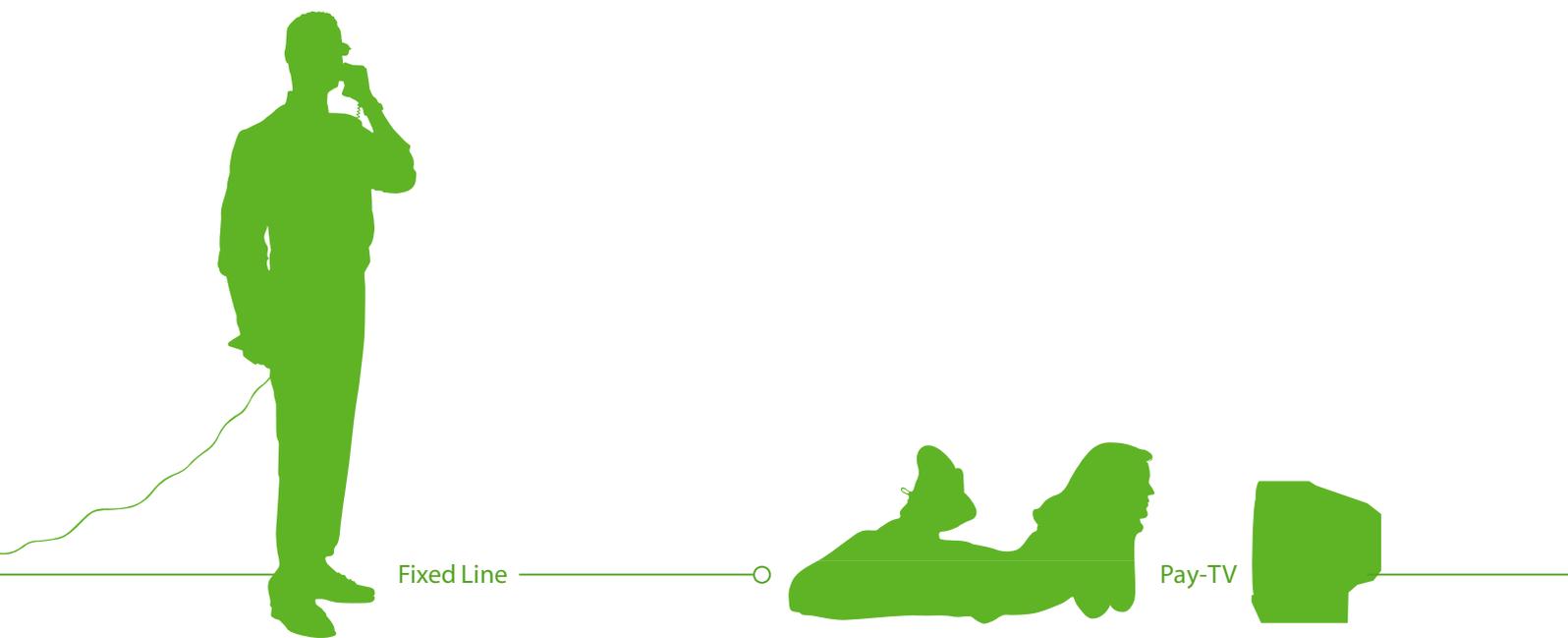


Your *Integrated* Telecom Networks  
from our *Innovative* Services





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## ○ CHAIRMAN'S STATEMENT ●

The six months to 29th February 2004 was a challenging period for us, as competition in the telecommunications market in Hong Kong remained intense, both for international (IDD) and fixed telecom network services (FTNS).

Despite this, FTNS recorded satisfactory results that brought the Group to a new level of maturity. Our transformation from a simple IDD reseller into an integrated facilities-based telecommunications service provider continues to make strong progress, with our FTNS segment rising to 43% of our total revenues. Our Metro Ethernet network of 1.2 million households passed (60% of Hong Kong's total) is now supporting an aggregate revenue generating base of over 420,000 subscriptions on our Triple-Play strategy of broadband, voice and pay-TV service offerings. During the review period, we grew our aggregate consumer base at a rate of 12,000 subscriptions per month.

Our IDD business operates in a hostile price environment, dampening our absolute performance. Relative to the market, we succeeded in enlarging our IDD market share to 22% (21% in 1H03), generating a 18% upsurge of traffic volume to 492 million minutes, whilst actually increasing our gross margins to 64% (55% excluding the USC rebate in 1H03). However, a drop in our revenue yield resulted in a 31% fall in total revenues to HK\$325 million, despite our improved market position.

Being well aware of the structurally declining IDD business, we are proactively strengthening our business mix by investing in our FTNS business. With our broadband Internet having achieved critical mass, we focused our marketing efforts in the past six months on the fixed line voice segment.

The launch of the pay-TV service in August 2003 signaled the third prong of our "triple-play strategy". Our pay-TV service reinvents the home entertainment experience with diversified programming combined with unique interactive elements, importantly, at unprecedented entry price points for the Hong Kong mass market consumer. Our enriched content offering now consists of 33 channels (up from seven channels at launch) of quality television programming and 11 channels of interactive applications – and this is just the beginning, as our network is capable of offering up to 200 channels.

