\$0.05 (2002: Nil) per ordinary share for the six months ended 28th February 2003 to shareholders whose names appear on the Register of Members of the Company on 27th May 2003. The dividend will be paid on or about 10th June 2003.

FINANCIAL REVIEW

During the period under review, we have seen continuing growth in revenue, margin and profitability. Our net profit for the period was the highest record for a six-month period – a remarkable achievement given the very challenging economic environment in Hong Kong.

Revenue was boosted by the outstanding performance of fixed telecommunications network business coupled with stable IDD business. Sales hiked 21% to HK\$657 million compared to HK\$545 million of the last corresponding period. IDD revenue increased by 4% to HK\$469 million from HK\$451 million while revenue from fixed telecommunications network services soared 101% reaching HK\$189 million from HK\$94 million, because of the success in gaining new customers.

On the cost side, the achievement of economies of scale resulting from our high IDD traffic volume, the utilization of self-owned fixed telecommunications network, together with the lower cost of services attributed to the USC rebate of HK\$40.6 million from PCCW have significantly improved the Group's gross margin to 69% (HK\$454 million) from 56% (HK\$305 million) of the last corresponding period. Operating margin also improved due to effective cost control measures.

Operating profit for IDD business grew by 50% to HK\$162 million from HK\$108 million. The fixed telecommunications network business recorded a much less operating loss of HK\$43 million, compared to HK\$58 million in the last corresponding period. This was mainly due to the strong growth in the number of subscribers and the cost efficiency achieved from provision of multiple services on our established IP network.

The combined effect of revenue growth and cost savings are reflected in the strong bottom line results. Profit attributable to shareholders reached \$113 million, a record high for the Group, representing a remarkable increase of 164% from HK\$43 million of the last corresponding period.

As of 28th February 2003, the Group had cash and bank balances of HK\$280 million and outstanding borrowing of HK\$20 million. Capital expenditure was HK\$159 million during the period, the majority of which, approximately HK\$150 million was for developing the local fixed telecommunications network. Our network development will require ongoing capital expenditure which will be met by internal reserves.

BUSINESS REVIEW

International Telecommunications Services

During the period under review, total IDD outgoing minutes stabilized at its current level. Moreover, our tariff maintained in a healthy position due to less intensive market competition over the period. Our position as one of the largest service providers in the market is unchallenged.

Calls to the mainland made up 64% of our entire outgoing IDD traffic, followed by the US and Canada markets which accounted for 8% and 7% respectively.

The Group launched the new IDD0030 brand during the period, which offers a more simple tariff schedule than IDD1666. IDD16+ was another new brand under which, customers can select among 16+005, 16+0060, 16+007, 16+0080 and 16+009 to obtain various tariff discounts. These brands have been well-received by the market and the number of active customers as a whole increased from 532,000 to 760,000 in this reporting period, which has contributed positively to our revenue and cash flow. Overall, the IDD business generated HK\$179 million positive cash flow at EBITDA level.

Fixed Telecommunications Network Services

The fixed telecommunications network services are growing strongly and rapidly and achieved an outstanding revenue growth during the period. The suite of services provided under our Metro Ethernet IP network now includes residential and corporate broadband Internet access and local telephony, each with strong customer base. As of the end of February 2003, residential and corporate fixed telecommunications network business had over 224,000 and 8,000 customers respectively. Enjoying a steady growth in income, this business recorded positive EBITDA of HK\$26 million, the first time ever since the operation commenced.

As of the end of period, our network has covered over 530 commercial buildings with 1.2 million homepass, of which 500,000 homepass could receive local telephony service. Under our strategy of driving network expansion in full swing, we expect by the end of 2003, 90% of the total 1.2 million coverage will be upgraded to include local telephony services.

In retrospect, we are much encouraged by the strong results we achieved against a backdrop of a challenging economy. Our solid performance is backed by a strong and stable IDD business coupled with a versatile fixed telecommunications network. To build such a network as a service backbone has always been our top priority. Today, such a backbone has taken shape and allows us to provide a multitude of services to fulfill market demands.

