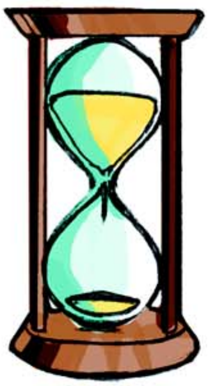
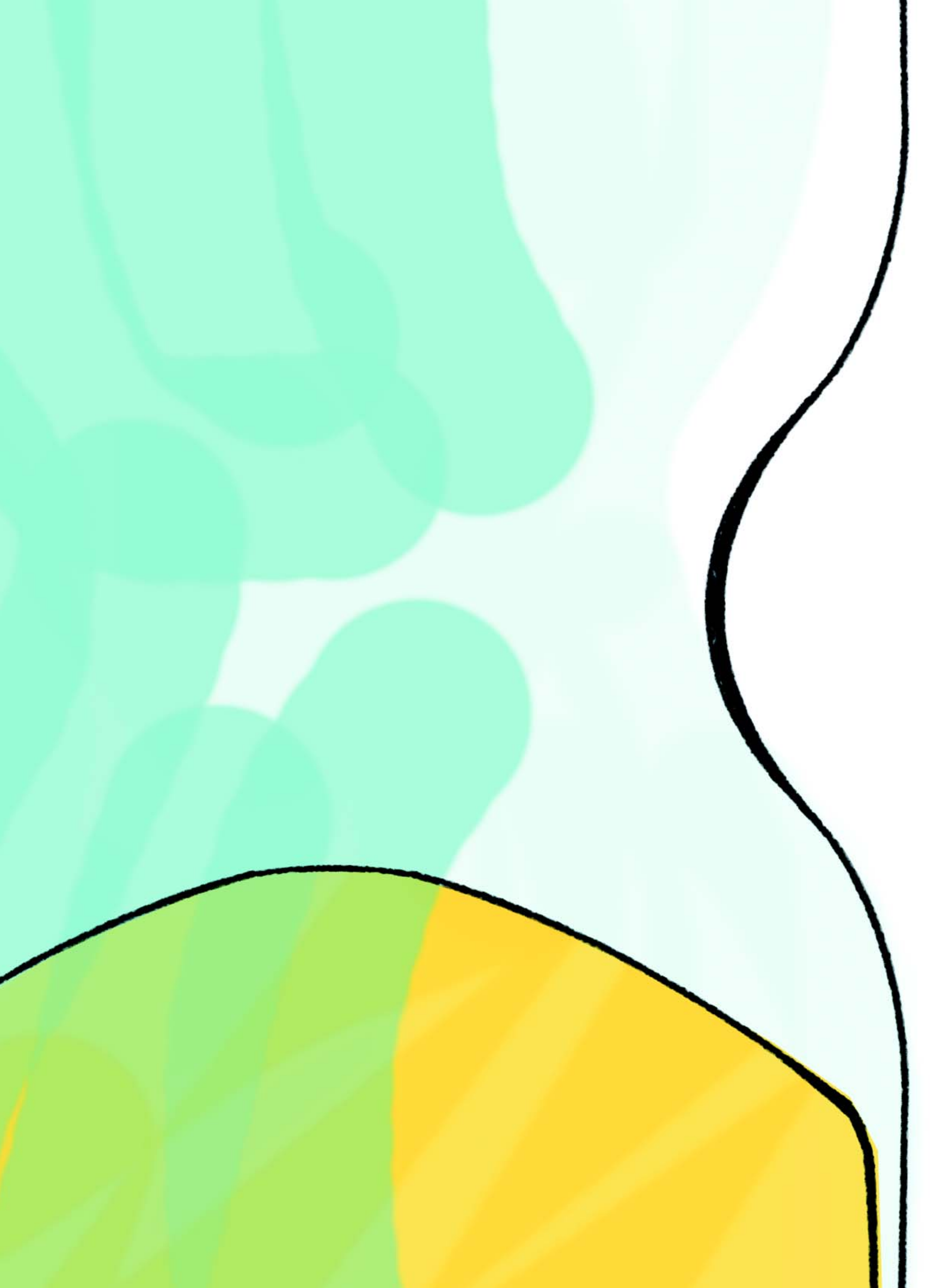


DVD Movie

Speedy download



MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the twelve months to 31 August 2006, our turnover increased by 2.0% to HK$1,159.6 million with strong growth in Fixed Telecommunications Network Service (FTNS) turnover by 22.6% to HK$741.3 million more than compensating the 21.5% decrease in International Telecommunications Services (IDD) turnover to HK$418.3 million. FTNS now contributes 63.9% of our total turnover.

