



Today

FUTURE

At CTI, we are working towards building the most successful alternative carrier in Hong Kong for the benefit of the community and for our shareholders.

REPORT OF THE DIRECTORS

The directors submit their report together with the audited accounts for the year ended 31 August 2005.

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 and fixed telecommunications network 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 34 of this report.

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\$1,115,000 (2004: HK\$291,000).

FIXED ASSETS

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

SHARE CAPITAL AND SHARE OPTIONS

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

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 August 2005, calculated in accordance with section 79B of the Hong Kong Companies Ordinance, amounted to approximately HK\$262,554,000 (2004: HK\$295,592,000).

FIVE YEAR FINANCIAL SUMMARY

A summary of the results of the assets and liabilities of the Group for the last five financial years is set out on page 76 of this 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 31 August 2005 are repayable in the following periods:

	2005	2004
	HK\$'000	HK\$'000
On demand or not exceeding one year	1,194	32,503
More than one year but not exceeding two years	1,218	20,000
More than two years	946,071	66,667
	948,483	119,170

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 (Resigned on 28 July 2005)

Ms Fung So Mui, Fion (Resigned on 28 July 2005)

Ms Sio Veng Kuan, Corinna *

Ms To Wai Bing (Resigned on 28 July 2005)

Non-executive director

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

Independent non-executive directors

Mr Lee Hon Ying, John # *

Dr Chan Kin Man # *

Mr Peh Jefferson Tun Lu # * (Appointed on 1 September 2004)

Audit Committee members

* Remuneration Committee members

In accordance with Articles 96 and 99 of the Company's Articles of Association, Mr Wong Wai Kay, Ricky and Mr Cheung Chi Kin, Paul shall retire by rotation and, being eligible, offers themselves for re-election at the forthcoming annual general meeting.

The Company received confirmation of independence from each of the independent non-executive directors 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 director proposed for re-election and re-appointment at the forthcoming annual general meeting.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract 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 18 of this report.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

Directors' interests and short positions in shares and in share options

As at 31 August 2005, the interests and short positions of the Directors and chief executives of the Company and their associates, 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:

Name of director	Interest in shares			Total interests in shares	Interests in underlying shares pursuant to share options	Aggregate interests	Approximate percentage interests in the Company's issued share capital
	Personal interests	Corporate interests	Family interests				
Mr Wong Wai Kay, Ricky	11,794,000	319,862,999 Note (1)(i) and (ii)	3,098,000 Note (2)	334,754,999	8,000,000	342,754,999	55.81%
Mr Cheung Chi Kin, Paul	10,508,000	318,516,999 Note (1)(i)	–	329,024,999	8,000,000	337,024,999	54.88%
Ms Sio Veng Kuan, Corinna	1,550,000	–	–	1,550,000	1,000,000	2,550,000	0.42%

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) 3,098,000 Shares are jointly owned by Mr Wong and his spouse.

Details of the directors' interests in share options granted by the Company are set out on page 26 of this report.

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 23 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 12 July 1997 which was terminated on 23 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 as at the date of adoption of the 2002 Share Option Scheme on 23 December 2002 (i.e. 50,302,066 shares). Such limit was refreshed by the shareholders in the general meeting held on 29 December 2004 so that the total number of shares which may be issued shall be 10% of the shares in issue as the date of the said general meeting (i.e. 61,407,340 shares). As at the date of this annual report, the number of shares available for issue in respect thereof is 44,407,340 shares, representing approximately 7.23% 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.

Any further grant of options in excess of the 1% limit shall be subject to the issue of a circular by the Company and the approval of the shareholders in general meeting with such grantee and his associates abstaining from voting and/or other requirements prescribed under the Listing Rules from time to time.

(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.

REPORT OF THE DIRECTORS

(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 quotation sheet; (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 quotation sheet; 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 23 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 as at 31 August 2005 are as follows:

Participants	Date of grant	Exercise price HK\$	Balance as at 1 September 2004	Options granted during the year	Vesting period	Exercise period	Options exercised/ lapsed/ cancelled during the year	Balance as at 31 August 2005	Closing price immediately before the date on which the options were granted
Directors									
Mr Wong Wai Kay, Ricky	5 January 2005	1.54	-	8,000,000	5 January 2005 to 31 December 2006	5 January 2005 to 20 October 2014	-	8,000,000	1.53
Mr Cheung Chi Kin, Paul	5 January 2005	1.54	-	8,000,000	5 January 2005 to 31 December 2006	5 January 2005 to 20 October 2014	-	8,000,000	1.53
Ms Sio Veng Kuan, Corinna	21 October 2004	1.54	-	1,000,000	21 October 2004 to 31 December 2006	1 January 2005 to 20 October 2014	-	1,000,000	1.53
Employees under continuous employment contacts									
Employees	3 June 2004	1.47	6,000,000	-	1 May 2005 to 1 May 2006	1 May 2005 to 2 June 2014	-	6,000,000	1.47
	21 October 2004	1.54	-	13,670,000	21 October 2004 to 31 December 2006	1 January 2005 to 20 October 2014	-	13,670,000	1.53
Total			6,000,000	30,670,000				36,670,000	

