



EPILOGUE

DELIVERING
THE
RESULTS

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.

REPORT OF THE DIRECTORS

The directors submit their report together with the audited accounts for the year ended 31st August 2004.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activities of the Company and its subsidiaries (the “Group”) are the provision of fixed telecommunications network services and international telecommunications services to customers in Hong Kong and Canada.

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 31 of the annual report.

An interim dividend of HK\$0.015 (2003: HK\$0.05) per ordinary share was paid to the shareholders of the Company on 28th June 2004 and the directors do not recommend the payment of a final dividend (2003: HK\$0.075 per ordinary share) for the year ended 31st August 2004.

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\$291,000 (2003: 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 2004, calculated in accordance with section 79B of the Hong Kong Companies Ordinance, amounted to approximately HK\$295,592,000 (2003: HK\$350,298,000).

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.

REPORT OF THE DIRECTORS

GROUP'S BORROWINGS

The Group's borrowings as at 31st August 2004 and 31st August 2003 are repayable in the following periods:

	Bank loans	
	2004	2003
	HK\$'000	HK\$'000
On demand or not exceeding one year	32,503	18,174
More than one year but not exceeding two years	20,000	–
More than two years	66,667	–
	119,170	18,174

DIRECTORS

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

Executive directors

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

Non-executive director

Mr Cheng Mo Chi, Moses# (Re-designated from an independent non-executive director to a non-executive director on 30th September 2004)

Independent non-executive directors

Mr Lee Hon Ying, John#
Dr Chan Kin Man#
Mr Peh Jefferson Tun Lu# (Appointed on 1st September 2004)

Audit Committee members

In accordance with Articles 96 and 99 of the Company's Articles of Association, Mr. Lee Hon Ying, John shall retire by rotation and, being eligible, offers himself for re-election at the forthcoming annual general meeting.

In accordance with Article 92 of the Company's Articles of Association, Mr. Peh Jefferson Tun Lu shall hold office until the forthcoming annual general meeting. A resolution will be proposed for the re-appointment of Mr. Peh at the said meeting.

The Company received confirmation of independence from each of the independent non-executive director pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Company still considers the independent non-executive directors to be independent.

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 directors proposed for re-election and re-appointment 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.

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 Company disposed the entire issued share capital of City Telecom (Japan) Co., Ltd. which constituted a connected transaction of the Company in July 2003. As at 31st August 2004, the Company had received approximately HK\$814,000 from the purchaser, Takua Corporation. Details of the transaction have been disclosed in the annual report 2003 and a press announcement dated 15th July 2003 published by the Company.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31st August 2004, the interests of the directors and chief executive 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 Issuers (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					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)	2,428,000 Note (2)	333,540,999	54.63%	
Mr Cheung Chi Kin, Paul	10,508,000	318,516,999 Note (1)(i)	–	329,024,999	53.89%	
Mr Chong Kin Chun, John	1,574,000	–	–	1,574,000	0.26%	
Ms Sio Veng Kuan, Corinna	1,450,000	–	–	1,450,000	0.24%	
Ms Fung So Mui, Fion	1,964,000	–	–	1,964,000	0.32%	
Ms To Wai Bing	398,000	–	–	398,000	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” of this report.
 - (ii) 1,346,000 Shares are held by Bullion Holdings Limited which is wholly owned by Mr Wong.
- (2) 2,428,000 Shares are jointly owned by Mr Wong and his spouse.

(b) Long positions in underlying shares - share options

None of the Directors had interests in share options of the Company as at 31st August 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 31st August 2004.

Save as disclosed above, none of the directors or chief executive (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.

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 can 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.

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 10% of the shares in issue on the date of adoption of the 2002 Share Option Scheme. As at the date of this annual report, the number of shares available for issue in respect thereof is 29,632,066 shares, representing approximately 5% 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.

REPORT OF THE DIRECTORS

(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 within 30 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 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).