EBITDA improved from HK$58.6 million, 5.1% EBITDA margin to HK$245.2 million, 21.1% EBITDA margin, respectively for FY05 and FY06. On a half-on-half basis our EBITDA margin improved from 18.8% in 1H FY06 to 23.6% in 2H FY06.

Net interest expenses increased from HK$40.9 million in FY05 to HK$68.3 million in FY06 due to the full year period impact of our 10-year senior notes issued in January 2005.

Overall we reported a net loss of HK$92.2 million in FY06, a large reduction versus net loss of HK$213.3 million in FY05.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 August 2006, the Group had total cash position of HK$483.0 million and outstanding borrowings of HK$950.4 million. Our long term liability consists mainly of our 8.75% 10-year senior notes which amounted to HK$948.0 million. Our total cash position of HK$483.0 million, consisted of HK$382.4 million cash and bank balances, HK$87.0 million pledged bank deposits and HK$13.6 million long term bank deposits.

Our capital expenditure for this year was HK$323 million, lower than the HK$419 million incurred for last year. The breakdown of FY06 capital expenditure was HK$234 million in 1H FY06 falling to HK$89 million in 2H FY06. This reduced capital expenditure is in line with our increased focus to maintain a strong gross cash balance.

Going forward, we intend to limit our capital expenditure to lag our EBITDA generation by three to six months. Our network development will require ongoing capital expenditure that will be met by internally generated cash flow and the proceeds from senior notes issued in January 2005.

The debt maturity profiles of the Group as at 31 August 2006 and 31 August 2005 were as follows:

	31 August 2006 HK$'000	31 August 2005 HK$'000
Repayable within one year	**1,297**	1,194
Repayable in the second year	**806**	1,218
Repayable in the third to fifth year	**270**	723
Repayable after the fifth year	**948,027**	945,348
Total	**950,400**	948,483

WE BELIEVE THAT ULTRA HIGH BANDWIDTH APPLICATIONS THAT REQUIRE MORE THAN 10Mbps WILL BECOME INDUSTRY NORM OVER TIME.

At 31 August 2006, all outstanding borrowings are on fixed interest rate and the currency denomination for the borrowings was as follows:

	31 August 2006 HK$'000	31 August 2005 HK$'000
United States Dollars		
– Unsecured	**948,027**	945,348
Hong Kong Dollars		
– Unsecured	**2,373**	3,135
Total	**950,400**	948,483

The net debt to net assets gearing ratio of the Group for this year is 0.52 times which is calculated as below:

	31 August 2006 HK$'000	31 August 2005 HK$'000
Net Debt (note (a))	**467,324**	210,055
Net Assets	**891,654**	970,633
Gearing (times)	**0.52**	0.22

note (a): Net of cash and bank balances, long term bank deposits, term bank deposits and pledged bank deposits.

CHARGE ON GROUP ASSETS

At 31 August 2006, the Group had bank facilities of US$9.0 million which was secured by a pledged deposit of US$9.9 million. In addition, certain bank guarantees provided to suppliers and to utility vendors in lieu of payment of utility deposits were secured by pledged deposits of HK$10.0 million (compared to pledged deposits of US$9.9 million, RMB4.7 million and HK$9.0 million as at 31 August 2005).

EXCHANGE RATES

The Group's foreign currency exposures mainly arise from its borrowings denominated in foreign currency and from purchase of goods and services of its overseas operations. The Group periodically reviews the potential costs and benefits of hedging, and when necessary, the Group mainly uses forward foreign exchange contracts to manage the currency exposure.

MANAGEMENT'S DISCUSSION AND ANALYSIS *(CONTINUED)*

CONTINGENT LIABILITIES

As at 31 August 2006, the Group had total contingent liabilities in respect of guarantees provided to suppliers of HK$6.3 million (31 August 2005: HK$6.2 million) and to utility vendors in lieu of payment of utility deposits of HK$5.3 million (31 August 2005: HK$3.8 million).