Note: On 21 October 2004, the Board proposed the offer of a grant of an option to subscribe for 8,000,000 shares to each of Mr Wong Wai Kay, Ricky and Mr Cheung Chi Kin, Paul at the exercise price of HK\$1.54. Each of Mr Wong and Mr Cheung is an executive director and a substantial shareholder (within the meaning under the Listing Rules) of the Company. Each such grant also represents approximately 1.31% of the issued share capital of the Company as at the said Board meeting and has an aggregate value of HK\$11,920,000 based on the closing price of HK\$1.49 per share quoted on the quotation sheet of Stock Exchange on the date of the said Board meeting. Accordingly, such grant must be approved by the shareholders with Mr Wong, Mr Cheung and each of his associates shall abstain from voting; while and all connected persons shall abstain from voting in favour in accordance with rules 17.03(4) and 17.04 of the Listing Rules. At the general meeting of the Company held on 29 December 2004, each grant to Mr Wong and Mr Cheung was approved by the shareholders of the Company.

(11) In assessing the value of the share options granted during the year ended 31 August 2005, 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	21 October 2004	5 January 2005
Variables		
– Expected life	5 years	5 years
– Risk-free rate	2.65%	2.75%
– Expected volatility	72.06%	69.37%
– Expected dividend yield	1.01%	1.01%

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 5 years from the Measurement Date which approximates the expected life of the share options.
- (iv) A dividend yield of 1.01% has been assumed.

Using the Black-Scholes Model in assessing the value of share options granted during the year, the fair value is estimated as below:

Date of grant	21 October 2004	5 January 2005
Fair value per share option	HK\$0.84	HK\$0.80

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.

REPORT OF THE DIRECTORS

(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. As at the date of this annual report, the shares to be issued upon exercise of all outstanding options granted under the scheme are 548,000 shares, representing approximately 0.09% 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 12 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 that the employees are required to undertake to hold the option base 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 originally established to have a term of ten years commencing from the date of its adoption on 12 July 1997. The 1997 Share Option Scheme was terminated on 23 December 2002 upon the adoption of the 2002 Share Option Scheme. Upon its 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 shall continue to be valid and exercisable in accordance with the 1997 Share Option Scheme.

(10) Details of the outstanding share options and share options exercised under the 1997 Share Option Scheme as at 31 August 2005 are as follows:

Participants	Date of grant	Exercise price per share	Exercisable period	No. of options outstanding as at 1 September 2004	Options exercised during the year	No. of options outstanding as at 31 August 2005
Employees in aggregate	3 September 1998	HK\$0.26	3 September 2000 to 11 July 2007	190,000	–	190,000
	10 September 1999	HK\$2.10	10 September 1999 to 11 July 2007	60,000	–	60,000
	20 October 2000	HK\$0.58	2 June 2001 to 11 July 2007	350,000	52,000	298,000
Total				600,000	52,000	548,000

Notes:

- (i) The weighted average closing price of the Shares of the Company immediately before the dates of exercise was HK\$0.86 per share.
- (ii) No options under the 1997 Share Option Scheme were cancelled or lapsed during the year ended 31 August 2005.
- (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 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

As at 31 August 2005, 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	51.87%
EK Investment Management Limited	67,900,000	11.06%

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.

REPORT OF THE DIRECTORS

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:

	2005	2004
	%	%
Purchases		
– the largest supplier	28	36
– five largest suppliers combined	53	70

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.

CORPORATE GOVERNANCE

Principal Corporate Governance practices adopted by the Company are set out in the Corporate Governance Section on page 31 to 32.

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 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.

AUDITORS

During the year, PricewaterhouseCoopers who had acted as auditors of the Company for the past 3 years tendered its resignation with effect from 13 May 2005. KPMG were appointed as auditors of the Company to fill the casual vacancy caused by the resignation of PricewaterhouseCoopers until the conclusion of the forthcoming annual general meeting and being eligible, offer themselves for reappointment. A resolution will be submitted to the forthcoming annual general meeting of the Company to reappoint KPMG as the auditors of the Company.

On behalf of the Board
WONG WAI KAY, RICKY
Chairman

Hong Kong, 21 November 2005