At City Telecom, we strive to provide innovative diversified products, at affordable prices for the mass market, and we are committed to invest for the benefit of our shareholders and the community of Hong Kong.

### INTERIM DIVIDEND

The directors have declared an interim dividend of HK\$0.015 (2003: HK\$0.05) per ordinary share for the six months ended 29th February 2004 to shareholders whose names appear on the Register of Members of the Company on 11th June 2004. The dividend will be paid on or about 28th June 2004.

## FINANCIAL REVIEW

During the period under review, we have encountered a rigorous business environment. Our growth FTNS segment performed strongly but the IDD segment suffered. Profit attributable to shareholders was HK\$35 million in this reporting period, a YoY fall of 68% (50% excluding the USC rebate in 1H03).

Total revenue fell 13% to HK\$572 million, mainly due to the price pressure on our IDD business. In absolute terms, the 31% increase in our FTNS revenues to HK\$248 million was not sufficient at this stage, to compensate for the 31% fall in IDD to HK\$325 million.

Despite intense price competition across our businesses, our group's gross margins actually increased YoY from 63% to 71% (excluding the USC rebate in 1H03) in response to the improving revenue mix towards the more profitable FTNS segment. As such, our gross profit YoY fall of 2% to HK\$404 million (excluding the USC rebate in 1H03), was substantially less than our revenue decline.

On operating costs, we realized cost efficiencies by capitalizing on scale from high volume IDD traffic and progressively switching our lease expenses to self-owned capacity. Total operating costs of IDD business (excluding the USC rebate in 1H03) dropped by 27% to HK\$256 million compared to last corresponding period. For FTNS, operating costs increased by 22% to HK\$285 million, mainly due to our investment made in network and subscriber acquisition, together with the launch of our pay-TV service.

As a result of the above, our operating profit (excluding the USC rebate in 1H03) dropped by 55% to HK\$36 million. Operating loss from FTNS business was reduced by 16% to HK\$36 million but our IDD business recorded a 41% fall to HK\$71 million.

### Liquidity and capital resources

As at 29th February 2004, the Group had cash and bank balances of approximately HK\$424 million and outstanding borrowings of HK\$119 million. Capital expenditure incurred during the period was HK\$183 million, the majority of which, approximately HK\$173 million, was invested in the local fixed telecommunications network. Our network development will require ongoing capital expenditure that will be met by internally generated cashflow and available banking facilities.

## CHAIRMAN'S STATEMENT

The debt maturity profiles of the Group as at 29th February 2004 and 31st August 2003 were as follows:

	29th February 2004 HK\$'000	31st August 2003 HK\$'000
Repayable within one year	22,741	18,174
Repayable in the second year	20,000	–
Repayable in the third to fifth year	60,000	–
Repayable after the fifth year	16,667	–
	<b>119,408</b>	18,174

The currency denomination of the borrowings was as follows:

	29th February 2004 HK\$'000	31st August 2003 HK\$'000
Hong Kong Dollars		
– Secured	100,000	–
Japanese Yen		
– Secured	19,408	18,174
	<b>119,408</b>	18,174

At 29th February 2004, all outstanding borrowings are on floating interest rates except for a HK\$100,000,000 long-term bank loan that an interest rate swap arrangement was entered into with a bank to hedge the interest payments by a fixed interest rate. As the cash and bank balances exceeded all outstanding borrowings as at 29th February 2004, no gearing ratio has been presented.

### Charge on group assets

At 29th February 2004, the HK\$100,000,000 long-term bank loans was secured by a fixed and floating charge over all assets of Hong Kong Broadband Network Limited, a wholly owned subsidiary of the Company (31st August 2003: Nil). Short-term bank loan of HK\$19,407,000 was secured by a bank deposit of the same amount (31st August 2003: HK\$18,174,000). Apart from these, certain bank guarantees provided to suppliers and to utility vendors in lieu of payment of utility deposits were secured by pledged bank deposits of USD800,000 and HK\$1,695,000, and a charge over an investment with a market value as at 29th February 2004 of USD478,000 (31st August 2003: pledged bank deposits of HK\$11,434,000).

#### Exchange rates

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

#### Contingent liabilities

As at 29th February 2004, the Group had total contingent liabilities in respect of guarantees provided to suppliers of HK\$7,695,000 (31st August 2003: 7,812,000) and to utility vendors in lieu of payment of utility deposits of HK\$3,622,000 (31st August 2003: HK\$3,622,000).

### **BUSINESS REVIEW**

#### Fixed Telecommunications Network Services (FTNS)

We adapt our acquisition focus according to market opportunities. During the period under review, we have prioritized our fixed line business, expanding our market share with an installed base of 194,000 lines, averaging approximately 8,000 net line additions per month. On our broadband Internet access business, we also reached a customer base of approximately 189,000, although growth has matured to 2,800 line additions per month.

In addition, in last August 2003, we launched our pay-TV service, a third revenue stream on our underlying Metro Ethernet network. We have resolved the implementation challenges and the management is now more confident on this newly developed business line. We will continue our investment in the pay-TV segment, subject to demand take-up. As of 29th February 2004, we had secured 7,000 pay-TV subscribers.

