

# NOTES TO THE ACCOUNTS

## 1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

### (a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, other investments are stated at fair value.

In the current year, the Group adopted the following new or revised Statements of Standard Accounting Practice ("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 33	:	Discontinuing operations
SSAP 34	:	Employee benefits

The adoption of these new or revised SSAPs had no material impact on the accounts of the Group except for the presentational changes in cash flow statements and the presentation of consolidated statement of changes in equity.

### (b) Group accounting

#### (i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st August. Subsidiaries are those entities in which the company, directly or indirectly, controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

#### (ii) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss accounts are translated at an average rate for the year. Exchange differences are dealt with as a movement in reserves.

# NOTES TO THE ACCOUNTS

## 1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (c) Goodwill

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 at the date of acquisition.

Goodwill on acquisitions that occurred prior to 1st September 2001 was written off against reserves. Goodwill on acquisitions occurring on or after 1st September 2001 is separately shown on the consolidated balance sheet and is amortised using the straight-line method over its estimated useful life. 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.

Where an indication of impairment exists, the carrying amount of goodwill, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount and is accounted for in the profit and loss account.

### (d) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Leasehold land is depreciated over the period of the lease while other tangible fixed assets are depreciated at rates sufficient to write off their costs less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold land	2%
Leasehold buildings	2%
Furniture, fixtures and fittings	25%
Telecommunications, computer and office equipment	7% – 25%
Auto-diallers	25%
Motor vehicles	25%

Depreciation of leasehold improvements is calculated to write off their cost less accumulated impairment losses over the unexpired periods of the leases or their expected useful lives to the Group whichever is shorter.

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account.

Improvements are capitalised and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

# NOTES TO THE ACCOUNTS

## 1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (e) Assets held under leases

#### (i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over the shorter of lease periods or their estimated useful lives.

#### (ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

### (f) Other investments

Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

### (g) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheets are stated net of such provision.

### (h) Cash and cash equivalents

Cash equivalents are stated at cost, which approximates fair value because of the short-term maturity of these instruments. For the purposes of the cash flow statement, cash and cash equivalents are short-term highly liquid investments, which are readily convertible into cash and have original maturity of three months or less at the date of acquisition, and short-term loans and overdrafts repayable within three months.

### (i) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

# NOTES TO THE ACCOUNTS

## 1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (j) Employee benefits

#### (i) Employee leave entitlements

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 or paternity leave are not recognised until the time of leave.

#### (ii) Profit sharing and bonus plans

Provisions for profit sharing and bonus plans due wholly within twelve months after balance sheet date are recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

#### (iii) Retirement benefit costs

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the profit and loss account represents contributions payable by the Group to the fund. The Group's contributions are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

The assets of the scheme are held separately from those of the Group in an independently administered fund.

### (k) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future. In determining whether a liability is expected to be payable in the foreseeable future the Group assesses the effect of its capital expenditure and other plans. If these plans indicate that sufficient accelerated tax allowances will be available to offset the effect of the reversal of timing differences a deferred tax liability is not established for such timing differences.

### (l) Contingent liabilities and assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

# NOTES TO THE ACCOUNTS

## 1. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

### **(m) Revenue recognition**

- (i) Revenue for the provision of international telecommunications and fixed telecommunications network services is recognised, net of discounts, when the services are rendered.
- (ii) Revenue received in advance for the provision of international telecommunications services using calling cards is deferred and amortised based on the estimated actual usage by customers. Revenue received in advance for the provision of fixed telecommunications network services is amortised on a straight-line basis over the life of the subscriber agreement.
- (iii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

### **(n) Research and development costs**

Research and development costs of new services and enhancements to existing services are charged to the profit and loss account as incurred.

### **(o) Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

### **(p) Segment reporting**

In accordance with the Group's internal financial reporting, the Group has determined that business segment be presented as the primary reporting format and geographical as the secondary reporting format.

Segment assets consist primarily of goodwill, fixed assets, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets.

In respect of geographical segment reporting, sales are reported based on the country in which the customer is located. Total assets and capital expenditure are reported based on where the assets are located.

### **(q) Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates.

## NOTES TO THE ACCOUNTS

### 2. TURNOVER, REVENUES AND SEGMENTAL 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. Revenues recognised during the year are as follows:

	<b>2003</b>	<b>2002</b>
	HK\$'000	HK\$'000
Turnover		
International telecommunications services	<b>875,802</b>	908,981
Fixed telecommunications network services	<b>423,107</b>	241,219
	<b>1,298,909</b>	1,150,200
Other revenues		
Interest income	<b>3,163</b>	10,870
Other income	<b>4,373</b>	1,010
	<b>7,536</b>	11,880
Total revenues	<b>1,306,445</b>	1,162,080

#### (a) Primary reporting format – 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. These transactions were entered into on similar terms as that contracted with third parties.

