



**SUCCESS IS THE REWARD
FOR ACCOMPLISHMENT**



Impeccable services, broad product offerings and strong technological platform are all ingredients to our success. Today, our diligence pays.



MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

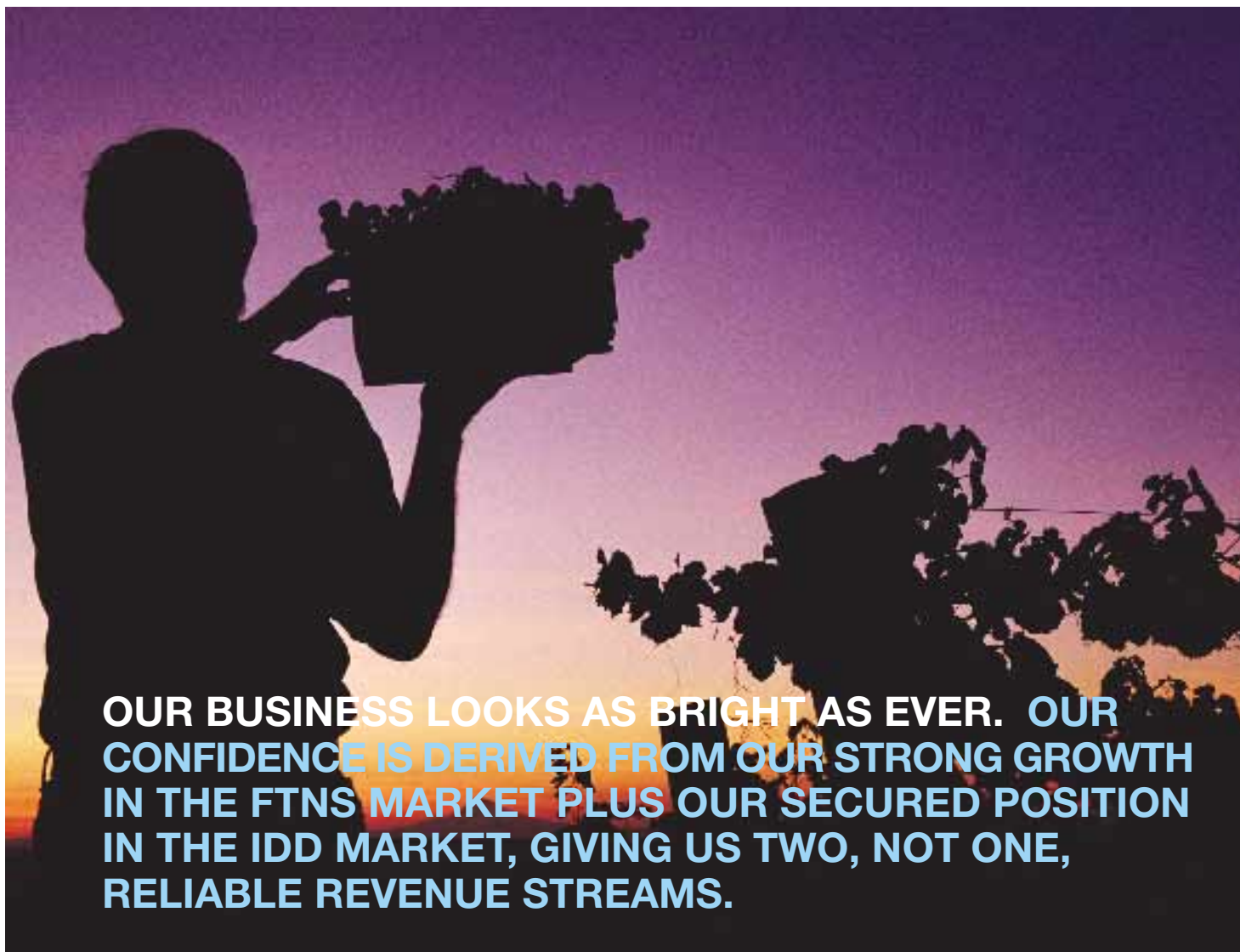
Results of Operation

	2003	2002
	HK'000	HK'000
Year ended 31 August		
Revenues		
International telecommunications services (IDD)	875,802	908,981
Fixed telecommunications network services (FTNS)	423,107	241,219
	1,298,909	1,150,200
Operating profit	276,201	100,965
Finance costs	(601)	(3,504)
Profit before tax	275,600	97,461
Tax	(17,778)	(14,566)
Profit after tax	257,822	82,895
Minority interests	0	8,234
Profit attributable to shareholders	257,822	91,129