PROSPECTS

Our position as a leading IDD service provider will continue to provide us with steady income. Strengthening our service offerings and introducing new brands such as IDD0030 and IDD16+ has provided us with new ammunition to gain new income streams. We will look to develop new products and closely monitor costs in order to generate the most return to our shareholders.

Exciting new services will be launched to fully capitalize on our Metro Ethernet IP network. In the pipeline will be pay-TV service. Targeted for 2003 and utilizing our existing network, this service requires little capital investment and will not create pressure to our capital reserves. The foreseeable capital expenditure will be for the installation of set-top boxes for reception at customers' end, for which the investment will be incremental following the speed of customer take-up.

At present, our Metro Ethernet IP network operates via wireless technology. Starting from 2003, the Group is licensed to build our own fibre optics network. Construction has begun over the territory. The investment for this will not exceed HK\$250 million.

Looking ahead, the Group will continue with two main strategies. First, the Group will provide three core services on a single network. Under this strategy, the Group will fully utilize its existing fixed network infrastructure to promote broadband Internet access, local telephony and pay-TV services. More value-added services will be explored to generate multiple sources of revenue.

Secondly, the Group will adopt prudent financial disciplines to achieve net free cash flow. CAPEX investment will be closely controlled to ensure that they can be matched by net operating cash inflow.

Strong market leadership, self-owned infrastructure and commitment to innovation are successful factors that will continue to underscore CTI's growth and success.

**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE SIX MONTHS ENDED 28TH FEBRUARY 2003**

The directors are pleased to present the Group's Interim Report and condensed accounts for the six months ended 28th February 2003. The consolidated results, consolidated cash flow statement and consolidated statement of changes in equity for the Group for the six months ended 28th February 2003, and the consolidated balance sheet as at 28th February 2003 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 4 to 17 of this report.

		Unaudited Six months ended 28th February	
	<i>Note</i>	2003 HK\$'000	2002 HK\$'000
Turnover	2	657,384	544,910
Cost of services provided	3	<u>(203,738)</u>	<u>(240,115)</u>
Gross profit		453,646	304,795
Other revenues		4,518	4,874
Other operating expenses	4	<u>(338,425)</u>	<u>(259,584)</u>
Operating profit	5	119,739	50,085
Finance costs		<u>(495)</u>	<u>(1,057)</u>
Profit before taxation		119,244	49,028
Taxation	7	<u>(6,377)</u>	<u>(14,391)</u>
Profit after taxation		112,867	34,637
Minority interests		<u>–</u>	<u>8,109</u>
Profit attributable to shareholders		<u>112,867</u>	<u>42,746</u>
Dividends	8	<u>25,316</u>	<u>–</u>
Basic earnings per share	9	<u>22.4 cents</u>	<u>8.7 cents</u>
Diluted earnings per share	9	<u>19.3 cents</u>	<u>7.7 cents</u>

**CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 28TH FEBRUARY 2003**

	<i>Note</i>	Unaudited 28th February 2003 HK\$'000	Audited 31st August 2002 HK\$'000
Goodwill	10	3,729	4,261
Fixed assets	10	945,263	873,096
Current assets			
Accounts receivable	11	107,537	108,058
Other receivables, deposits and prepayments		23,672	27,287
Restricted bank deposits	12	8,622	5,000
Cash and bank balances		279,827	309,583
		<u>419,658</u>	<u>449,928</u>
Current liabilities			
Loan from a former minority shareholder	13	–	22,500
Accounts payable	14	130,727	126,280
Other payables and accrued charges		140,606	182,858
Deposits received		19,977	18,189
Deferred service income		4,819	5,167
Obligations under finance leases	15	786	2,949
Taxation payable		12,570	24,979
Bank overdrafts, unsecured		19,223	19,180
		<u>328,708</u>	<u>402,102</u>
Net current assets		90,950	47,826
Total assets less current liabilities		<u>1,039,942</u>	<u>925,183</u>
Financed by:			
Share capital	16	50,632	50,086
Reserves		974,310	860,097
Shareholders' funds		<u>1,024,942</u>	<u>910,183</u>
Deferred taxation		15,000	15,000
		<u>1,039,942</u>	<u>925,183</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 28TH FEBRUARY 2003**