## NOTES TO THE ACCOUNTS

### 2. TURNOVER, REVENUES AND SEGMENTAL INFORMATION (Cont'd)

#### (a) Primary reporting format – business segments (Cont'd)

	<b>2003</b>			
	<b>International telecommuni- cations services HK\$'000</b>	<b>Fixed telecommuni- cations network services HK\$'000</b>	<b>Elimination HK\$'000</b>	<b>Group HK\$'000</b>
Turnover				
External sales	875,802	423,107	–	1,298,909
Inter-segment sales	15,302	26,449	(41,751)	–
	<b>891,104</b>	<b>449,556</b>	<b>(41,751)</b>	<b>1,298,909</b>
Segment results	<b>340,523</b>	<b>(61,627)</b>		<b>278,896</b>
Loss on disposal of a subsidiary				(2,695)
Finance costs				(601)
Profit before taxation				<b>275,600</b>
Taxation				(17,778)
Profit after taxation				<b>257,822</b>
Minority interests				–
Profit attributable to shareholders				<b>257,822</b>

## NOTES TO THE ACCOUNTS

### 2. TURNOVER, REVENUES AND SEGMENTAL INFORMATION (Cont'd)

#### (a) Primary reporting format – business segments (Cont'd)

	2002			
	International telecommuni- cations services HK\$'000	Fixed telecommuni- cations network services HK\$'000	Elimination HK\$'000	Group HK\$'000
Turnover				
External sales	908,981	241,219	–	1,150,200
Inter-segment sales	8,100	25,786	(33,886)	–
	917,081	267,005	(33,886)	1,150,200
Segment results	222,651	(121,686)		100,965
Finance costs				(3,504)
Profit before taxation				97,461
Taxation				(14,566)
Profit after taxation				82,895
Minority interests				8,234
Profit attributable to shareholders				91,129



## NOTES TO THE ACCOUNTS

### 2. TURNOVER, REVENUES AND SEGMENTAL INFORMATION (Cont'd)

#### (a) Primary reporting format – business segments (Cont'd)

	<b>2003</b>		
	<b>International telecommunications services</b>	<b>Fixed telecommunications network services</b>	<b>Group</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Total segment assets	674,066	874,468	1,548,534
Segment liabilities	157,524	150,492	308,016
Unallocated liabilities			56,069
Total liabilities			364,085
Capital expenditure	20,749	229,460	250,209
Depreciation	36,043	138,912	174,955
Amortisation charge	–	–	1,065

## NOTES TO THE ACCOUNTS

### 2. TURNOVER, REVENUES AND SEGMENTAL INFORMATION (Cont'd)

#### (a) Primary reporting format – business segments (Cont'd)

	2002		
	International telecommunications services HK\$'000	Fixed telecommunications network services HK\$'000	Group HK\$'000
Total segment assets	581,253	746,032	1,327,285
Segment liabilities	205,542	152,401	357,943
Unallocated liabilities			59,159
Total liabilities			417,102
Capital expenditure	138,521	440,545	579,066
Depreciation	32,951	95,339	128,290
Amortisation charge	–	–	1,065

## NOTES TO THE ACCOUNTS

### 2. TURNOVER, REVENUES AND SEGMENTAL INFORMATION (Cont'd)

#### (b) Secondary reporting format – 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

In presenting information on the basis of geographical segments, turnover and segment results are presented based on the geographical location of customers. Total assets and capital expenditure are presented based on the geographical location of the assets.

There were no sales between the geographical segments.

	<b>2003</b>			
	<b>Turnover</b>	<b>Segment results</b>	<b>Total assets</b>	<b>Capital expenditure</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Hong Kong	1,263,160	275,126	1,539,212	250,093
Japan	7,790	269	–	–
Canada	27,959	3,501	9,322	116
	<b>1,298,909</b>	<b>278,896</b>	<b>1,548,534</b>	<b>250,209</b>
Loss on disposal of a subsidiary		<b>(2,695)</b>		
Operating profit		<b>276,201</b>		

## NOTES TO THE ACCOUNTS

### 2. TURNOVER, REVENUES AND SEGMENTAL INFORMATION (Cont'd)

#### (b) Secondary reporting format – geographical segments (Cont'd)

	<b>2002</b>			
	Turnover	Segment results	Total assets	Capital expenditure
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	1,107,987	98,687	1,304,789	578,979
Japan	8,386	(135)	4,397	45
Canada	33,827	2,413	18,099	42
	1,150,200	100,965	1,327,285	579,066

(c) In the current year, the Group's operation in Japan was discontinued following the disposal of its subsidiary operating in Japan to a company wholly-owned by a relative of a director of the subsidiary (the "Purchaser"). The subsidiary was sold for a consideration of JPY30,000,000 (equivalent to HK\$1,950,000) which is to be paid by the Purchaser in thirty monthly instalments commencing 15th July 2003. The disposal resulted in a loss of HK\$2,695,000. The revenue and operating profit up to the date of disposal relating to the Japanese segment are disclosed above and are included in the international telecommunications services reporting segment.

As at 31st August 2003, HK\$1,818,000 receivable from the Purchaser is included in other receivables, deposits and prepayments. HK\$780,000 and HK\$1,038,000 are expected to be received within one year and after one year respectively.

## NOTES TO THE ACCOUNTS

### 3. COST OF SERVICES PROVIDED

The Group estimates the Universal Services Contribution ("USC") payable to PCCW-HKT Telephone Limited ("PCCW") to fund the costs of network development in remote areas in Hong Kong and includes such estimated costs as part of the cost of its services. The Office of the Telecommunications Authority (the "OFTA") periodically reviews the actual costs of such developments and revises the amounts owed to PCCW or to be refunded by it to the USC contributing parties.

On 30th November 2002, the OFTA issued a statement (the "November 2002 Statement") on the USC which confirms the actual USC payable by USC contributing parties for the calendar year 2000. As a result of the November 2002 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 the cost of services of the Group in the current year.

On 8th March 2003, the Group also received in advance a sum of HK\$56,488,570 from PCCW as the estimated refund of the USC paid for the period from 1st January 2001 to 30th June 2002 on a provisional basis ("the Provisional Refund"). On 20th October 2003, OFTA issued another statement (the "October 2003 Statement") on the USC and confirmed the contribution level for calendar year 2001. Accordingly, HK\$40,276,440 out of the Provisional Refund and an additional refund of HK\$3,257,071 payable by PCCW to the Group for the period from 1st January 2001 to 31st December 2001 were set off against costs of services of the Group in the current year. The Group has therefore set off against costs a total of HK\$84,119,117 in respect of USC Refund in the current year.