The year 2003 is the second year in a row where the Group achieved record level profit. Following the record HK\$91 million profit made in year 2002, our net profit this year leaped another 183% to reach HK\$258 million, bringing the Group's profitability level to impressive new heights.

The strong profitability was backed by a healthy sales growth of 13% from HK\$1,150 million to HK\$1,299 million, spurred by a significant growth of FTNS business and despite a slight revenue drop in our IDD business.

With the rising revenue contribution from the FTNS business, our gross profit improved significantly because the FTNS business commands a higher gross profit ratio than the IDD business. The gross profit for the year was HK\$976 million, compared to HK\$692 million last year, while the gross margin was 75% compared to 60%. The low IDD traffic costs and the HK\$84 million USC rebate also contributed to the strong gross profit this year.



OUR BUSINESS LOOKS AS BRIGHT AS EVER. OUR CONFIDENCE IS DERIVED FROM OUR STRONG GROWTH IN THE FTNS MARKET PLUS OUR SECURED POSITION IN THE IDD MARKET, GIVING US TWO, NOT ONE, RELIABLE REVENUE STREAMS.

For our FTNS, the year 2003 was a year of breakthrough. Not only had its revenue grown 75% to HK\$423 million from HK\$241 million but it has also begun to return a positive EBITDA of HK\$78 million. With its strong sales growth, the business accounted for 33% of total group turnover and became a major business and revenue generator of the Group. Thanks to successful cost control, operating costs of FTNS rose much slower than revenue growth, at 32% compared to 75% growth in revenue. This directly contributed to the positive EBITDA as well as a reduction of the operating loss, from HK\$122 million in 2002 to HK\$62 million this year.

The IDD market was still highly competitive. Faced with new market entrants and existing players who adopted aggressive pricing strategy, we maintained our pricing level with an objective to protect our bottomline. This affected our turnover slightly as sales slipped 4% from HK\$909 million to HK\$876 million. Yet, our profit margin was improved as a result of our pricing strategy and overall cost control measures. Operating profit for IDD business was HK\$338 million, a rise of 52% from HK\$223 million in the year before.

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Fixed Telecom Network Services

Last year saw the FTNS business firmly established itself as a major business not only for the group but also from the market's point of view. The fixed line business, in particular, recorded significant growth as a result of our strong marketing push and favorable strong brand recognition. The subscriber base has quickly reached 160,000 lines currently in the residential sector with strong momentum to continue the growth, making us a formidable market player in the fixed line segment. Our customers are widely distributed across the territory with a particular stronghold in densely populated residential areas.

Our FTNS network now spans 3,000 residential buildings with 1.2 million homepass and 550 commercial buildings. A majority of these homepass can receive both broadband and telephony services, paving way for our further penetration of these two markets simultaneously.

Our broadband service has well developed into a stable business following rapid growth in previous years. Despite the fierce market competition with many operators competing on price, our broadband customer base was still growing at a healthy rate month to month. Currently, our broadband service had customers amounted to 170,000 in number.

While we are making big progress in the residential market, we also maintain a fair presence in the corporate sector with 8,000 lines and 8,000 customers for fixed line service and broadband service respectively. We expect to see continuing growth in the corporate sector in the coming years.