**Unaudited
Six months ended
28th February**

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Net cash from operating activities	154,956	133,974
Net cash used in investing activities	(161,707)	(264,847)
Net cash (used in)/generated from financing activities	(22,390)	8,971
Decrease in cash and cash equivalents	(29,141)	(121,902)
Cash and cash equivalents at 1st September	290,403	467,750
Effect on foreign exchange rate changes	(658)	2,341
Cash and cash equivalents at 28th February	<u>260,604</u>	<u>348,189</u>
Analysis of the balances of cash and cash equivalents:		
Cash and bank balances	279,827	365,334
Bank overdrafts, unsecured	(19,223)	(17,145)
	<u>260,604</u>	<u>348,189</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 28TH FEBRUARY 2003**

	Unaudited					
	Share capital	Share premium	Warrant reserve	Exchange reserve	Retained profits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st September 2002	50,086	572,656	9,089	(38)	278,390	910,183
Profit for the period	–	–	–	–	112,867	112,867
Exercises of warrants (Note 16(b))	–	–	(492)	–	–	(492)
Shares issued upon exercise of share options (Note 16(a))	50	240	–	–	–	290
Shares issued upon exercise of warrants (Note 16(b))	496	1,979	–	–	–	2,475
Exchange adjustments on translation of the accounts of overseas subsidiaries	–	–	–	(381)	–	(381)
At 28th February 2003	<u>50,632</u>	<u>574,875</u>	<u>8,597</u>	<u>(419)</u>	<u>391,257</u>	<u>1,024,942</u>

	Unaudited					
	Share capital	Share premium	Warrant reserve	Exchange reserve	Retained profits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st September 2001	49,107	569,180	–	(242)	187,261	805,306
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
Exercise of warrants	–	–	(218)	–	–	(218)
Shares issued upon exercise of share options	136	390	–	–	–	526
Shares issued upon exercise of warrants	220	877	–	–	–	1,097
Exchange adjustments on translation of the accounts of overseas subsidiaries	–	–	–	2,341	–	2,341
At 28th February 2002	<u>49,463</u>	<u>570,447</u>	<u>9,539</u>	<u>2,099</u>	<u>230,007</u>	<u>861,555</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM ACCOUNTS

1 Basis of preparation and accounting policies

These unaudited consolidated condensed accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, "Interim Financial Reporting", issued by the Hong Kong Society of Accountants ("HKSA").

These condensed accounts should be read in conjunction with the 2002 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31st August 2002 and the Group has adopted the following new or revised SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 25 (revised)	:	Interim financial reporting
SSAP 34	:	Employee benefits

In accordance with SSAP 34, the changes to the Group's accounting policy for employee benefits and the effect of adopting this new policy is set out below:

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

Other than the above, the adoption of these new or revised SSAPs has no material effect on the Group's financial statements.

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 two 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 telephony services

The Group's inter-segment transactions mainly consist of provision of leased lines services. It was entered into at similar terms as that contracted with third parties.

2 Segment information (continued)

(a) Business segments (continued)

	6 months ended 28th February 2003			
	International telecommunica- tions services HK\$'000	Fixed telecommunica- tions network services HK\$'000	Elimination HK\$'000	Group HK\$'000
Turnover				
External sales	468,571	188,813	–	657,384
Inter-segment sales	8,432	13,782	(22,214)	–
	<u>477,003</u>	<u>202,595</u>	<u>(22,214)</u>	<u>657,384</u>
Segment results	<u>162,303</u>	<u>(42,564)</u>		119,739
Finance costs				<u>(495)</u>
Profit before taxation				119,244
Taxation				<u>(6,377)</u>
Profit attributable to shareholders				<u>112,867</u>

	6 months ended 28th February 2002			
	International telecommunica- tions services HK\$'000	Fixed telecommunica- tions network services HK\$'000	Elimination HK\$'000	Group HK\$'000
Turnover				
External sales	450,785	94,125	–	544,910
Inter-segment sales	8,100	12,774	(20,874)	–
	<u>458,885</u>	<u>106,899</u>	<u>(20,874)</u>	<u>544,910</u>
Segment results	<u>107,984</u>	<u>(57,899)</u>		50,085
Finance costs				<u>(1,057)</u>
Profit before taxation				49,028
Taxation				<u>(14,391)</u>
Minority interest				<u>8,109</u>
Profit attributable to shareholders				<u>42,746</u>