The remaining HK\$16,212,130 of the Provisional Refund received by the Company, being the provisional refund of the USC for the period from 1st January 2002 to 30th June 2002, is still subject to confirmation of OFTA. The amount has been included in other payables and accrued charges in the Group's and the Company's balance sheets as at 31st August 2003.

### 4. OTHER OPERATING EXPENSES

	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	HK\$'000
Advertising and marketing expenses	<b>182,471</b>	168,441
Amortisation of goodwill	<b>1,065</b>	1,065
Depreciation (Note 15)	<b>174,955</b>	128,290
Equipment rental	<b>100</b>	5,141
Loss on disposal of fixed assets	<b>427</b>	2,414
Office rental and utilities	<b>19,792</b>	19,474
Provision for doubtful debts	<b>17,685</b>	10,277
Staff costs (including directors' emoluments) (Note 11)	<b>220,350</b>	196,158
Others	<b>87,951</b>	71,892
	<b>704,796</b>	603,152

# NOTES TO THE ACCOUNTS

## 5. OPERATING PROFIT

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

	<b>2003</b>	<b>2002</b>
	HK\$'000	HK\$'000
<b>Crediting</b>		
Net exchange gains	<b>1,291</b>	–
<b>Charging</b>		
Amortisation of goodwill (Note 14)	<b>1,065</b>	1,065
Auditors' remuneration	<b>1,288</b>	1,261
Depreciation of owned fixed assets	<b>173,619</b>	124,563
Depreciation of fixed assets held under finance leases	<b>1,336</b>	3,727
Loss on disposal of fixed assets	<b>427</b>	2,414
Net exchange losses	–	508
Operating lease charges in respect of land and buildings	<b>6,481</b>	11,486
Operating lease charges in respect of computer equipment	<b>100</b>	5,141
Provisions for doubtful debts	<b>17,685</b>	10,277
Research and development costs	<b>2,622</b>	2,166
Staff costs (including directors' emoluments) (Note 11)	<b>236,653</b>	218,144
<i>Less: staff costs capitalised as fixed assets</i>	<b>(16,303)</b>	(21,986)
	<b>220,350</b>	196,158

## NOTES TO THE ACCOUNTS

### 6. FINANCE COSTS

	<b>2003</b>	<b>2002</b>
	HK\$'000	HK\$'000
Interest on bank overdrafts	<b>210</b>	235
Interest element of finance leases	<b>42</b>	225
Interest paid to a minority shareholder	-	846
Interest paid to third parties	<b>349</b>	2,198
	<b>601</b>	3,504

### 7. TAXATION

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

	<b>2003</b>	<b>2002</b>
	HK\$'000	HK\$'000
Hong Kong profits tax		
– current (Note (a))	<b>15,300</b>	18,000
– overprovisions in prior years	-	(10,665)
– deferred taxation (Note 24(a))	-	9,515
Overseas taxation		
– current (Note (b))	<b>2,478</b>	116
– overprovisions in prior years	-	(2,400)
	<b>17,778</b>	14,566

(a) Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the year.

(b) Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the overseas countries in which the Group operates.

## NOTES TO THE ACCOUNTS

### 7. TAXATION (Cont'd)

As at 31st August 2003, potential deferred taxation assets/(liabilities) for the year have not been recognised/(provided) in respect of the following:

	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	HK\$'000
Accelerated depreciation allowances	<b>(10,235)</b>	(31,878)
Tax losses	<b>(21,700)</b>	34,721
	<b>(31,935)</b>	2,843

### 8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$39,280,000 (2002: HK\$154,199,000).

### 9. DIVIDENDS

	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	HK\$'000
Interim, paid, of HK\$0.05 (2002: Nil) per ordinary share	<b>30,234</b>	–
Final, proposed, of HK\$0.075 (2002: Nil) per ordinary share	<b>45,372</b>	–
	<b>75,606</b>	–

*Note:* At a board meeting held on 24th November 2003 the directors proposed a final dividend of HK\$0.075 per ordinary share for the year ended 31st August 2003. This dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st August 2004.



## NOTES TO THE ACCOUNTS

### 10. EARNINGS PER SHARE

	<b>2003</b>	<b>2002</b>
	HK\$'000	HK\$'000
Profit attributable to shareholders	<b>257,822</b>	91,129
	<b>No of shares in thousand</b>	No of shares in thousand
Weighted average number of shares in issue	<b>552,600</b>	495,181
Incremental shares from assumed exercise of share options	<b>7,112</b>	11,219
Incremental shares from assumed exercise of warrants	<b>55,390</b>	59,489
Diluted weighted average number of shares	<b>615,102</b>	565,889
Basic earnings per share	<b>HK\$46.7 cents</b>	HK\$18.4 cents
Diluted earnings per share	<b>HK\$41.9 cents</b>	HK\$16.1 cents

### 11. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	<b>2003</b>	<b>2002</b>
	HK\$'000	HK\$'000
Wages and salaries	<b>217,391</b>	206,809
Unutilised annual leave	<b>3,419</b>	–
Retirement benefit costs – defined contribution plans (Note 12)	<b>15,843</b>	11,335
Less: staff costs capitalised as fixed assets	<b>(16,303)</b>	(21,986)
	<b>220,350</b>	196,158

As at 31st August 2003, no retirement benefit obligations for defined contribution plans were included in other payables and accrued charges (2002: Nil).

