



**ASSORTMENTS OF SERVICES
EMPOWERED FOR CHALLENGE**



We are building our own fibre backbone, running across districts in Hong Kong. With this, we will have at our deploy high technological superiority and capacity to provide a suite of new services to overcome market challenges.



REPORT OF THE DIRECTORS

The directors submit their report together with the audited accounts for the year ended 31st August 2003.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activities of the Company and its subsidiaries (the "Group") are the provision of international telecommunications services to customers in Hong Kong, Japan and Canada, and fixed telecommunications network services to customers in Hong Kong and Canada. The Company ceased its operations in Japan as a result of its disposal of the entire issued share capital of a wholly-owned subsidiary, City Telecom (Japan) Co., Ltd., thereon 15th July 2003.

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

RESULTS AND APPROPRIATIONS

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

An interim dividend of HK\$0.05 (2002: Nil) per ordinary share was paid to the shareholders of the Company on 10th June 2003.

The directors have recommended a proposed final dividend of HK\$0.075 (2002: Nil) per ordinary share to shareholders whose names appear on the register of members of the Company on 23rd December 2003. The proposed final dividend together with the interim dividend paid will amount to total dividend of HK\$0.125 per ordinary share for the year ended 31st August 2003.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 23 to the accounts.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$1,060,000.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 15 to the accounts.

SHARE CAPITAL, WARRANTS AND SHARE OPTIONS

Details of the movements in share capital, warrants and share options of the Company are set out in note 22 to the accounts.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31st August 2003, calculated in accordance with section 79B of the Hong Kong Companies Ordinance, amounted to approximately HK\$355,488,000 (2002: HK\$346,442,000).

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 76 of the annual report.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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



GROUP'S BORROWINGS

The Group's borrowings as at 31st August 2003 are repayable in the following periods:

	Bank overdrafts / Short-term bank loan		Obligations under finance leases		Loan from a former minority shareholder	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
On demand or not exceeding one year	18,174	19,180	—	2,949	—	22,500
More than one year but not exceeding two years	—	—	—	—	—	—
	18,174	19,180	—	2,949	—	22,500

DIRECTORS

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

Mr Wong Wai Kay, Ricky (Chairman)

Mr Cheung Chi Kin, Paul (Managing director)

Mr Chong Kin Chun, John

Ms Fung So Mui, Fion

Ms Sio Veng Kuan, Corinna*

Ms To Wai Bing

Mr Cheng Mo Chi, Moses#

Mr Lee Hon Ying, John#

Dr Chan Kin Man#

Independent non-executive directors and members of the Audit Committee and the Remuneration Committee

* Member of the Remuneration Committee

In accordance with Articles 96 and 99 of the Company's Articles of Association, Dr Chan Kin Man shall retire by rotation and, being eligible, offers himself for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

There is no unexpired service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation) of the director proposed for re-election at the forthcoming annual general meeting.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

REPORT OF THE DIRECTORS

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

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

CONNECTED TRANSACTION

The details of connected transactions during the year are set out as follows:

On 15th July 2003, Automeia Holdings Limited ("Automeia"), a wholly-owned subsidiary of the Company, entered into a conditional agreement (the "Agreement") with Takua Corporation ("Takua") for the sale of the entire issued share capital of City Telecom (Japan) Co., Ltd. ("City Telecom Japan") in an aggregate price of JPY30,000,000 (approximately HK\$1,950,000) which was to be paid by Takua in thirty monthly instalments. Prior to the entering into the Agreement, City Telecom Japan was a wholly-owned subsidiary of the Company. Takua is wholly-owned by Mr Masaaki Asai and being an associate of Mr Masaaki Asai. Mr Masaaki Asai is a brother of Mr Tatsushi Asai, a director of City Telecom Japan and is deemed to be an associate of Mr Tatsushi Asai. Accordingly, Takua is deemed to be an associate of Mr Tatsushi Asai, a connected person of the Company. Therefore, the entering into of the Agreement by Automeia constituted a connected transaction of the Company.

Mr Tatsushi Asai also acts as a guarantor for the due and punctual performance of Takua's obligations under the Agreement at no additional consideration and no independent shareholders' approval was required.

City Telecom Japan had been incurring losses since its establishment in 1997 and the directors (including the independent non-executive directors) of the Company considered that it was in the best interest of the Company to dispose of all its interests in City Telecom Japan. As at 31st August 2003, the Company had received approximately HK\$132,000 from Takua.