#### International Telecommunications Services (IDD)

During the reviewing period, the Group succeeded in re-establishing market share to 22% (up from 21% in 1H03), resulting in a 18% volume increase to 492 million minutes. However, a hostile market environment between existing and new entrants in the market, created an adverse fall in our average revenue yield, which resulted in a significant drop of revenue to the Group. Our strong bargaining power supported by our traffic volume scale, combined with good relationships with overseas carriers have enabled us to lower the cost of services and actually enhanced our gross margins, but this was not sufficient to avoid the absolute gross profit fall.

In terms of traffic routes, China is still our number one route that accounted for 69% of our total traffic. The second and third most popular routes remained to be the US and Canada.

### PROSPECTS

The first half of this year has been characterized by the substantial growth in the Group's fixed telecom network business, reducing our traditional dependence on IDD. Started in 2003, we are on schedule to deepen the penetration of our fiber backbone to majority of our 1.2 million Metro Ethernet access homes within calendar year 2004. This progress, will allow us to lower our costs, improve service quality and provide unparalleled capacity to offer new services to our customers.

However, the overall telecom operating environment in Hong Kong remains intensely competitive. The Group has seen some softening in the affordability of tariffs of various telecom services. Nevertheless, the penetration for our numerous FTNS offerings is expected to rise continuously through our efforts in marketing and technology advancement, and we are confident that the rate of decline in our IDD business can be slowed.

The Group remains committed to the strategies set in the previous years, in particular, the goal of providing "Triple-play" services on a single network. Furthermore, the management team is refining proactive marketing strategies for additional supplementary services.

Network coverage has always been a key for business development. Upon the reviewing period in the past two years, such development has been reactivated and we target to extend the existing 1.2 million households network coverage by increment of more than 30%.

As one of the leading fixed telecom network operators in Hong Kong with superior network, established brandname, premium customer services, aggressive marketing strategies and effective sales channels, we are well-positioned to deliver growth and value to our shareholders and for the benefit of Hong Kong.

## UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 29th February 2004

The directors are pleased to present the Group's Interim Report and unaudited condensed accounts for the six months ended 29th February 2004. The consolidated results, consolidated cash flow statement and consolidated statement of changes in equity for the Group for the six months ended 29th February 2004, and the consolidated balance sheet as at 29th February 2004 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 7 to 31 of this report.

		Unaudited Six months ended	
	Note	29th February 2004 HK\$'000	28th February 2003 As restated HK\$'000
Turnover	2	572,403	657,384
Cost of services provided	3	(168,382)	(203,738)
Gross profit		404,021	453,646
Other revenues		4,035	4,518
Other operating expenses	4	(372,492)	(338,428)
Operating profit	5	35,564	119,736
Finance costs		(88)	(495)
Profit before taxation		35,476	119,241
Taxation	7	(352)	(9,033)
Profit attributable to shareholders		35,124	110,208
Dividends	8	54,947	30,234
Basic earnings per share	9	5.8 cents	21.9 cents
Fully diluted earnings per share	9	5.7 cents	18.8 cents

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 29th February 2004 and 31st August 2003

	Note	Unaudited 29th February 2004 HK\$'000	Audited 31st August 2003 As restated HK\$'000
<b>Non current assets</b>			
Goodwill	10	2,663	3,196
Fixed assets	10	1,038,119	945,952
Other investments	11	27,167	23,370
Long-term bank deposit	12	15,560	15,580
<b>Current assets</b>			
Accounts receivable	13	78,329	94,080
Other receivables, deposits and prepayments		52,905	34,714
Pledged bank deposits	14	27,326	29,608
Cash and bank balances		380,629	402,034
Taxation recoverable		889	–
		<b>540,078</b>	<b>560,436</b>
<b>Current liabilities</b>			
Accounts payable	15	111,909	113,384
Other payables and accrued charges		170,780	164,552
Deposits received		17,615	19,908
Deferred service income		13,586	10,172
Taxation payable		–	22,895
Short-term bank loan – secured		19,408	18,174
Current portion of long-term bank loan – secured	18	3,333	–
		<b>336,631</b>	<b>349,085</b>

	Note	Unaudited 29th February 2004 HK\$'000	Audited 31st August 2003 As restated HK\$'000
Net current assets		203,447	211,351
<hr/>			
Total assets less current liabilities		1,286,956	1,199,449
<hr/>			
Financed by:			
Share capital	16	61,055	60,496
Reserves		1,108,994	1,118,217
Shareholders' funds		1,170,049	1,178,713
Non current liabilities			
Deferred tax liabilities	17	20,240	20,736
Long-term bank loan – secured	18	96,667	–
		1,286,956	1,199,449