## NOTES TO THE ACCOUNTS

### 12. RETIREMENT BENEFIT COSTS

The Group contributes to a defined contribution retirement scheme, an Occupational Retirement Scheme ("the ORSO Scheme"), which is available to some of its employees. Under the ORSO Scheme, the employees are required to contribute 5% of their monthly salaries, while the Group's contributions are calculated at 10% and 5% of the monthly salaries of senior management staff and all other staff respectively. The employees are entitled to 100% of the employer's contributions after 10 years of completed service, or at a reduced scale after completion of 3 to 9 years' service. Contributions to the ORSO Scheme are reduced by contributions forfeited by those employees who leave the ORSO Scheme prior to vesting fully in the Group's contributions.

A mandatory provident fund scheme (the "MPF Scheme") has been established under the Hong Kong Mandatory Provident Fund Scheme Ordinance in December 2000. The then existing employees of the Group in Hong Kong could elect to join the MPF Scheme, while all new employees joining the Group in Hong Kong from then onwards are required to join the MPF Scheme. Both the Group and the employees are required to contribute 5% of each individual's relevant income with a maximum amount of HK\$1,000 per month as a mandatory contribution. Employer's mandatory contributions are 100% vested in the employees as soon as they are paid to the MPF Scheme. Employees may also elect to contribute more than the minimum as a voluntary contribution.

The retirement schemes for staff of the Group in other countries follow the local statutory requirements of the respective countries.

The aggregate employer's contributions, net of forfeited contributions, which have been dealt with in the profit and loss account during the year are as follows:

	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	HK\$'000
Gross contributions	<b>16,340</b>	11,965
Less: forfeited contributions utilised to offset the Group's contributions during the year	<b>(497)</b>	(630)
Net contributions charged to profit and loss account	<b>15,843</b>	11,335

At 31st August 2003, no forfeited contribution is available to offset future contributions by the Group to the schemes (2002: HK\$21,000).

## NOTES TO THE ACCOUNTS

### 13. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

#### (a) Directors' remuneration

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	<b>2003</b>	<b>2002</b>
	HK\$'000	HK\$'000
Executive		
Basic salaries, other allowances and benefits in kind	<b>17,048</b>	15,883
Discretionary bonuses	<b>10,000</b>	6,000
Allowances for directors' quarters	<b>1,319</b>	2,412
Contributions to pension schemes	<b>1,461</b>	1,461
	<b>29,828</b>	25,756
Independent non-executive		
Fees	<b>336</b>	336
	<b>30,164</b>	26,092

During the year, the benefits arising from the exercise of share options granted to the directors amounted to approximately HK\$17,655,000 (2002: HK\$1,159,000). The amount has not been included in the analysis above.

## NOTES TO THE ACCOUNTS

### 13. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Cont'd)

#### (a) Directors' remuneration (Cont'd)

The emoluments of the directors fell within the following bands:

	Number of directors	
	2003	2002
Nil – HK\$1,000,000	3*	3*
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$1,500,001 – HK\$2,000,000	1	1
HK\$2,500,001 – HK\$3,000,000	–	1
HK\$3,000,001 – HK\$3,500,000	1	1
HK\$3,500,001 – HK\$4,000,000	1	–
HK\$8,000,001 – HK\$8,500,000	–	2
HK\$9,500,001 – HK\$10,000,000	2	–

\* Including three independent non-executive directors.

No director waived any emoluments in respect of the years ended 31st August 2002 and 2003.

#### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for both years were also directors and their emoluments are reflected in the analysis presented above.

## NOTES TO THE ACCOUNTS

### 14. GOODWILL – GROUP

	HK\$'000
Opening net book amount	4,261
Amortisation charge (Note 5)	(1,065)
Closing net book amount	3,196
At 31st August 2003	
Cost	5,326
Accumulated amortisation	(2,130)
Net book amount	3,196
At 31st August 2002	
Cost	5,326
Accumulated amortisation	(1,065)
Net book amount	4,261

# NOTES TO THE ACCOUNTS

## 15. FIXED ASSETS

	Group						
	Leasehold land and buildings	Leasehold improve- ments	Furniture, fixtures and fittings	Telecom- munications, computer and office equipment	Auto- diallers	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Cost:</b>							
At 1st September 2002	58,182	53,874	9,858	1,045,147	17,268	7,860	1,192,189
Additions	3,417	4,174	1,957	239,629	–	1,032	250,209
Disposals	–	(2,038)	–	(5,324)	–	–	(7,362)
Disposal of a subsidiary	–	–	(984)	(2,904)	(301)	–	(4,189)
Exchange adjustments	–	181	89	2,115	–	–	2,385
<b>At 31st August 2003</b>	<b>61,599</b>	<b>56,191</b>	<b>10,920</b>	<b>1,278,663</b>	<b>16,967</b>	<b>8,892</b>	<b>1,433,232</b>
<b>Accumulated depreciation:</b>							
At 1st September 2002	2,308	16,687	6,308	273,646	15,436	4,708	319,093
Charge for the year	1,186	6,332	1,572	163,443	1,140	1,282	174,955
Disposals	–	(1,830)	–	(3,553)	–	–	(5,383)
Disposal of a subsidiary	–	–	(409)	(2,279)	(147)	–	(2,835)
Exchange adjustments	–	82	36	1,332	–	–	1,450
<b>At 31st August 2003</b>	<b>3,494</b>	<b>21,271</b>	<b>7,507</b>	<b>432,589</b>	<b>16,429</b>	<b>5,990</b>	<b>487,280</b>
<b>Net book value:</b>							
<b>At 31st August 2003</b>	<b>58,105</b>	<b>34,920</b>	<b>3,413</b>	<b>846,074</b>	<b>538</b>	<b>2,902</b>	<b>945,952</b>
At 31st August 2002	55,874	37,187	3,550	771,501	1,832	3,152	873,096