2 Segment information (continued)

(b) Geographical segments

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

Hong Kong – international telecommunications and fixed telecommunications network services

Japan – international telecommunications services

Canada – international telecommunications and fixed telecommunications network services

	Turnover 6 months ended 28th February		Operating profit 6 months ended 28th February	
Geographical segment:	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Hong Kong	638,434	523,235	111,584	48,701
Japan	4,481	3,930	644	(345)
Canada	14,469	17,745	7,511	1,729
	<u>657,384</u>	<u>544,910</u>	<u>119,739</u>	<u>50,085</u>

Sales are based on the country in which the customer is located. There are no sales between the geographical segments.

3 Cost of services provided

The Group makes estimated Universal Services Contributions ("USC") to PCCW Limited to fund the costs of network development in remote areas in Hong Kong. The Office of the Telecommunications Authority (the "OFTA") periodically reviews the actual costs of such development and revises the amounts owed or to be refunded to the USC contributing parties based on such reviews.

On 30th November 2002, the OFTA issued a statement (the "Statement") on the USC which sets forth the findings of the OFTA's review of net universal service costs for the year 2000 and confirms the actual USC payable by USC contributing parties for the year 2000. The Statement also revises the provisional USC payable for the period after 1st January 2001 to be applied retrospectively as of 1st January 2001 until determination of the actual amount (Note 20(a)). As a result of the Statement, in February 2003, the Group received a refund of USC paid for the period from 1st January 2000 to 31st December 2000 of HK\$40,585,606 and this has been set off against cost of services provided.

4 Other operating expenses

	6 months ended 28th February	
	2003 HK\$'000	2002 HK\$'000
Advertising and marketing expenses	89,576	69,282
Amortisation of goodwill	532	862
Depreciation	86,341	54,091
Equipment rental	–	3,089
Loss on disposal of fixed assets	–	546
Office rental and utilities	8,897	8,555
Provision for doubtful debts	10,744	3,709
Staff costs (including directors' emoluments) (Note 6)	100,933	89,789
Others	41,402	29,661
	<u>338,425</u>	<u>259,584</u>

5 Operating profit

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

	6 months ended 28th February	
	2003 HK\$'000	2002 HK\$'000
<u>Crediting</u>		
Interest income	1,551	4,998
Gain on disposal of fixed assets	<u>146</u>	<u>–</u>
<u>Charging</u>		
Amortisation of goodwill	532	862
Depreciation of owned fixed assets	85,283	52,307
Depreciation of fixed assets held under finance leases	1,058	1,784
Loss on disposal of fixed assets	–	546
Provisions for doubtful debts	<u>10,744</u>	<u>3,709</u>

6 Staff costs (including directors' emoluments)

	6 months ended 28th February	
	2003 HK\$'000	2002 HK\$'000
Wages and salaries	91,592	84,150
Unutilised annual leave	1,900	–
Pension costs – defined contribution plans	7,441	5,639
	<u>100,933</u>	<u>89,789</u>

Forfeited contributions totalling HK\$170,833 (2002: HK\$209,816) were utilised during the period.

No pension obligations for defined contribution plans were included in other payables and accrued charges as at 28th February 2003 (as at 31st August 2002: Nil).

7 Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 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 overseas countries in which the Group operates.

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

	6 months ended 28th February	
	2003 HK\$'000	2002 HK\$'000
Hong Kong profits tax – current	5,703	16,791
Overseas taxation		
– current	674	–
– overprovisions in prior periods	–	(2,400)
	<u>6,377</u>	<u>14,391</u>

8 Dividends

	6 months ended 28th February	
	2003 HK\$'000	2002 HK\$'000
Interim dividend of HK\$0.05 (2002: Nil) per ordinary share, total 506,320,663 ordinary shares in issue as at 28th February 2003	<u>25,316</u>	<u>–</u>

At a meeting held on 6th May 2003 the directors declared an interim dividend of HK\$0.05 per ordinary share for the six months ended 28th February 2003. This dividend is not reflected as a dividend payable in these condensed accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st August 2003.