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 29th February 2004

	Unaudited					Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Warrant reserve HK\$'000	Exchange reserve HK\$'000	Retained profits HK\$'000	
At 1st September 2003, as previously reported	60,496	615,886	858	1,231	505,978	1,184,449
Changes in accounting policy						
– provision for net deferred tax liabilities (Note 1)	–	–	–	–	(5,736)	(5,736)
At 1st September 2003, as restated	60,496	615,886	858	1,231	500,242	1,178,713
2003 final dividends paid (Note 8)	–	–	–	–	(45,789)	(45,789)
Profit for the period	–	–	–	–	35,124	35,124
Exercise of warrants (Note 16(b))	–	–	(491)	–	–	(491)
Shares issued upon exercise of share options (Note 16(a))	64	115	–	–	–	179
Shares issued upon exercise of warrants (Note 16(b))	495	1,975	–	–	–	2,470
Exchange adjustments on translation of the accounts of overseas subsidiaries	–	–	–	(157)	–	(157)
<b>At 29th February 2004</b>	<b>61,055</b>	<b>617,976</b>	<b>367</b>	<b>1,074</b>	<b>489,577</b>	<b>1,170,049</b>

	Share capital HK\$'000	Share premium HK\$'000	Unaudited		Retained profits HK\$'000	Total HK\$'000
			Warrant reserve HK\$'000	Exchange reserve HK\$'000		
At 1st September 2002, as previously reported	50,086	572,656	9,089	(38)	278,390	910,183
Changes in accounting policy						
– provision for net deferred tax liabilities (Note 1)	–	–	–	–	(5,124)	(5,124)
At 1st September 2002, as restated	50,086	572,656	9,089	(38)	273,266	905,059
Profit for the period	–	–	–	–	110,208	110,208
Exercises of warrants	–	–	(492)	–	–	(492)
Shares issued upon exercise of share options	50	240	–	–	–	290
Shares issued upon exercise of warrants	496	1,979	–	–	–	2,475
Exchange adjustments on translation of the accounts of overseas subsidiaries	–	–	–	(381)	–	(381)
At 28th February 2003	50,632	574,875	8,597	(419)	383,474	1,017,159

## UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 29th February 2004

	Unaudited Six months ended	
	29th February 2004 HK\$'000	28th February 2003 As restated HK\$'000
Net cash inflow from operating activities	102,851	153,401
Net cash used in investing activities	(181,557)	(160,156)
Net cash generated from/(used in) financing activities	56,369	(22,390)
Decrease in cash and cash equivalents	(22,337)	(29,145)
Cash and cash equivalents at beginning of the period	383,860	290,403
Effect on foreign exchange rate changes	(302)	(654)
Cash and cash equivalents at end of the period	361,221	260,604
Analysis of the balances of cash and cash equivalents:		
Cash and bank balances	380,629	279,827
Short-term bank loan – secured	(19,408)	–
Bank overdrafts, unsecured	–	(19,223)
	361,221	260,604

### 1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated 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 (the "HKSA").

These condensed accounts should be read in conjunction with the 2003 annual accounts.

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 2003 except that the Group has changed its accounting policies following its adoption of the revised SSAP 12 "Income Taxes" issued by the HKSA which is effective for accounting periods commencing on or after 1st January 2003.

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

#### **Deferred taxation**

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, deferred taxation was 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 was expected to be payable or recoverable in the foreseeable future. The adoption of the new SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in the Condensed Consolidated Statement of Changes in Equity, opening retained profits at 1st September 2002 and 2003 have been reduced by HK\$5,124,000 and HK\$5,736,000, respectively, which represent the unprovided net deferred tax liabilities. In addition, the profit for the six months ended 28th February 2003 has been reduced by HK\$2,656,000.

2 SEGMENT INFORMATION

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

(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, local telephony services and pay-TV services.

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

	6 months ended 29th February 2004			
	International telecommunications services	Fixed telecommunications network services	Eliminations	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover				
External sales	324,570	247,833	–	572,403
Inter-segment sales	3,115	14,601	(17,716)	–
	327,685	262,434	(17,716)	572,403
Segment results	71,336	(35,772)		35,564
Finance costs				(88)
Profit before taxation				35,476
Taxation				(352)
Profit attributable to shareholders				35,124

## 2 SEGMENT INFORMATION (continued)

### (a) Primary reporting format – business segments (continued)

	6 months ended 28th February 2003 (restated)			
	International telecommuni- cations services HK\$'000	Fixed telecommuni- cations network services HK\$'000	Eliminations HK\$'000	Group HK\$'000
Turnover				
External sales	468,571	188,813	–	657,384
Inter-segment sales	8,432	13,782	(22,214)	–
	477,003	202,595	(22,214)	657,384
Segment results	162,300	(42,564)		119,736
Finance costs				(495)
Profit before taxation				119,241
Taxation				(9,033)
Profit attributable to shareholders				110,208

### (b) Secondary reporting format – geographical segments

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

Hong Kong – international telecommunications and fixed telecommunications network services

Canada – international telecommunications and fixed telecommunications network services

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM ACCOUNTS

### 2 SEGMENT INFORMATION (continued)

#### (b) Secondary reporting format – geographical segments (continued)

	Turnover 6 months ended		Operating profit/(loss) 6 months ended	
	29th February 2004 HK\$'000	28th February 2003 HK\$'000	29th February 2004 HK\$'000	28th February 2003 As restated HK\$'000
Geographical segments:				
Hong Kong	559,907	638,434	35,930	111,584
Japan	–	4,481	–	644
Canada	12,496	14,469	(366)	7,508
Segment results	572,403	657,384	35,564	119,736

Turnover and operating profit/(loss) are presented based on the geographical location of customers. There were no inter-segment sales between the geographical segments.