## NOTES TO THE ACCOUNTS

### 15. FIXED ASSETS (Cont'd)

	Company						
	Leasehold land and buildings	Leasehold improve- ments	Furniture, fixtures and fittings	Telecom- munications, computer and office equipment	Auto- diallers	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Cost:</b>							
At 1st September 2002	5,197	16,506	6,560	272,239	16,968	6,465	323,935
Additions	–	137	52	9,098	–	–	9,287
Disposals	–	(2,039)	–	(832)	–	–	(2,871)
Transfer from a subsidiary	–	–	–	13,716	–	–	13,716
<b>At 31st August 2003</b>	<b>5,197</b>	<b>14,604</b>	<b>6,612</b>	<b>294,221</b>	<b>16,968</b>	<b>6,465</b>	<b>344,067</b>
<b>Accumulated depreciation:</b>							
At 1st September 2002	450	10,191	5,037	95,964	15,312	4,183	131,137
Charge for the year	104	1,539	910	26,905	1,115	729	31,302
Disposals	–	(1,830)	–	(816)	–	–	(2,646)
Transfer from a subsidiary	–	–	–	7,833	–	–	7,833
<b>At 31st August 2003</b>	<b>554</b>	<b>9,900</b>	<b>5,947</b>	<b>129,886</b>	<b>16,427</b>	<b>4,912</b>	<b>167,626</b>
<b>Net book value:</b>							
<b>At 31st August 2003</b>	<b>4,643</b>	<b>4,704</b>	<b>665</b>	<b>164,335</b>	<b>541</b>	<b>1,553</b>	<b>176,441</b>
At 31st August 2002	4,747	6,315	1,523	176,275	1,656	2,282	192,798

## NOTES TO THE ACCOUNTS

### 15. FIXED ASSETS (Cont'd)

(a) The interests in leasehold land and buildings situated in Hong Kong at their net book values are analysed as follows:

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Leases of between 10 to 50 years	58,105	55,874	4,643	4,747

(b) At 31st August 2003, the net book value of telecommunications, computer and office equipment under finance leases held by the Group and the Company respectively is nil (2002: HK\$4,062,000 and HK\$3,361,000 respectively).

### 16. INVESTMENTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK\$'000	HK\$'000
Unlisted investments, at cost (Note (a))	51,791	44,841
Amounts due from subsidiaries (Note (b))	568,199	687,328
	619,990	732,169



## NOTES TO THE ACCOUNTS

### 16. INVESTMENTS IN SUBSIDIARIES (Cont'd)

(a) The following is a list of the principal subsidiaries at 31st August 2003:

Name	Place of incorporation	Principal activities and place of operations	Particulars of issued share capital	Percentage of interest held
Attitude Holdings Limited	British Virgin Islands	Inactive	Ordinary US\$1	100
Automedia Holdings Limited	British Virgin Islands	Investment holding in Hong Kong	Ordinary US\$1	*100
# City Telecom (B.C.) Inc.	Canada	Provision of international telecommunications and dial-up internet access services in Canada	Common CAD501,000	100
# City Telecom (Canada) Inc.	Canada	Maintenance of switching equipment and provision of operational services in Canada	Common CAD100	100
# City Telecom Inc.	Canada	Provision of international telecommunications and dial-up internet access services in Canada	Common CAD1,000	100
City Telecom International Limited	British Virgin Islands	Investment holding in Hong Kong	Ordinary US\$5,294	*100
# CTI Guangzhou Customer Service Co. Ltd. (translated, not the registered name)	The People's Republic of China ("the PRC")	Provision of administrative support services in the PRC	Paid in capital of HK\$8,000,000	*100
CTI Marketing Company Limited	Hong Kong	Provision of media marketing services in Hong Kong	Ordinary HK\$10,000	100
Credibility Holdings Limited	British Virgin Islands	Investment holding in Hong Kong	Ordinary US\$1	*100
Golden Trinity Holdings Limited	British Virgin Islands	Investment holding in Hong Kong	Ordinary US\$1	*100

## NOTES TO THE ACCOUNTS

### 16. INVESTMENTS IN SUBSIDIARIES (Cont'd)

Name	Place of incorporation	Principal activities and place of operations	Particulars of issued share capital	Percentage of interest held
Hong Kong Broadband Network Limited	Hong Kong	Provision of international telecommunications and fixed telecommunications network services in Hong Kong	Ordinary HK\$383,049	100
IDD1600 Company Limited (formerly known as "Seabright Associates Limited")	Hong Kong	Provision of international telecommunications services in Hong Kong	Ordinary HK\$2	100

\* Shares held directly by the Company.

# Subsidiaries not audited by PricewaterhouseCoopers. The aggregate net liabilities of the subsidiaries not audited by PricewaterhouseCoopers amounted to approximately 0.4% (2002: 1%) of the Group's total assets.

(b) The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment.

### 17. OTHER INVESTMENTS

	Group and Company	
	2003	2002
	HK\$'000	HK\$'000
Debt securities, at fair value unlisted outside Hong Kong	23,370	–

### 18. LONG TERM BANK DEPOSIT – GROUP AND COMPANY

The balance is a ten-year US\$2 million (equivalent to HK\$15,580,000) deposit placed with a bank in which the Group receives a floating rate deposit interest while the principal amount is fully protected. An interest rate of 10% per annum has been guaranteed for the first year. The deposit will be terminated once the cumulative interest reaches the predetermined accrued interest cap at 13% per annum or the aggregate interest amount of US\$260,000 (equivalent to HK\$2,025,000), or otherwise, will reach maturity on 22nd August 2013 when interest will be paid out at the guaranteed accrued interest rate of 13% per annum or the aggregate interest amount of US\$260,000 (equivalent to HK\$2,025,000).