BUSINESS REVIEW

Fixed Telecom Network Services (FTNS)

For the twelve months to 31 August 2006, our total FTNS subscription base, including all registered paid and free, on-net and off-net subscriptions, decreased by 2.8% to 616,000 as of 31 August 2006. This reduction in subscriptions is due to our successful strategic shift in focus from subscriber to revenue market share. During the year, we proactively raised our tariff across our service offerings and increased value added services to drive up revenue yields. As a result, our FTNS turnover increased healthily by 22.6% to HK$741.3 million, despite the lower subscription base.

The Group offers Hong Kong's most comprehensive suite of broadband services with bb10, bb25, bb100 and bb1000. As such, we can deliver the right price/value package to service all customer categories from mass to premium users. During the year, we saw the network effect driving a rapidly growing pool of word-of-mouth referrals.

International Telecom Services (IDD)

The structural decay in IDD continues unabated. Within the industry, IDD is often offered as part of a bundle of services which reduces its standalone profitability. Furthermore, technology competition by global Voice-Over-IP (VOIP) operators such as Skype, offer free or very low cost IDD alternatives. Our IDD tariff volume fell from 947.1 million minutes in FY05 to 788.0 million minutes in FY06. Part of our IDD volume reduction is due to our proactive efforts to churn customers from IDD services to our higher margin FTNS international VOIP service, branded as "2b". Whereas we consider IDD to be a sunset industry, we believe VOIP is the future.

Costs

During the year, the Group initiated a major operational efficiency plan, empowering department heads to re-engineer their whole work processes. As a result, total operating costs fell by HK$127.3 million or 9.6% to HK$1,195.3 million. The majority of the cost savings came from reduced "General and Administration" and "Advertising and Promotion" expenses.

Our investment in high "Advertising and Promotion" expenses in FY05 to launch our bb100 (100 Mbps symmetric broadband service) is now paying dividends. Having achieved a critical mass of subscribers, positive word-of-mouth is now a major source of new acquisitions for our services.

During the year, we made significant progress in our drive for Customer Service excellence. The Group's customer service was widely recognised as an industry leader with the conferring of several service awards. We were awarded as the winner of "Call Center of the Year" and "Customer Service Centre of the Year" under "Customer Relationship Excellence Awards 2005" by Asia Pacific Customer Service Consortium in July 2006 and the Bronze medal for "Contact Centre of the Year (over 100 seats)" by the Hong Kong Call Centre Association in October 2006. Our improved customer service has reduced both retention and acquisition costs.

PROSPECTS

The Hong Kong telecom industry was characterised by heavy over investment between market opening in 1995 and bursting of the technology bubble in 2000, which was subsequently followed by rapid reduction in industry investment ever since. CTI's commitment to investing in the Hong Kong telecom industry runs contrary to this trend, with our FY06 capex-to-sales ratio of 27.9% being amongst the highest in the industry.

We believe that ultra high bandwidth applications that take advantage of more than 10 Mbps access will become the industry norm over time. This trend will place CTI's Metro Ethernet investment at a strategic advantage over legacy carriers. We remain committed to expanding our Metro Ethernet network reach from 1.3 million to 1.8 million homes pass (approximately 80% of total homes stock), although timing is now subject to cash flow generation from existing coverage rather than a specific date.

EMPLOYEE RELATIONS

As of 31 August 2006, the Group had 2,565 permanent full-time employees versus 3,896 as of 31 August 2005, the total staff related cost was HK$420 million for FY06 versus HK$446 million in FY05. We expect that the benefits of a streamlined work force will flow into FY07 and beyond.

The reduction in staff was achieved on a planned basis with re-engineering of processes to ensure service continuation. Multiple operational processes were reviewed and consolidated to enhance efficiency and improve quality. Outsourcing also helped to reduce non-essential staff functions.

The Group offers remuneration packages consisting of basic salary, bonus and other benefits. Bonus payments are discretionary and dependent on performance of both the Group and the individual employee. In addition to the comprehensive medical and life insurance coverage, the Group provides share options as well as competitive retirement benefits.