During the year ended 31st August 2003, the Group's operations in Japan was discontinued following the disposal of its subsidiary in Japan.

### 3 COST OF SERVICES PROVIDED

The Group estimates the Universal Services Contributions ("USC") payable to PCCW – HKT Telephone Limited ("PCCW") 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 by it to the USC contributing parties.

On 30th November 2002, the OFTA issued a statement (the "November 2002 Statement") on the USC which confirmed the actual USC payable by USC contributing parties for the calendar year 2000. As a result of release of the November 2002 Statement, the Group received a refund of USC paid to PCCW for the period of 1st January 2000 to 31st December 2000 in the amount of HK\$40,585,606. The amount was offset against the cost of services of the Group for the six months ended 28th February 2003.

### 3 COST OF SERVICES PROVIDED *(continued)*

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 actual USC rates for 2001. Accordingly, HK\$40,276,440 out of the Provisional Refund, together with an additional refund of HK\$3,257,071 paid by PCCW to the Group for the period from 1st January 2001 to 31st December 2001, were recorded as a reduction of the costs of services of the Group for the six months ended 31st August 2003.

On an overall basis, the Group has recognised a total of HK\$84,119,117 of the USC Refund as an offset against the cost of services of the Group for the year ended 31st August 2003.

The remaining HK\$16,212,130 (31st August 2003: 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, was still pending confirmation of the actual rates from OFTA as at 29 February 2004. Accordingly, the amount was included in other payables and accrued charges in the condensed consolidated balance sheet as at that date.

### 4 OTHER OPERATING EXPENSES

	6 months ended	
	29th February 2004 HK\$'000	28th February 2003 As restated HK\$'000
Advertising and marketing expenses	101,585	89,576
Amortisation of goodwill	533	532
Depreciation	90,813	86,341
Office rental and utilities	10,078	8,897
Provision for doubtful debts	5,754	10,744
Staff costs (including directors' emoluments) (Note 6)	113,035	100,933
Others	50,694	41,405
	<b>372,492</b>	<b>338,428</b>

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM ACCOUNTS

### 5 OPERATING PROFIT

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

	6 months ended	
	29th February 2004 HK\$'000	28th February 2003 As restated HK\$'000
<u>Crediting</u>		
Interest income	2,238	1,551
Gain on disposal of fixed assets	536	146
Unrealised gains on other investments	107	–
<u>Charging</u>		
Amortisation of goodwill	533	532
Depreciation of owned fixed assets	90,813	85,283
Depreciation of fixed assets held under finance leases	–	1,058
Provisions for doubtful debts	5,754	10,744
Unrealised losses on other investments	180	–

### 6 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	6 months ended	
	29th February 2004 HK\$'000	28th February 2003 HK\$'000
Wages and salaries	109,129	99,690
Unutilised annual leave	(290)	1,900
Retirement benefit costs – defined contribution plans	12,517	7,441
Less: staff costs capitalised as fixed assets	(8,321)	(8,098)
	113,035	100,933

## 6 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS) (continued)

As at 29th February 2004, no forfeited contribution was available to offset future contributions made by the Group to the retirement schemes (for the six months ended 28th February 2003: HK\$170,833).

As at 29th February 2004, there were no retirement benefit obligations for defined contribution plans included in other payables and accrued charges (31st August 2003: Nil).

## 7 TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) 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 condensed consolidated profit and loss account represents:

	6 months ended	
	29th February 2004 HK\$'000	28th February 2003 As restated HK\$'000
Current taxation:		
– Hong Kong profits tax	–	5,703
– Overseas taxation	247	674
– Under provisions in prior years	599	–
Deferred taxation relating to the origination and reversal of temporary differences	(494)	776
Deferred taxation resulting from an increase in tax rate	–	1,880
Taxation charge	352	9,033

8 DIVIDENDS

	6 months ended	
	29th February 2004 HK\$'000	28th February 2003 HK\$'000
2002, Interim dividend, paid, of HK\$0.05 per ordinary share	–	30,234
2003, Final dividend, paid, of HK\$0.075 per ordinary share	45,789	–
2004, Interim dividend, proposed, of HK\$0.015 per ordinary share, total 610,546,961 ordinary shares in issue as at 29th February 2004	9,158	–
	<b>54,947</b>	30,234

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, which was paid on 9th January 2004. The amount was reflected as an appropriation of retained earnings for the six months ended 29th February 2004.

At a board meeting held on 19th May 2004, the directors declared an interim dividend of HK\$0.015 per ordinary share for the six months ended 29th February 2004. 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 2004.

