

## REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 31 August 2006.

### 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 3 to the financial statements.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated statement of operations on page 41 of the annual report.

### RESERVES

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

### DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$149,500 (2005: HK\$1,115,000).

### FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 14 to the financial statements.

### SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in share capital and share options of the Company are set out in note 23 to the financial statements.

### DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 August 2006, calculated in accordance with section 79B of the Hong Kong Companies Ordinance, amounted to approximately HK\$230,627,000 (2005 (restated): HK\$260,183,000).

### 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 88 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 31 August 2006 are repayable in the following periods:

	2006 HK\$'000	2005 HK\$'000
On demand or not exceeding one year	1,297	1,194
More than one year but not exceeding two years	806	1,218
More than two years	948,297	946,071
	<b>950,400</b>	948,483

# REPORT OF THE DIRECTORS (CONTINUED)

## 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 (Chief Executive Officer (Note 1))

Mr Lai Ni Quiaque\* (Chief Financial Officer)

(Appointed on 1 January 2006)

Ms Sio Veng Kuan, Corinna\*

(Resigned on 1 January 2006)

### Non-executive director

Mr Cheng Mo Chi, Moses\*

### Independent non-executive directors

Mr Lee Hon Ying, John\*\*

Dr Chan Kin Man\*\*

Mr Peh Jefferson Tun Lu\*\*

Note 1: The title of Mr Cheung Chi Kin, Paul was renamed as Chief Executive Officer on 4 April 2006.

# Audit Committee members

\* Remuneration Committee members

In accordance with Article 92 of the Company's Articles of Association, Mr Lai Ni Quiaque shall hold office only until the forthcoming annual general meeting, and shall be eligible for re-election. Mr Lai shall offer himself for re-election at the forthcoming annual general meeting.

In accordance with Articles 96 and 99 of the Company's Articles of Association, Mr Cheng Mo Chi, Moses and Dr Chan Kin Man shall retire by rotation and, being eligible, offer 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 directors 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 20 to page 21 of the annual report.

## DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

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

As at 31 August 2006, the interests of the Directors and chief executive 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 adopted by the Company (the "Model Code") were as follows:-

### Long position in ordinary shares and underlying shares of the Company

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 (Note 1)
	Personal interests	Corporate interests	Family interests				
Mr Wong Wai Kay, Ricky	15,412,000	319,862,999 Note (2) (i) and (ii)	4,332,000 Note (3)	339,606,999	14,000,000	353,606,999	57.57%
Mr Cheung Chi Kin, Paul	10,508,000	318,516,999 Note (2)(i)	-	329,024,999	14,000,000	343,024,999	55.85%
Mr Lai Ni Quiaque	-	-	8,560,000 Note (4)	8,560,000	9,000,000	17,560,000	2.86%

Notes:

- (1) This percentage is based on 614,175,404 ordinary shares of the Company issued as at 31 August 2006.
- (2) 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.
- (3) 4,332,000 Shares are jointly owned by Mr Wong and his spouse.
- (4) 8,560,000 Shares are jointly owned by Mr Lai and his spouse.

Details of the directors' interests in share options granted by the Company are set out in page 29 of this report.

Save as disclosed above, as at 31 August 2006, 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 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 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 continue to be valid and exercisable.

## REPORT OF THE DIRECTORS (CONTINUED)

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 at 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 11,897,340 shares, representing approximately 1.9% 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 this 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.