## NOTES TO THE ACCOUNTS

### 19. ACCOUNTS RECEIVABLE

At 31st August 2003, the aging analysis of the accounts receivable was as follows:

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current – 30 days	82,138	94,778	30,615	31,553
31 – 60 days	7,870	7,750	885	1,843
61 – 90 days	4,072	5,529	511	5,057
Over 90 days	–	1	–	–
	<b>94,080</b>	108,058	<b>32,011</b>	38,453

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.

### 20. LOAN FROM A FORMER MINORITY SHAREHOLDER

The balance was a loan from a former minority shareholder, which was due on or before 25th June 2003, bearing interest at a fixed rate of 7% per annum. The loan was fully settled during the year.

### 21. ACCOUNTS PAYABLE

At 31st August 2003, the aging analysis of the accounts payable was as follows:

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current – 30 days	25,446	53,613	14,082	34,323
31 – 60 days	26,786	24,939	10,491	23,847
61 – 90 days	11,254	11,587	10,077	10,948
Over 90 days	49,898	36,141	42,834	34,226
	<b>113,384</b>	126,280	<b>77,484</b>	103,344

# NOTES TO THE ACCOUNTS

## 22. SHARE CAPITAL

**Authorised**  
**(Ordinary shares of HK\$0.10 each)**

	<b>2003</b>		<b>2002</b>	
	No. of shares	HK\$'000	No. of shares	HK\$'000
At 31st August 2001, 31st August 2002 and 31st August 2003	<b>2,000,000,000</b>	<b>200,000</b>	2,000,000,000	200,000

**Issued and fully paid**  
**(Ordinary shares of HK\$0.10 each)**

	<b>2003</b>		<b>2002</b>	
	No. of shares	HK\$'000	No. of shares	HK\$'000
At 1st September	<b>500,863,202</b>	<b>50,086</b>	491,074,000	49,107
Exercise of share options (Note (a))	<b>21,120,000</b>	<b>2,112</b>	3,060,000	306
Exercise of warrants (Note (b))	<b>82,976,585</b>	<b>8,298</b>	6,729,202	673
At 31st August	<b>604,959,787</b>	<b>60,496</b>	500,863,202	50,086

- (a) During the year ended 31st August 2003, 100,000 shares were issued at a price of HK\$0.26 per share and 21,020,000 shares were issued at a price of HK\$0.58 per share to share option holders who exercised their subscription rights. These shares issued rank pari passu with the then existing shares in issue.
- (b) The Company effected a warrant issue at a price of HK\$0.11 per warrant to qualifying shareholders (shareholders domiciled in Hong Kong) for cash during the year ended 31st August 2002. One warrant was offered for every five existing shares held on the date of record. The warrants entitle the holders to subscribe HK\$39,325,920 in cash at any time on or before 1st November 2004 for ordinary shares of the Company at a price of HK\$0.40 per share (subject to adjustment). If the warrants are fully exercised, the Company will be required to issue 98,314,800 additional shares. During the year, 82,976,585 (2002: 6,729,202) warrants were exercised for an equivalent number of shares and 8,609,013 (2002: 91,585,598) warrants were outstanding at year end. The shares issued rank pari passu with the then existing shares in issue.

## NOTES TO THE ACCOUNTS

### 22. SHARE CAPITAL (Cont'd)

(c) The movement of outstanding share options during the year was as follows:

<b>Date of grant</b>	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
Granted	–	–	–
Exercised	(100,000)	–	(21,020,000)
Number of Share Options outstanding at 31st August 2003	790,000	60,000	390,000

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 share of HK\$0.10 each in the Company at a predetermined exercise price.

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. 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 31st August 2003 shall continue to be exercisable in accordance with the terms of the 1997 Share Option Scheme.

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

# NOTES TO THE ACCOUNTS

## 23. RESERVES

	Group				
	Share premium	Warrant reserve	Retained profits	Exchange reserve	Total reserves
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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 attributable to shareholders	–	–	91,129	–	91,129
Exercise of warrants	–	(668)	–	–	(668)
Premium on shares issued upon exercise of share options	790	–	–	–	790
Premium on shares issued upon exercise of warrants	2,686	–	–	–	2,686
Exchange adjustments on translation of the accounts of overseas subsidiaries	–	–	–	204	204
At 31st August 2002	572,656	9,089	278,390	(38)	860,097
At 1st September 2002	572,656	9,089	278,390	(38)	860,097
2003 interim dividends paid (Note 9)	–	–	(30,234)	–	(30,234)
Profit attributable to shareholders	–	–	257,822	–	257,822
Exercise of warrants	–	(8,231)	–	–	(8,231)
Premium on shares issued upon exercise of share options (Note 22(a))	10,106	–	–	–	10,106
Premium on shares issued upon exercise of warrants (Note 22(b))	33,124	–	–	–	33,124
Exchange reserve realised upon disposal of a subsidiary (Note 25(d))	–	–	–	1,469	1,469
Exchange adjustments on translation of the accounts of overseas subsidiaries	–	–	–	(200)	(200)
<b>At 31st August 2003</b>	<b>615,886</b>	<b>858</b>	<b>505,978</b>	<b>1,231</b>	<b>1,123,953</b>