## 9 EARNINGS PER SHARE

	6 months ended	
	29th February 2004 HK\$'000	28th February 2003 As restated HK\$'000
Profit attributable to shareholders for the period	35,124	110,208
	Number of shares, in thousand	Number of shares, in thousand
Weighted average number of shares in issue	608,687	502,975
Incremental shares from assumed exercise of share options	570	13,952
Incremental shares from assumed exercise of warrants	3,862	68,136
Diluted weighted average number of shares	613,119	585,063
Basic earnings per share	HK5.8 cents	HK21.9 cents
Fully diluted earnings per share	HK5.7 cents	HK18.8 cents

## 10 LONG-TERM ASSETS

	Goodwill HK\$'000	Fixed assets HK\$'000
6 months ended 29th February 2004		
Opening net book amount	3,196	945,952
Additions	–	183,318
Disposals	–	(424)
Amortisation/depreciation charge (Note 4)	(533)	(90,813)
Exchange adjustments	–	86
Closing net book amount	2,663	1,038,119

11 OTHER INVESTMENTS

	29th February 2004 HK\$'000	31st August 2003 HK\$'000
Debt securities, at fair value and unlisted outside Hong Kong		
– secured (Note 14(a)(ii))	3,719	–
– unsecured	23,448	23,370
	<b>27,167</b>	23,370

12 LONG-TERM BANK DEPOSIT

The balance is a ten-year US\$2 million (equivalent to HK\$15,560,000, 31st August 2003: 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. Interest income at a rate of 10% per annum has been guaranteed for the first year. The deposit will be terminated when the cumulative interests reach a predetermined accrued interest cap at 13% or when the aggregate interest reaches an absolute amount of US\$260,000 (equivalent to HK\$2,025,000), or otherwise, the deposit reaches its maturity on 22nd August 2013 and interest will be paid at a floating rate subject to a guaranteed accrued interest rate of 13% or at pre-determined interest cap amount of US\$260,000 (equivalent to HK\$2,025,000).

13 ACCOUNTS RECEIVABLE

The aging analysis of the accounts receivable is as follows:

	29th February 2004 HK\$'000	31st August 2003 HK\$'000
Current – 30 days	66,457	82,138
31 – 60 days	8,203	7,870
61 – 90 days	3,628	4,072
Over 90 days	41	–
	<b>78,329</b>	94,080

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.

## 14 PLEDGE OF ASSETS

- (a) As at 29th February 2004, the Group had the following pledged assets:
- (i) bank deposits of USD800,000 (equivalent to HK\$6,224,000) (31st August 2003: Nil) and HK\$1,695,000 (31st August 2003: HK\$11,434,000); and
  - (ii) a charge over an investment with market value as at 29th February 2004 of USD478,000 (equivalent to HK\$3,718,840) (Note 11) (31st August 2003: Nil).

as security for:

- (i) HK\$7,695,000 (31st August 2003: HK\$7,812,000) issued by the banks to third party suppliers of the Group to guarantee the due payment of certain products and services procured by the Group from third party suppliers; and
- (ii) HK\$3,622,000 (31st August 2003: HK\$3,622,000) issued by a bank to utility vendors in lieu of placement of utility deposits.

As at 29th February 2004, the Group had pledged bank deposits of HK\$7,919,000 (31st August 2003: HK\$11,434,000).

- (b) 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 to provide funding for 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 grant of such facility. On 31st December 2003, the Company drew down HK\$100,000,000 under this facility and it remained outstanding as at 29 February 2004 (Note 18). It is secured by a fixed and floating charge over all assets of HKBN.

- (c) As at 29th February 2004, the short-term bank loan was secured by a bank deposit of HK\$19,407,000 (31st August 2003: HK\$18,174,000).

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM ACCOUNTS

### 15 ACCOUNTS PAYABLE

The aging analysis of the accounts payable is as follows:

	29th February 2004 HK\$'000	31st August 2003 HK\$'000
Current – 30 days	32,579	25,446
31 – 60 days	22,685	26,786
61 – 90 days	7,939	11,254
Over 90 days	48,706	49,898
	<b>111,909</b>	<b>113,384</b>

## 16 SHARE CAPITAL

	Number of ordinary shares of HK\$0.10 each	HK\$'000
Authorised		
At 1st September 2003 and 29th February 2004	2,000,000,000	200,000
Issued and fully paid		
At 1st September 2002	500,863,202	50,086
Exercise of share options	500,000	50
Exercise of warrants	4,957,461	496
At 28th February 2003	506,320,663	50,632
At 1st March 2003	506,320,663	50,632
Exercise of share options	20,620,000	2,062
Exercise of warrants	78,019,124	7,802
At 31st August 2003	604,959,787	60,496
At 1st September 2003	604,959,787	60,496
Exercise of share options (Note (a))	640,000	64
Exercise of warrants (Note (b))	4,947,174	495
<b>At 29th February 2004</b>	<b>610,546,961</b>	<b>61,055</b>

(a) During the six months ended 29th February 2004, 600,000 shares were issued at a price of HK\$0.26 per share and 40,000 shares were issued at a price of HK\$0.58 per share to holders of share options who had exercised their subscription rights. The shares so issued rank pari passu with the existing shares in issue.