Remarks in relation to a connected transaction reported in the Company's annual report 2002:

It was reported in the section "Connected Transaction" of the Report of Directors in the 2002 annual report of the Company that pursuant to the rights issue of Hong Kong Broadband Network Limited ("HKBN") on 10th January 2002 and the sale and purchase agreement entered into between the Company and KDDI Corporation on 13th March 2002 respectively, the Company acquired the 15% equity interest in HKBN as owned by KDDI Corporation. As a result thereof, HKBN became a wholly-owned subsidiary of the Company and KDDI Corporation ceased to be a connected person of the Company thereafter.

It was further reported that pursuant to a Deed of Novation dated 13th March 2002 ("Novation") under which KDDI Corporation agreed to assign and transfer its rights, together with its obligations and liabilities, under a Facility Letter dated 26th June 2000 ("Facility Letter") and a Floating Charge dated 22nd September 2000 to the Company, and in return the Company assumed HKBN's obligations to repay the principal and interests owed to KDDI Corporation under the Facility Letter on the terms set forth in the Facility Letter. As a security for the Company's obligations to KDDI Corporation, HKBN executed a legal charge over a property in favour of KDDI Corporation on 13th March 2002 ("Legal Charge").

On 21st November 2002, the Company has repaid all the outstanding principal and interests owed to KDDI Corporation under the Facility Letter. As a result, KDDI Corporation executed a Deed of Release, discharging the property under the Legal Charge in favour of HKBN and any further or continuing obligations owed to KDDI Corporation under the Novation in favour of the Company.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31st August 2003, 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") 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				
	Personal interests	Corporate interests	Family interests	Total interests	Percentage 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	54.98%
Mr Cheung Chi Kin, Paul	10,508,000	318,516,999 Note (1)(i)	–	329,024,999	54.39%
Mr Chong Kin Chun, John	1,624,000	–	–	1,624,000	0.27%
Ms Sio Veng Kuan, Corinna	1,712,000	–	–	1,712,000	0.28%
Ms Fung So Mui, Fion	1,964,000	–	–	1,964,000	0.32%
Ms To Wai Bing	400,000	–	–	400,000	0.07%

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

Details of the interests of directors in share options of the Company are disclosed under the section "Share Option Schemes" in this report.

(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 31 August 2003.

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 option were granted under the 2002 Share Option Scheme during the year.

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.

REPORT OF THE DIRECTORS

A summary of each of the share option schemes operated by the Company is as follows :

(a) 2002 Share Option Scheme

(1) Purpose

To grant options to the eligible participants as incentives and rewards for their contribution to the Company or its subsidiaries.

(2) Eligible Participants

Eligible participants include employees, executives or officers (including executive, non-executive and independent non-executive directors) of the Company or any of its subsidiaries, suppliers and professional advisers of the Group.

(3) The total number of securities available for issue

The total number of shares which may be issued upon exercise of options to be granted under the scheme shall not exceed 50,302,066 ordinary shares of the Company, being 10% of the shares in issued on the date of adoption of the 2002 Share Option Scheme, which also represents approximately 8% of the issued share capital of the Company as at the date of the annual report.

The shares which may be issued upon exercise of all outstanding options to be granted and yet to be exercised under the 2002 Share Option Scheme and any other share option scheme(s) of the Company at any time shall not exceed 30% of the shares in issue from time to time. No options shall be granted under any scheme(s) of the Company or any of its subsidiaries if this will result in the 30% limit being exceeded.

(4) The maximum entitlement of each participant under the scheme

The total number of shares shall be issued upon exercise of the options granted under the 2002 Share Option Scheme and any other share option scheme(s) of the Company (including exercised, cancelled and outstanding options) to each participant in any 12-month period up to and including the date of grant shall not exceed 1% of the shares in issue as at the date of grant.

(5) The period within which the shares must be taken up under an option

The period during which an option may be exercised will be determined by the board of directors at its absolute discretion and no option may be exercised more than 10 years from the date of grant.

(6) The minimum period for which an option must be held before it can be exercised

The board of directors is empowered to impose, at its discretion, any minimum period that an option must be held at the time of grant of any particular option.

(7) The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be paid

Acceptance of the option must be made not later than 30 days after the date of offer and HK\$1.00 must be paid as a consideration for the option granted.

(8) The basis of determining the exercise price

The board of directors shall determine the exercise price of each option offered but in any event shall not be less than the highest of : (a) the official closing price of the shares of the Company on the date of offer as quoted in the Stock Exchange; (b) the average of the closing price of the shares of the Company for the 5 business days immediately preceding the date of offer as quoted in the Stock Exchange; and (c) the nominal value of the shares of the Company.

(9) The remaining life of the scheme

The 2002 Share Option Scheme is valid and effective from 23rd December 2002, being the date of adoption, and shall end on the tenth anniversary of such date (both days inclusive).



(b) 1997 Share Option Scheme

(1) Purpose

To grant options to the employees as incentives for their contribution to the Company or its subsidiaries.