## NOTES TO THE ACCOUNTS

### 23. RESERVES (Cont'd)

	Company			
	Share premium	Warrant reserve	Retained profits	Total reserves
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st September 2001	569,180	–	192,243	761,423
Issue of warrants	–	10,815	–	10,815
Expenses in connection with issue of new warrants	–	(1,058)	–	(1,058)
Profit attributable to shareholders	–	–	154,199	154,199
Exercise of warrants	–	(668)	–	(668)
Premium on shares issued upon exercise of share options	790	–	–	790
Premium on shares issued upon exercise of warrants	2,686	–	–	2,686
At 31st August 2002	572,656	9,089	346,442	928,187
At 1st September 2002	572,656	9,089	346,442	928,187
2003 interim dividend paid (Note 9)	–	–	(30,234)	(30,234)
Profit attributable to shareholders	–	–	39,280	39,280
Exercise of warrants	–	(8,231)	–	(8,231)
Premium on shares issued upon exercise of share options (Note 22(a))	10,106	–	–	10,106
Premium on shares issued upon exercise of warrants (Note 22(b))	33,124	–	–	33,124
<b>At 31st August 2003</b>	<b>615,886</b>	<b>858</b>	<b>355,488</b>	<b>972,232</b>

# NOTES TO THE ACCOUNTS

## 24. LONG-TERM LIABILITIES

Group and Company			
		<b>2003</b>	<b>2002</b>
		HK\$'000	HK\$'000
	Note		
Obligations under finance leases		–	2,949
Deferred taxation	(a)	<b>15,000</b>	15,000
		<b>15,000</b>	17,949
<i>Less: current portion of long-term liabilities</i>		–	(2,949)
		<b>15,000</b>	15,000

### (a) Deferred taxation

Group and Company			
		<b>2003</b>	<b>2002</b>
		HK\$'000	HK\$'000
At 1st September		<b>15,000</b>	5,485
Transfer from profit and loss account (Note 7)		–	9,515
At 31st August		<b>15,000</b>	15,000



## NOTES TO THE ACCOUNTS

### 24. LONG-TERM LIABILITIES (Cont'd)

#### (a) Deferred taxation (Cont'd)

As at 31st August 2003, the potential deferred tax liabilities/(assets) and the amounts provided/(recognised) are as follows:

	2003		2002	
	Full potential liabilities/ (assets) HK\$'000	Provision made HK\$'000	Full potential liabilities/ (assets) HK\$'000	Provision made HK\$'000
<b>Group</b>				
Accelerated depreciation allowances	110,925	15,000	84,978	15,000
Tax losses	(105,822)	-	(127,522)	-
	5,103	15,000	(42,544)	15,000
<b>Company</b>				
Accelerated depreciation allowances	20,274	15,000	20,195	15,000

# NOTES TO THE ACCOUNTS

## 25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Reconciliation of profit before taxation to net cash inflow generated from operations

	<b>2003</b>	<b>2002</b>
	HK\$'000	HK\$'000
Profit before taxation	<b>275,600</b>	97,461
Amortisation of goodwill	<b>1,065</b>	1,065
Depreciation of owned fixed assets	<b>173,619</b>	124,563
Depreciation of fixed assets held under finance leases	<b>1,336</b>	3,727
Interest income	<b>(3,163)</b>	(10,870)
Interest expenses	<b>559</b>	3,279
Interest element of finance leases	<b>42</b>	225
Loss on disposal of fixed assets	<b>427</b>	2,414
Loss on disposal of a subsidiary	<b>2,695</b>	–
Decrease/(increase) in accounts receivable, other receivables, deposits and prepayments	<b>6,455</b>	(15,211)
(Decrease)/increase in accounts payable, other payables, accrued charges, deposits received and deferred service income	<b>(23,673)</b>	89,747
Net cash inflow generated from operations	<b>434,962</b>	296,400

## NOTES TO THE ACCOUNTS

### 25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

#### (b) Analysis of changes in financing during the year

	Share capital (including share premium and warrant reserve)	Minority interest	Obligations under finance leases
	HK\$'000	HK\$'000	HK\$'000
Balance at 1st September 2001	618,287	10,407	7,384
Issue of new shares	13,544	–	–
Share of loss for the year	–	(8,234)	–
Gain on dilution of interest in a subsidiary	–	4,310	–
Acquisition of additional interest in a subsidiary	–	(6,483)	–
Repayment of capital element of finance leases	–	–	(4,435)
Balance at 31st August 2002	631,831	–	2,949
Balance at 1st September 2002	631,831	–	2,949
Issue of new shares	45,409	–	–
Repayment of capital element of finance leases	–	–	(2,949)
<b>Balance at 31st August 2003</b>	<b>677,240</b>	<b>–</b>	<b>–</b>

#### (c) Acquisition of additional interest in a subsidiary

	<b>2003</b>	<b>2002</b>
	HK\$'000	HK\$'000
Minority interests acquired	–	6,483
Goodwill on acquisition	–	1,017
	–	7,500
Satisfied by:		
Cash	–	7,500

## NOTES TO THE ACCOUNTS

### 25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

#### (d) Disposal of a subsidiary

	<b>2003</b>
	<b>HK\$'000</b>
Fixed assets	1,354
Accounts receivable, other receivables, deposits and prepayments	1,914
Cash and bank balances	714
Accounts payable, other payables, accrued charges, deposits received and deferred service income	(805)
Taxation payable	(1)
Net assets disposed of	3,176
Exchange reserve transferred to profit and loss account (Note 23)	1,469
Net loss on disposal	(2,695)
Sale proceeds	1,950
Less: Cash and cash equivalents of the subsidiary disposed	(714)
Sale proceeds receivable (Note 2(c))	(1,818)
Net cash outflow in respect of the disposal of a subsidiary	(582)

