



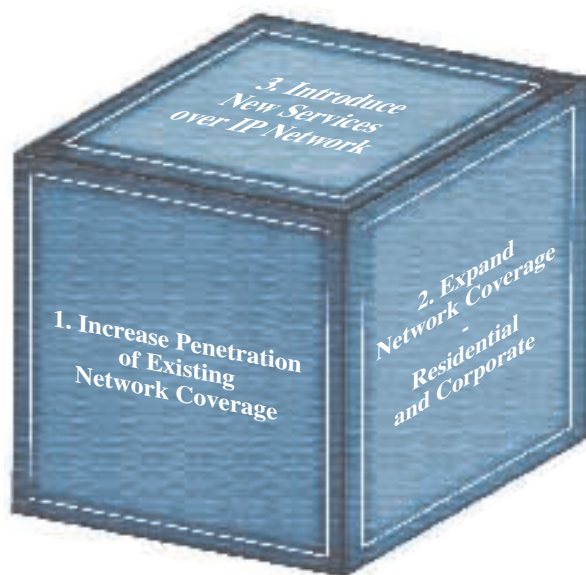
CHAPTER 1

PULLING TOGETHER  
-  
LOOKING AHEAD

OUR END-TO-END ALL-IP PLATFORM  
PROVIDES US  
WITH A STRONG FOUNDATION  
IN TERMS OF CAPITAL INVESTMENT SAVINGS  
AND OPERATING EXPENDITURE ADVANTAGES  
BY ALLOWING US  
TO LAYER MULTIPLE SERVICES  
ON A SINGLE NETWORK.

# CHAIRMAN'S STATEMENT

## 3D Growth Strategy



**F**ISCAL 2004 WAS A LANDMARK YEAR IN OUR COMPANY'S 12-YEAR HISTORY, IN THAT MONTHLY FIXED TELECOMMUNICATIONS NETWORK SERVICES (FTNS) REVENUE SURPASSED INTERNATIONAL TELECOMMUNICATIONS SERVICES (IDD) REVENUE IN EACH MONTH SINCE JULY 2004. WHILE OUR CONSOLIDATED GROUP PROFITS WERE DOWN SIGNIFICANTLY FROM A RECORD HIGH IN 2003, DUE TO LOWER IDD RETURNS AND DECISIVE FTNS INVESTMENTS, THE FUNDAMENTALS OF OUR FTNS BUSINESS ARE STRONGER THAN EVER. OUR EARLY RECOGNITION OF IDD BEING A DECLINING INDUSTRY AND INVESTMENT IN FTNS INFRASTRUCTURE SINCE 2000 IS NOW PAYING DIVIDENDS – 85% OF OUR NET FIXED ASSETS ARE NOW USED IN OUR FTNS BUSINESS.

After four years of hard work, our end-to-end all-IP network is almost complete. Our self-owned fiber now runs over 100,000 core kilometers and covers as far East as Tseung Kwan O to as far West as Tung Chung, and as far North as Yuen Long to as far South as Deep Water Bay. As a percentage of our total homes passed, wireless-LMDS backhaul has fallen from 60% to 28% during the year, which translates to an overall service quality improvement for our customers.

During the year, we grew our FTNS On-Network subscription base for local voice over IP, broadband Internet access and IP-TV to 465,000 as of 31st August 2004, up from 312,000 a year ago. Despite a five year late start, the CTI Group has become the largest alternative provider of residential voice and broadband services in Hong Kong.



Our Cisco-powered all-IP network is often showcased as one of the World's largest Metro Ethernet deployments. Ethernet technology is well established in the global enterprise market, but we are one of the first to deploy this technology for the mass market.

In November 2004, HKBN launched our breakthrough "BB100" service that provides symmetric 100 Mbps Internet access for upstream and downstream. "BB100" service is a Hong Kong first for the residential market and is 16-155 times faster than the committed bandwidth currently offered by Hong Kong's leading ADSL service provider. Over time, we plan to offer 100 Mbps as our standard offering.

As the Ethernet standard is defined for 10/100/1000 Mbps services, our upgrade from 10 Mbps to 100 Mbps involves minimal incremental capital expenditures and can be delivered to customers without the need to enter our customer premises. We believe that as bandwidth intensive applications develop over time, the capacity and cost advantages of our end-to-end Metro Ethernet over xDSL platforms will become more apparent to consumers.

While we have no intention to rest on our laurels, we are now confident that the major hurdles of our FTNS business plan have been overcome. With 1.2 million homes passed and 465,000 subscriptions, we believe our major business and technology risk hurdles are now behind us. Our "3D Growth Strategy" is essentially an extension of our now proven business execution:

- Increase penetration within our existing network coverage,
- Expand network coverage from 1.2 million to 1.6 million homes passed (75% of Hong Kong's total homes) and from 600 to 1,200 corporate buildings,
- Add new services on our IP platform such as local corporate data.

As one of the leading facilities-based operators in Hong Kong, CTI welcomes the Office of Telecommunications Authority (OFTA) mandate announced in July 2004 to phase out Type II unbundled network access by June 2008. Our end-to-end all-IP platform provides us with a strong foundation in terms of capital investment savings and operating expenditure advantages by allowing us to layer multiple services on a single network.

A review of our achievements would be incomplete without crediting our success to our staff. Since we commenced offering our FTNS services, we have seen our staff grow from 851 as of 31st August 2001 to 3,571 as of 31st August 2004, including the establishment of our 1,956 staff Guangzhou customer care centre. Our staff is young and dynamic, and they are the cornerstone of our corporate culture for innovation, value and being first to market.

At CTI, the senior management has majority economic ownership of our company and as such, the commitment to shareholder value is direct. Instead of short term performance targets, CTI's management is committed to value creation over three to five year planning cycles. As a reflection of this philosophy, we have decided to forego declaration of a dividend payment for fiscal 2004, and use our available capital for the continued expansion of our IP network. With long term value in mind, we see rapidly changing technology as an opportunity to redefine the telecommunications landscape for the benefit of Hong Kong and our shareholders.

In conclusion, we believe that fiscal year 2004 will be viewed as the year that the CTI Group effectively made the transition from a primarily international telecommunications services operator to being a major facilities-based innovator. We look forward to building on this solid foundation in the coming years.

**Wong Wai Kay, Ricky**

*Chairman*

23rd November 2004