(10) Details of the share options granted under the 2002 Share Option Scheme during the year are as follows:–

Participants	Date of grant	Exercise price per share	Exercisable period	Vesting period	No. of options	Options granted during the year	Closing price immediately before the date of grant	No. of options
					outstanding as at 1st September 2003			outstanding as at 31st August 2004
Others	3rd June 2004	HK\$1.47	1st May 2005 to 2nd June 2014	1st May 2005 to 1st May 2006	–	6,000,000	HK\$1.47	6,000,000
Total						6,000,000		6,000,000

(11) In assessing the value of the share options granted during the year ended 31st August 2004, the Black-Scholes option pricing model (the “Black-Scholes Model”) has been used. The Black-Scholes Model is one of the most generally accepted methodologies used to calculate the value of options and is one of the recommended option pricing models as set out in Chapter 17 of the Listing Rules. The variables of the Black-Scholes Model include expected life of the options, risk-free interest rate, expected volatility and expected dividend of the shares of the Company.

In assessing the value of the share options granted during the year, the following variables have been applied to the Black Scholes Model:

Measurement Date	3rd June 2004
Variables	
Expected life	5 years
Risk-free rate	3.78%
Expected volatility	59.04%
Expected dividend yield	1.02%

The above variables were determined as follows:

- (i) The expected life is estimated to be 5 years from the date of grant (the “Measurement Date”).
- (ii) The risk-free rate represents the yield of the Hong Kong Exchange Fund Notes corresponding to the expected life of the options as at the Measurement Date.
- (iii) The expected volatility represents the annualised standard deviation of the continuously compounded rates of return on the shares of the Company for the last twelve months from the Measurement Date.
- (iv) A dividend yield of 1.02% has been assumed.

Using the Black-Scholes Model in assessing the value of share options granted during the year, the fair value is estimated at HK\$0.7 per share option.

In assessing the aggregate value of the share options, no adjustment has been made for possible future forfeiture of the options. No charge is recognised in the profit and loss account in respect of the value of options granted during the year. The share options granted will be recognised in the balance sheet at the time when the share options are exercised.

The Black-Scholes Model, applied for determination of the estimated value of the share options granted under the 2002 Share Option Scheme, was developed for use in estimating the fair value of traded options that are fully transferable and have no vesting restrictions. Such an option pricing model requires input of highly subjective assumptions, including the expected stock volatility. As the Company’s share options have characteristics significantly different from those of traded options, changes in subjective inputs may materially affect the estimated fair value of the options granted.

(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 which may be issued upon exercise of options which may be granted under the scheme and any other share option scheme(s) should not exceed 10% of the shares in issue (excluding any shares allotted and issued pursuant to this scheme) from time to time. The shares to be issued upon exercise of all outstanding options granted under the scheme were 600,000 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 can 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

(10) 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 outstanding as at 1st September 2003	Options exercised during the year	No. of options outstanding as at 31st August 2004
Employees in aggregate	3rd September 1998	HK\$0.26	3rd September 2000 to 11th July 2007	790,000	600,000	190,000
	10th September 1999	HK\$2.10	10th September 1999 to 11th July 2007	60,000	–	60,000
	20th October 2000	HK\$0.58	2nd June 2001 to 11th July 2007	390,000	40,000	350,000
Total				1,240,000	640,000	600,000

Notes:

- (i) The weighted average closing price of the Shares of the Company immediately before the dates of exercise was HK\$3.03 per share.
- (ii) No options under the 1997 Share Option Scheme were granted, cancelled or lapsed during the year ended 31st August 2004.
- (iii) 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 executive 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

As at 31st August 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	67,050,000	10.98%

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:

	2004	2003
	%	%
Purchases		
– the largest supplier	36	46
– five largest suppliers combined	70	95

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.

SUFFICIENCY OF PUBLIC FLOAT

On the basis of information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained a sufficient public float as required under the Listing Rules during the year.

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 Listing Rules during the accounting year covered by this annual report.

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code of the Listing Rules as the code of conduct for securities transactions by directors of the Company. Having made specific enquiry of all directors, the directors have complied with the required standard as set out in the Model Code during the year.

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 Mr Lee Hon Ying, John, Mr Cheng Mo Chi, Moses, Dr Chan Kin Man, 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.

REPORT OF THE DIRECTORS

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 Mr Lee Hon Ying, John (the Chairman of the Audit Committee), Dr Chan Kin Man, Mr Peh Jefferson Tun Lu who are the independent non-executive directors of the Company and Mr Cheng Mo Chi, Moses, the non-executive director of the Company.

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, 23rd November 2004