One of our major initiatives for our FTNS has been to build our own fibre backbone, a condition necessary to propel our growth in telecommunications services, providing comprehensive, all rounded services. Real progress has been made on this front during the past 12 months. Since January 2003, work has begun to prepare for the construction and full-fledged construction has commenced in January 2003. The whole network is expected to complete by end of December 2004. Upon completion, our fibre optic network will run across 18 districts in Hong Kong to cover majority of our 1.2 million

residential homepass and commercial buildings. Our service quality and capacity will be boosted significantly with additional savings in costs. More importantly, with our own high quality fibre network, we will have at our deploy high technological superiority and capacity to provide a suite of new services, such as pay TV, to cater for growing market demands.

Towards the end of the year under review, we have launched our pay TV service providing 12 channels of programmes. More discussion of the performance of this service will be furnished at our next report.

International Telecom Services

Our IDD business continued to operate in a highly competitive environment. While the overall market size was stabilized at its current level, there were continually new market entrants, as well as existing players, who adopted an aggressive pricing strategy, which created huge downward pressure for the tariff rate in the marketplace. On the strength of our service quality and brand reputation, and in the interest of maximizing profit for our shareholders, we maintained our average tariff for the year at a level comparable to that of last year. To our relief, this has only affected our traffic volume to a small degree. Traffic handled by us dipped 3% from 916 million minutes to 888 million minutes. However, greater profit margin and profit were recorded. We will however closely monitor the situation in the coming year and if necessary will adjust our pricing policy to protect and enhance our market share. The management is confident that with our strong business relationship with the overseas carriers, we will continue to obtain traffic capacity at very favorable terms, giving us room of pricing adjustment without affecting our profit in a material way.

Cost savings has also helped in improving our profitability this year. Our call center, which has been relocated in Guangzhou, has been functioning well and continued to operate at a much lower cost base.

In terms of traffic routes, China is still our number one route which accounted for 65% of our total traffic. The second and third most popular routes remained to be U.S. and Canada.



PROSPECTS

Our business looks as bright as ever. Our confidence is derived from our strong growth in the FTNS market plus our secured position in the IDD market, giving us two, not one, reliable revenue streams. The past year also has seen us breaking yet another record of profits and impressive profit margin in the IDD business, which is testament to the efficiency of our running the business. The expected completion of our fibre network in December 2004 will also give us a strong platform to launch a host of new services to generate additional revenue.

These feats have given us room to focus more on our market share next year. Our dedication to profit in the IDD business this year has caused us to lose some sales to our competitors. Although small scale and immaterial, we do have plans to safeguard our market share and our leading and profitable position in the market will give us great advantages in achieving this.

We expect FTNS will continue to grow having witnessed strong customer increase and a positive EBITDA this year. As we enlarge our customer base, our revenue will rise and we are confident that the operating loss in this business will shrink in the year ahead.

Impeccable service, broad product offerings, strong technological platform are all ingredients to our success. The Group will continue to leverage on these strengths to bring the best to our customers, and by doing so, generate higher revenue and create more profits to our shareholders.

EXCHANGE RATES

During the reporting year, the Group was not affected to any significant extent by fluctuations in exchange rates.

LIQUIDITY AND CAPITAL RESOURCES

As of 31st August 2003, the Group had cash and bank balances of approximately HK\$447 million and outstanding borrowing of HK\$18 million. Capital expenditure was HK\$250 million during the year, of which HK\$229 million was invested in building the fixed telecom network in Hong Kong and HK\$21 million was spent to maintain the international telecom facilities.

EMPLOYEE RELATIONS

As at 31st August 2003, the Group had approximately 2,700 permanent full time employees, of which 1,300 were located in Hong Kong and 1,400 were located in Guangzhou. The total staff related cost was approximately HK\$220 million for the year under review. The Group offers remuneration package consisting of basic salary, bonus and other benefits. Bonus payment is discretionary and dependent on performance of both the Group and individual staff. In addition to the comprehensive medical and life insurance coverage, the Group provides share option as well as competitive retirement benefits.

Aiming at people development and enhancement of productivity quality, over 32 types of training programs and learning activities, on areas of technology, business and management, were offered in the year ending 31st August 2003 and the involved training man-days were over 5,000.