(b) During the six months ended 29th February 2004, 4,947,174 warrants were exercised for an equivalent number of shares, leaving 3,661,839 warrants which were outstanding at period end. The warrants entitle the holders to subscribe for ordinary shares of the Company at a price of HK\$0.40 per share, totalling HK\$1,464,736, in cash at any time on or before 1st November 2004. The shares issued/to be issued rank pari passu with the existing shares in issue.

16 SHARE CAPITAL (continued)

(c) The movement of outstanding share options during the 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 as at 1st September 2003	790,000	60,000	390,000
Exercised during the period (Note 16(a))	(600,000)	–	(40,000)
Number of share options outstanding at 29th February 2004	190,000	60,000	350,000

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 ordinary 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 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 at that date shall continue to be exercisable in accordance with the original provisions of the 1997 Share Option Scheme.

No share options had been granted under the 2002 Share Option Scheme up to 29th February 2004.

## 17 DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003: 17.5%).

The movement on the deferred tax liabilities/(assets) account is as follows:

	<b>6 months ended 29th February 2004  HK\$'000</b>	Year ended 31st August 2003  As restated HK\$'000
At the beginning of the period/year	20,736	20,124
Exchange differences	(2)	9
Deferred taxation (credited)/charged to profit and loss account	(494)	603
At the end of the period/year	<b>20,240</b>	20,736

Deferred income tax assets are recognised for tax loss carry forwards to the extent that the related tax benefit through the utilisation of tax losses against the future taxable profits is probable. The Group has unrecognised tax losses of HK\$15,610,000 at 29th February 2004 (31st August 2003: HK\$23,520,000) to carry forward against future taxable income, these tax losses will expire in the following periods:

	<b>29th February 2004  HK\$'000</b>	31st August 2003  HK\$'000
From 2 to 5 years	3,059	2,942
No expiry date	12,551	20,578
	<b>15,610</b>	23,520

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM ACCOUNTS

### 17 DEFERRED TAXATION (continued)

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the period is as follows:

Deferred tax liabilities	Accelerated depreciation allowances		Others		Total	
	2004	2003	2004	2003	2004	2003
	HK\$'000	As restated HK\$'000	HK\$'000	As restated HK\$'000	HK\$'000	As restated HK\$'000
At 1st September	111,029	91,418	1,130	537	112,159	91,955
Charged to profit and loss account	17,539	19,602	272	593	17,811	20,195
Exchange differences	3	9	(12)	–	(9)	9
At 29th February 2004/ 31st August 2003	128,571	111,029	1,390	1,130	129,961	112,159

Deferred tax assets	Tax losses	
	2004 HK\$'000	2003 HK\$'000
At 1st September	91,423	71,831
Credited to profit and loss account	18,305	19,592
Exchange differences	(7)	–
At 29th February 2004/31st August 2003	109,721	91,423

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the condensed consolidated balance sheet:

	29th February 2004 HK\$'000	31st August 2003 HK\$'000
Deferred tax liabilities	20,240	20,736

## 18 LONG-TERM BANK LOAN – SECURED

At 29th February 2004, the Group's bank loan were repayable as follows:

	29th February 2004 HK\$'000	31st August 2003 HK\$'000
Within one year	3,333	–
In the second year	20,000	–
In the third to fifth year	60,000	–
After the fifth year	16,667	–
	100,000	–
Less: current portion of long-term bank loan	(3,333)	–
	96,667	–

## 19 CONTINGENT LIABILITIES

	Group		Company	
	29th February 2004 HK\$'000	31st August 2003 HK\$'000	29th February 2004 HK\$'000	31st August 2003 HK\$'000
Bank guarantees provided to suppliers (Note 14(a)(ii))	7,695	7,812	1,695	1,812
Bank guarantee in lieu of payment of utility deposits (Note 14(a)(ii))	3,622	3,622	–	–
Corporate guarantee provided to a subsidiary for its banking facilities	–	–	200,000	200,000
	11,317	11,434	201,695	201,812

20 COMMITMENTS

(a) Capital commitments

	Group	
	29th February 2004 HK\$'000	31st August 2003 HK\$'000
Purchase of telecommunications, computer and office equipment – contracted but not provided for	159,832	122,540

(b) Commitments under operating leases

At 29th February 2004, the Group had future aggregate minimum lease payments under non-cancelable operating leases as follows:

	29th February 2004 HK\$'000	31st August 2003 HK\$'000
Leases in respect of land and buildings which are payable:		
Within one year	10,790	10,229
Later than one year and not later than five years	8,313	3,268
	19,103	13,497
Leases in respect of telecommunications facilities and computer equipment which are payable:		
Within one year	31,918	22,996
Later than one year and not later than five years	9,049	8,368
	40,967	31,364
	60,070	44,861

## 20 COMMITMENTS (continued)

### (c) Licence fee commitment

The Group entered into agreements with program content providers for granting the program rights to deliver certain program contents in the Group's pay-TV services. Minimum amounts of licence fees are guaranteed to be paid by the Group which are analysed as follows:

	29th February 2004 HK\$'000	31st August 2003 HK\$'000
Licence fee in respect of programming rights which are payable:		
Within one year	9,508	–
Later than one year and not later than five years	22,021	–
	31,529	–

## 21 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 2003.

## OTHER INFORMATION

### EMPLOYEE REMUNERATION

Including the directors of the Group, as at 29th February 2004, the Group employed a total of 3,300 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 SHARES AND UNDERLYING SHARES

At 29th February 2004, the interests of the directors and chief executives of the Company in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") in force prior to 31st March 2004 were as follows:

(a) Long positions in ordinary shares of HK\$0.1 each of the Company (the "Shares")

Name of director	Number of Shares				Percentage interests
	Personal interests	Corporate interests	Family interests	Total interests	
Mr Wong Wai Kay, Ricky	11,250,000	319,862,999 Note (1)(i) and (ii)	1,524,000 Note (2)	332,636,999	54.48%
Mr Cheung Chi Kin, Paul	10,508,000	318,516,999 Note (1)(i)	–	329,024,999	53.89%
Mr Chong Kin Chun, John	724,000	–	–	724,000	0.12%
Ms Sio Veng Kuan, Corinna	1,350,000	–	–	1,350,000	0.22%
Ms Fung So Mui, Fion	1,964,000	–	–	1,964,000	0.32%
Ms To Wai Bing	400,000	–	–	400,000	0.07%

## DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES (continued)

### (a) Long positions in ordinary shares of HK\$0.1 each of the Company (the "Shares") (continued)

*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) 318,516,999 Shares are held by Top Group International Limited ("Top Group") which is owned as to approximately 35% each by Mr Wong and Mr Cheung; the interests of Top Group in the Company is also disclosed under the section "Substantial Shareholders" in this report.
  - (ii) 1,346,000 Shares are held by Bullion Holdings Limited which is wholly owned by Mr Wong and his spouse.
- (2) 1,524,000 Shares are jointly owned by Mr Wong and his spouse.

### (b) Long positions in underlying shares – share options

None of the directors had any share options as at 29th February 2004.

### (c) Long positions in derivative to ordinary shares of HK\$0.1 each of the Company – warrants

None of the directors held any warrants of the Company as at 29th February 2004.

Save as disclosed above, none of the directors or chief executives (including their spouse and children under 18 years of age) had any interests or short positions in the shares, underlying shares and derivative to ordinary shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## SHARE OPTION SCHEMES

The Company operates a share option scheme (the "2002 Share Option Scheme") which was adopted by shareholders of the Company on 23rd December 2002 which the directors may, at their discretion, invite eligible participants to take up options to subscribe for Shares subject to the terms and conditions stipulated therein. No options were 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 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 options granted prior to termination continue to be valid and exercisable.

## OTHER INFORMATION

### SHARE OPTION SCHEMES (continued)

Details of the outstanding share options and share options exercised under the 1997 Share Option Scheme during the period are as follows:

Participants	Date of grant	Exercise price per share	Exercisable period	No. of options as at 1st September 2003	Options exercised during the period	No. of options outstanding as at 29th February 2004
Employees <i>in aggregate</i>	3rd Sep 1998	HK\$0.26	3rd Sep 2000 to 11th July 2007	790,000	600,000 (Note 1)	190,000
	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	390,000	40,000 (Note 1)	350,000
<b>Total</b>				<b>1,240,000</b>	<b>640,000</b>	<b>600,000</b>

Notes:

1. The weighted average closing price of the Shares of the Company immediately before the dates of exercise was HK\$3.03 per share.
2. No options under the 1997 Share Option Scheme were granted, cancelled or lapsed during the period.
3. All outstanding options are immediately exercisable.

### SUBSTANTIAL SHAREHOLDERS

At 29th February 2004, the interests and short positions of the persons, other than the directors or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register maintained by the Company required to be kept under Section 336 of the SFO were as follows:

Name	Interests in Shares in long positions	Percentage interests
Top Group International Limited	318,516,999	52.17%
EK Investment Management Limited	67,246,000	11.01%

### **SUBSTANTIAL SHAREHOLDERS** (continued)

Save as disclosed above, the Company had not been notified of any persons having any interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

### **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 in force prior to 31st March 2004 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 2003 or are considered not significant to the Group's operations, and hence no additional disclosure has been made in this report.

### **REMUNERATION COMMITTEE**

A remuneration committee (the "Remuneration Committee") was established to ensure the supervision of the remuneration packages payable by the Company to the executive directors of the Company. The Remuneration Committee comprises the three independent non-executive directors, the finance director and the director of administration and human resources. The Remuneration Committee is responsible for reviewing and evaluating the remuneration packages of the executive directors and making recommendations to the board of directors from time to time.

### **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 29th February 2004. The Audit Committee comprises three independent non-executive directors of the Company, namely Mr Lee Hon Ying, John (the Chairman of the Audit Committee), Mr Cheng Mo Chi, Moses and Dr Chan Kin Man.

## ○ OTHER INFORMATION ●

### CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 7th June 2004 (Monday) to 11th June 2004 (Friday), 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 4th June 2004 (Friday).

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

Hong Kong, 19th May 2004