9 Earnings per share

	6 months ended 28th February	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Profit attributable to shareholders	<u>112,867</u>	<u>42,746</u>
	Number of shares in thousand	Number of shares in thousand
Weighted average number of shares in issue	502,975	491,645
Incremental shares from assumed exercise of share options	13,952	4,334
Incremental shares from assumed exercise of warrants	<u>68,136</u>	<u>58,476</u>
Diluted weighted average number of shares	<u>585,063</u>	<u>554,455</u>
Basic earnings per share	22.4 cents	8.7 cents
Diluted earnings per share	19.3 cents	7.7 cents

10 Capital expenditure

	Goodwill <i>HK\$'000</i>	Fixed assets <i>HK\$'000</i>
6 month ended 28th February 2003		
Opening net book amount	4,261	873,096
Additions	–	159,134
Disposals	–	(903)
Amortisation/depreciation charge (<i>Note 4</i>)	(532)	(86,341)
Exchange adjustments	<u>–</u>	<u>277</u>
Closing net book amount	<u>3,729</u>	<u>945,263</u>

11 Accounts receivable

The aging analysis of the accounts receivable is as follows:

	28th February	31st August
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Current – 30 days	91,723	94,778
31 – 60 days	10,665	7,750
61 – 90 days	5,144	5,529
Over 90 days	<u>5</u>	<u>1</u>
	<u>107,537</u>	<u>108,058</u>

The majority of the Group's turnover is on open account. 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 Pledge of assets

As at 28th February 2003, the Group had deposits of HK\$5,000,000 (31st August 2002: HK\$5,000,000) at a bank as sureties to the OFTA for the due performance of the terms of the Wireless Fixed Telecommunications Network Services Licence. The amount of the sureties shall reduce and the deposits would be refunded upon satisfying the terms stipulated in the licence.

As at 28th February 2003, the terms of the licence have been satisfied by the Group (Note 20(b)).

As at 28th February 2003, the Group had pledged bank deposits of HK\$3,622,000 (31st August 2002: Nil) to secure bank guarantee in lieu of utility deposits (Note 17).

13 Loan from a former minority shareholder

The loan has been fully settled during the period.

14 Accounts payable

The aging analysis of the accounts payable is as follows:

	28th February	31st August
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Current – 30 days	22,784	53,613
31 – 60 days	35,893	24,939
61 – 90 days	17,656	11,587
Over 90 days	54,394	36,141
	<u>130,727</u>	<u>126,280</u>

15 Obligations under finance leases

	28th February	31st August
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Minimum lease payments:		
– Within one year	792	3,003
Future finance charges on finance leases	(6)	(54)
Present value of finance lease liabilities	<u>786</u>	<u>2,949</u>
The present value of finance lease liabilities is as follows:		
– Within one year	<u>786</u>	<u>2,949</u>

16 Share capital

	Number of ordinary shares of HK\$0.10 each	HK\$'000
Authorised		
At 1st September 2002 and 28th February 2003	<u>2,000,000,000</u>	<u>200,000</u>
Issued and fully paid		
At 1st September 2001	491,074,000	49,107
Exercise of share options	1,360,000	136
Exercise of warrants	<u>2,197,202</u>	<u>220</u>
At 28th February 2002	<u>494,631,202</u>	<u>49,463</u>
At 1st March 2002	494,631,202	49,463
Exercise of share options	1,700,000	170
Exercise of warrants	<u>4,532,000</u>	<u>453</u>
At 31st August 2002	<u>500,863,202</u>	<u>50,086</u>
At 1st September 2002	500,863,202	50,086
Exercise of share options (<i>note (a)</i>)	500,000	50
Exercise of warrants (<i>note (b)</i>)	<u>4,957,461</u>	<u>496</u>
At 28th February 2003	<u>506,320,663</u>	<u>50,632</u>

- (a) During the six months ended 28th February 2003, 500,000 shares were issued at a price of HK\$0.58 per share to share options holder who exercised his subscription rights. The shares issued rank pari passu with the existing shares in issue.
- (b) During the six months ended 28th February 2003, 4,957,461 warrants were exercised for an equivalent number of shares and 86,628,137 warrants were outstanding at period end. The shares issued rank pari passu with the existing shares in issue.
- (c) The movement of outstanding share options during the interim period was as follows:

Date of grant	3rd September 1998	10th September 1999	20th October 2000
Exercise price per share (HK\$)	0.26	2.10	0.58
Number of share options outstanding at 1st September 2002	890,000	60,000	21,410,000
Exercised during the period (<i>Note 16(a)</i>)	<u>–</u>	<u>–</u>	<u>(500,000)</u>
Number of share options outstanding at 28th February 2003	<u>890,000</u>	<u>60,000</u>	<u>20,910,000</u>

All of the above share options were granted under a share option scheme approved by the shareholders of the Company on 12th July 1997 (the "1997 Share Option Scheme") and are immediately exercisable.

Each option entitles the holder to subscribe for one ordinary share of HK\$0.10 each in the Company at a predetermined exercise price.

16 Share capital (continued)

At an Extraordinary General Meeting held on 23rd December 2002, a new share option scheme (the "2002 Share Option Scheme") was approved by the shareholders of the Company and the 1997 Share Option Scheme was terminated on the same date accordingly. No further share option could be granted under the 1997 Share Option Scheme after the date of its termination, but all share options outstanding in respect of the 1997 Share Option Scheme as of 28th February 2003 shall continue to be exercisable in accordance with the provisions of the 1997 Share Option Scheme.

No share options have been granted under the 2002 Share Option Scheme.

17 Contingent liabilities

	Group		Company	
	28th February	31st August	28th February	31st August
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Letter of guarantee provided to a supplier	2,812	–	2,812	–
Bank guarantee in lieu of utility deposits (Note 12)	3,622	–	–	–
	<u>6,434</u>	<u>–</u>	<u>2,812</u>	<u>–</u>

18 Commitments

(a) Capital commitments

	Group	
	28th February	31st August
	2003 HK\$'000	2002 HK\$'000
Purchase of telecommunications, computer and office equipment – contracted but not provided for	<u>49,798</u>	<u>139,009</u>

18 Commitments (continued)

(b) Commitments under operating leases

At 28th February 2003, the Group had future aggregate minimum lease payments under non-cancelable operating leases as follows:

	28th February	31st August
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Leases in respect of land and buildings which are payable:		
Within one year	6,016	6,970
In the second to fifth year inclusive	5,968	1,874
	<u>11,984</u>	<u>8,844</u>
Leases in respect of telecommunications facilities which are payable:		
Within one year	16,431	8,199
In the second to fifth year inclusive	6,390	528
	<u>22,821</u>	<u>8,727</u>
	<u>34,805</u>	<u>17,571</u>

19 Pending litigations

The directors have been advised that there was no significant progress on the pending litigations as disclosed in the annual report of the Group for the year ended 31st August 2002.

20 Subsequent event

- (a) On 8th March 2003, the Group received a provisional refund of USC paid for the period from 1st January 2001 to 30th June 2002 of HK\$56,488,570. The actual amount is still subject to confirmation of the OFTA.

The Group has not made any decision to adjust its books of accounts pending further confirmation of the actual level of refund by the OFTA.

- (b) On 28th March 2003, the OFTA issued a certificate of completion and the pledged deposits of HK\$5,000,000 (Note 12) have been released accordingly.

OTHER INFORMATION

Employee Remuneration

Including the directors of the Group, as at 28th February 2003, the Group employed a total of 2,150 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 a share option scheme.

Purchase, sale or redemption of listed securities

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

Directors' interests in equity or debt securities

At 28th February 2003, the interests of the directors and chief executives in the equity or debt securities 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\$0.10 each of the Company (the "Share")

Name of director	Number of Shares beneficially held			Total interests
	Personal interests	Corporate interests	Family interests	
Mr Wong Wai Kay, Ricky	1,250,000	253,096,000 <i>Note 1</i>	1,284,000 <i>Note 2</i>	255,630,000
Mr Cheung Chi Kin, Paul	508,000	251,750,000 <i>Note 1(i)</i>	–	252,258,000
Mr Chong Kin Chun, John	1,370,000	–	–	1,370,000
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

Notes:

- (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) 251,750,000 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.

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.