## NOTES TO THE ACCOUNTS

### 26. CONTINGENT LIABILITIES

	Group		Company	
	31st August <b>2003</b>	31st August <b>2002</b>	31st August <b>2003</b>	31st August <b>2002</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank guarantees provided to suppliers (Note 28(b)(i))	<b>7,812</b>	–	<b>1,812</b>	–
Bank guarantee in lieu of utility deposits (Note 28(b)(ii))	<b>3,622</b>	–	–	–
Corporate guarantee provided to a subsidiary for unutilised banking facility (Note 28(c))	–	–	<b>200,000</b>	–
	<b>11,434</b>	–	<b>201,812</b>	–

### 27. COMMITMENTS

#### (a) Capital commitments

	Group		Company	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Purchase of telecommunications, computer and office equipment – contracted but not provided for	<b>122,540</b>	139,009	–	17,985

## NOTES TO THE ACCOUNTS

### 27. COMMITMENTS (Cont'd)

#### (b) Commitments under operating leases

At 31st August 2003, the Group and the Company had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Leases in respect of land and buildings which are payable:				
– Within one year	10,229	6,970	3,565	3,168
– Later than one year and not later than five years	3,268	1,874	438	1,218
	13,497	8,844	4,003	4,386
Leases in respect of telecommunications facilities and computer equipment which are payable:				
– Within one year	22,996	8,199	3,563	3,449
– Later than one year and not later than five years	8,368	528	–	–
	31,364	8,727	3,563	3,449
	44,861	17,571	7,566	7,835

## NOTES TO THE ACCOUNTS

### 28. PLEDGE OF ASSETS

- (a) As at 31st August 2002, the Group had deposits of HK\$5,000,000 at a bank as sureties to the Office of the Telecommunications Authority ("OFTA") for the due performance of the terms of the Wireless Fixed Telecommunications Network Services License ("WFTNS").

On 28th March 2003, the terms of the licence had all been satisfied by the Group. The OFTA then issued a certificate of completion and the pledged deposits were released accordingly.

- (b) As at 31st August 2003, the Group had the following pledge of bank deposits:
- (i) bank deposits of HK\$7,812,000 (2002: Nil) to secure bank guarantees of the same amounts issued by the banks to third party suppliers of the Group to guarantee the due payment for the products and services procured by the Group from these third party suppliers (Note 26).
  - (ii) bank deposits of HK\$3,622,000 (2002: Nil) to secure bank guarantee issued by a bank in lieu of utility deposits (Note 26).
- (c) On 9th October 2002, the Company entered into a HK\$200,000,000 long-term loan facility with The Hong Kong and Shanghai Banking Corporation Limited ("HSBC") to provide funding for the further development of the fixed telecommunications network of Hong Kong Broadband Network Limited ("HKBN"), which is a wholly-owned subsidiary of the Company. All amounts under the facility should be drawn by 31st December 2004. The principal balance drawn-down is to be repaid in 60 equal monthly instalments beginning in January 2005.

The Company must comply with certain covenants under the facility. The Company has not drawn any amount under this facility as of 31st August 2003.

- (d) As at 31st August 2003, the short-term bank loan was secured by a pledged bank deposit of HK\$18,174,000.

# NOTES TO THE ACCOUNTS

## 29. PENDING LITIGATIONS

- (a) In July 1998, Cable & Wireless HKT, a Hong Kong company, commenced proceedings against the Company and served a statement of claim which alleged that the Company had breached the terms of a contract it had with Cable & Wireless HKT and committed an economic tort. The Company denied these allegations in a comprehensive defence which included a counterclaim against the plaintiff seeking damages for anti-competitive practices conducted by Cable & Wireless HKT in Hong Kong. Neither the claim amount by Cable & Wireless HKT nor the counterclaim amount by the Company has been quantified. The directors believe that the allegations against the Company are without merit and intend to defend the litigation vigorously. The case is currently in its discovery phase and no provision against the claim has been made in the accounts.
- (b) In January 1999, Jade Com Development Limited ("Jade Com") commenced proceedings against the Company and two directors of the Company, alleging them of repudiation of an international carrier service agreement executed between Jade Com and Attitude Holdings Limited, a wholly-owned subsidiary of the Company. Jade Com claimed damages for breach of contract and misrepresentation and alleged that the Company has a remaining commitment of approximately US\$3.6 million under the agreement. The Company filed a defence in May 1999 on the basis that Jade Com had breached a condition of the agreement that they obtain the necessary legal approvals and licenses necessary for the provision of their services. In February 2001, the parties consented to adjourn the case indefinitely with liberty to restore. No provision has been made in the accounts with respect to the litigation.
- (c) In June 1999, New World Telephone Limited ("New World") commenced proceedings against the Company. The dispute arose from certain contractual arrangements between the parties whereby New World provided carrier services to the Company for the Company's incoming and outgoing international telephone call traffic through the New World's telecommunication network facility and operation system. In the proceedings, New World alleged, inter alia, that the Company failed to settle the interconnection fees of the same amount payable to New World and that New World is entitled to recover delivery fees allegedly paid by mistake to the Company. New World's claim is approximately HK\$96.4 million. The directors believe that the Company is entitled to set off the interconnection fees payable to New World against the delivery fees receivable by the Company. Defences were filed in August and October 1999 to the same effect. The Company has instructed its solicitors to defend the case vigorously. The proceedings have reached the stage of discovery but New World have not taken any steps in the proceedings since November 1999. No provision against the claims has been made in the accounts.

## 30. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 24th November 2003.