(2) Eligible Participants

Eligible participants include employees of the Company or any of its subsidiaries including (without limitation) any executive director of the Company or any of its subsidiaries.

(3) The total number of securities available for issue

The total number of shares in respect of which options may be granted (together with shares issued pursuant to options exercised and shares in respect of outstanding options) under the scheme and any other share option scheme(s) should not exceed 10% of the shares in issued from time to time. The shares to be issued upon exercise of all outstanding options granted under the scheme were 622,000 shares, representing approximately 0.1% of the issued share capital of the Company as at the date of the annual report.

(4) The maximum entitlement of each participant under the scheme

No option may be granted to any one employee which, if exercised in full, would result in such employee becoming entitled to subscribe, and in aggregate with the total number of shares already issued and issuable to him, over 25% of the aggregate number of shares issued and issuable under the 1997 Share Option Scheme.

(5) The period within which the shares must be taken up under an option

The period during which an option may be exercised will be determined by the board of directors and such period may commence on a day after the date of acceptance and in any event shall end not later than 10 years from 12th July 1997, being the date of adoption.

(6) The minimum period for which an option must be held before it can be exercised

There was no minimum period for which an option must be held before it can be exercised as specified in the 1997 Share Option Scheme but the board of directors may determine to require the employee to undertake to hold the option on the terms on which the option is to be granted.

(7) The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be paid

Acceptance of the option must be made within 28 days after the date of offer and HK\$1.00 must be paid as a consideration for the grant of option.

(8) The basis of determining the exercise price

The board of directors shall determine the exercise price which will be the higher of: (a) a price being not less than 80% of the average closing price of the shares of the Company for the 5 trading days immediately preceding the date of offer; and (b) the nominal value of the shares of the Company.

(9) The remaining life of the scheme

The 1997 Share Option Scheme was valid and effective for a period of 10 years commencing on its date of adoption on 12th July 1997 and such scheme was terminated upon the adoption of the 2002 Share Option Scheme on 23rd December 2002. 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 in accordance with the 1997 Share Option Scheme.

REPORT OF THE DIRECTORS

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

Participants	Date of grant	Exercise price per share	Exercisable period	No. of options as at 1st September 2002	Options exercised during the year	Weighted average closing price immediately before the respective dates of exercise	No. of options outstanding as at 31st August 2003
Directors							
Wong Wai Kay, Ricky	20th Oct 2000	HK\$0.58	Note (1)	10,000,000	10,000,000	HK\$1.44	-
Cheung Chi Kin, Paul	20th Oct 2000	HK\$0.58	Note (1)	10,000,000	10,000,000	HK\$1.44	-
Chong Kin Chun, John	20th Oct 2000	HK\$0.58	31st Oct 2000 to 11th July 2007	500,000	500,000	HK\$1.43	-
Fung So Mui, Fion	20th Oct 2000	HK\$0.58	1st Nov 2000 to 11th July 2007	500,000	500,000	HK\$1.42	-
Sub Total				21,000,000	21,000,000	-	-
Other Employees							
	3rd Sep 1998	HK\$0.26	3rd Sep 2000 to 11th July 2007	890,000	100,000	-	790,000
	10th Sep 1999	HK\$2.10	10th Sep 1999 to 11th July 2007	60,000	-	-	60,000
	20th Oct 2000	HK\$0.58	2nd June 2001 to 11th July 2007	410,000	20,000	-	390,000
Sub Total				1,360,000	120,000	Note (2)	1,240,000
Total				22,360,000	21,120,000	-	1,240,000

Notes:

- (1) The exercisable period of these options are as below:
3,000,000 shares - 20th Oct 2000 to 11th July 2007
3,000,000 shares - 2nd June 2001 to 11th July 2007
4,000,000 shares - 2nd June 2002 to 11th July 2007
- (2) The weighted average closing price of the Shares of the Company immediately before the dates of exercise was HK\$1.46 per share.
- (3) No options under the 1997 Share Option Scheme were granted, cancelled or lapsed during the year ended 31st August 2003.
- (4) All outstanding options are immediately exercisable.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the section "Share Option Schemes" in this report, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors and/or the chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

At 31st August 2003, the interests and short positions of the persons, other than the directors or chief executives 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	52.65%
EK Investment Management Limited	61,405,496	10.15%

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.



MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

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

	2003	2002
	%	%
Purchases		
- the largest supplier	46	48
- five largest suppliers combined	95	79

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

COMPLIANCE WITH THE CODE OF BEST PRACTICE

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 on The Stock Exchange of Hong Kong Limited during the accounting year covered by this annual 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 audited annual accounts for the year. 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.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who shall retire, and being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

On behalf of the Board

Wong Wai Kay, Ricky

Chairman

Hong Kong, 24th November 2003