- (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”)

Name of director	Number of Warrants beneficially held			
	Personal interests	Corporate interests	Family interests	Total interests
Mr Wong Wai Kay, Ricky	–	66,766,999 <i>Note 1</i>	240,000 <i>Note 2</i>	67,006,999
Mr Cheung Chi Kin, Paul	–	66,766,999 <i>Note 1</i>	–	66,766,999
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

Notes:

- (1) 66,766,999 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 Warrants are jointly owned by Mr Wong and his spouse.

- (c) Share options of the Company

Details of the interests of directors in share options of the Company are described under the section “Share Option Schemes” in this report.

Save as disclosed above and under the section “Share Option Schemes” in this report, at no time during the period 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.

Share Option Schemes

On 23rd December 2002, a share option scheme (the “2002 Share Option Scheme”) of the Company was approved by the shareholders under which the directors may, at their discretion, invite employees, executives, officers (including executive, non-executive and independent non-executive directors), suppliers and professional advisors of the Group to take up options to subscribe for Shares subject to the terms and conditions stipulated therein. No option has been granted under the 2002 Share Option Scheme during the period.

The Company also has an old share option scheme (the “1997 Share Option Scheme”) adopted by the shareholders on 12th July 1997 which was terminated on 23rd December 2002 upon the adoption of the 2002 Share Option Scheme. Upon termination, no further options have been or will be granted under the 1997 Share Option Scheme but the provisions of such scheme in all other respects remain in force and all share options granted thereunder (“Share Options”) prior to termination continue to be valid and exercisable in accordance with the 1997 Share Option Scheme.

Details of the outstanding Share Options and Share Options exercised under the 1997 Share Option Scheme during the six months period ended 28th February 2003 are as follows:–

Participants	Date of grant	Exercise price per share	Exercisable period	No. of options outstanding as at 1st September 2002	No. of options exercised during the period	No. of options outstanding as at 28th February 2003
Directors						
Wong Wai Kay, Ricky	20th Oct 2000	HK\$0.58	<i>Note 1</i>	10,000,000	–	10,000,000
Cheung Chi Kin, Paul	20th Oct 2000	HK\$0.58	<i>Note 1</i>	10,000,000	–	10,000,000
Chong Kin Chun, John	20th Oct 2000	HK\$0.58	31st Oct 2000 to 11th July 2007	500,000	500,000 <i>Note 2</i>	–
Fung So Mui, Fion	20th Oct 2000	HK\$0.58	1st Nov 2000 to 11th July 2007	500,000	–	500,000
Sub Total				21,000,000	500,000	20,500,000
Other employees in aggregate						
	3rd Sep 1998	HK\$0.26	3rd Sep 2000 to 11th July 2007	890,000	–	890,000
	10th Sep 1999	HK\$2.10	10th Sep 1999 to 11th July 2007	60,000	–	60,000
	20th Oct 2000	HK\$0.58	2nd June 2001 to 11th July 2007	410,000	–	410,000
Sub Total				1,360,000	–	1,360,000
Total				22,360,000	500,000	21,860,000

Notes:

- (1) The exercisable period of these Share Options are as below:
3,000,000 Share Options – 20th Oct 2000 to 11th July 2007
3,000,000 Share Options – 2nd June 2001 to 11th July 2007
4,000,000 Share Options – 2nd June 2002 to 11th July 2007
- (2) The weighted average closing price of the Shares of the Company immediately before the date of exercise was HK\$1.43 per share.

- (3) No Share Options under the 1997 Share Option Scheme were granted, cancelled or lapsed during the six months period ended 28th February 2003.
- (4) All outstanding Share Options are immediately exercisable.

Save as disclosed above, at no time during the period 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 2003, 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 under the section "Directors' interests in equity or debt securities" in this report.

Compliance with the Code of Best Practice

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 Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Listing Rules") 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 and paragraph 16 of Hong Kong Statement of Standard Accounting Practice 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 2002 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 2003.

Closure of Register of Members

The Register of Members of the Company will be closed from 23rd May 2003 (Friday) to 27th May 2003 (Tuesday), both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Registrar, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 22nd May 2003 (Thursday).

By Order of the Board
Wong Wai Kay, Ricky
Chairman

Hong Kong, 6th May 2003