- (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 2006 are as follows:-

Participants	Date of Grant	Exercise Price (HK\$)	Balance as at 1 Sept 2005	Options granted during the year	Vesting Period	Exercise Period	Options exercised/lapsed/cancelled during the year (Note 4)	Balance as at 31 Aug 2006	Closing price immediately before the date on which the options were granted
<b>Directors</b>									
Mr Wong Wai Kay, Ricky Note [1]	05 Jan 2005	1.54	8,000,000	-	05 Jan 2005 to 31 Dec 2006	05 Jan 2005 to 20 Oct 2014	-	8,000,000	1.53
	22 May 2006	0.66	-	6,000,000	22 May 2006 to 21 May 2009	22 May 2007 to 21 May 2016	-	6,000,000	0.64
Mr Cheung Chi Kin, Paul Note [1]	05 Jan 2005	1.54	8,000,000	-	05 Jan 2005 to 31 Dec 2006	05 Jan 2005 to 20 Oct 2014	-	8,000,000	1.53
	22 May 2006	0.66	-	6,000,000	22 May 2006 to 21 May 2009	22 May 2007 to 21 May 2016	-	6,000,000	0.64
Mr Lai Ni Quiaque Note [2]	03 Jun 2004	1.47	6,000,000	-	03 June 2004 to 30 Apr 2006	01 May 2005 to 02 Jun 2014	-	6,000,000	1.47
	22 May 2006	0.66	-	3,000,000	22 May 2006 to 21 May 2009	22 May 2007 to 21 May 2016	-	3,000,000	0.64
Ms Sio Veng Kuan, Corinna Note [3]	21 Oct 2004	1.54	1,000,000	-	21 Oct 2004 to 31 Dec 2006	01 Jan 2005 to 20 Oct 2014	1,000,000	-	1.53
	<b>Employees under continuous employment contacts</b>								
Employees	21 Oct 2004	1.54	13,670,000	-	21 Oct 2004 to 31 Dec 2006	01 Jan 2005 to 20 Oct 2014	4,220,000	9,450,000	1.53
	3 Oct 2005	0.81	-	1,000,000	3 Oct 2005 to 30 Sept 2006	1 Oct 2006 to 30 Sept 2015	-	1,000,000	0.79
	22 May 2006	0.66	-	17,210,000	22 May 2006 to 21 May 2009	22 May 2007 to 21 May 2016	-	17,210,000	0.64
	3 Jul 2006	0.68	-	1,000,000	3 Jul 2006 to 2 Jul 2009	3 Jul 2007 to 2 Jul 2016	-	1,000,000	0.68
	3 Aug 2006	0.71	-	100,000	3 Aug 2006 to 2 Aug 2009	3 Aug 2007 to 2 Aug 2016	-	100,000	0.69
Total			36,670,000	34,310,000			5,220,000	65,760,000	

## REPORT OF THE DIRECTORS (CONTINUED)

### Notes:

- (1) On 22 May 2006, the Board offered to grant an option to subscribe for 6,000,000 shares to each of Mr Wong Wai Kay, Ricky and Mr Cheung Chi Kin, Paul at the exercise price of HK\$0.66 and such grants were approved by Independent Non-Executive Directors on 22 May 2006 in accordance with Rule 17.04 of the Listing Rules. 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 0.98% of the issued share capital of the Company as at the said Board meeting and has an aggregate value of HK\$3,840,000 based on the closing price of HK\$0.64 per share quoted on the daily quotation sheet of The Stock Exchange of Hong Kong Limited ("Quotation Sheet") on the date of the said Board meeting. As no option has been granted to them in the last twelve month period up to 22 May 2006 and the 6,000,000 options granted to each of Mr Wong and Mr Cheung only amount to HK\$3,840,000 based on the official closing price of the Shares as stated in the Quotation Sheet on the offer date which was less than HK\$5 million, no shareholders' approval was required in accordance with Rule 17.04 of the Listing Rules.
- (2) On 22 May 2006, the Board offered to grant an option to subscribe for 3,000,000 shares to Mr Lai Ni Quiaque at the exercise price of HK\$0.66 and such grant was approved by Independent Non-Executive Directors on 22 May 2006 in accordance with Rule 17.04 of the Listing Rules.
- (3) Ms Sio resigned as Executive Director of the Company on 1 January 2006 and according to the Share Option Scheme, those 1,000,000 share options held by Ms Sio lapsed on 11 February 2006.
- (4) During the year ended 31 August 2006, a total of 5,220,000 share options lapsed and no option cancelled.
- (11) In assessing the value of the share options granted during the year ended 31 August 2006, 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, expected dividend and the market value of the ordinary share 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	3 October 2005	22 May 2006	3 July 2006	3 August 2006
Variables				
– Expected life	5 years	5 years	5 years	5 years
– Risk-free rate	4.41%	4.63%	4.45%	4.06%
– Expected volatility	58.29%	55.04%	53.56%	52.71%
– Expected dividend yield	0%	0%	0%	0%

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 most recent period from the Measurement Date that is generally commensurate with the expected term of the option (taking into account the remaining contractual life of the option and the effects of expected early exercise).
- (iv) A dividend yield of 0% 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	3 October 2005	22 May 2006	3 July 2006	3 August 2006
Fair value per share option	HK\$0.44	HK\$0.33	HK\$0.35	HK\$0.36

Effective from 1 September 2005, upon the adoption of Hong Kong Financial Reporting Standard 2 Share-based payment, the Group recognizes the fair value of share options as an expense in the statement of operations over the vesting period, or as an asset, if the cost qualifies for recognition as an asset. The fair value of the share options is measured at the date of grant.

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 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. As at the date of this annual report, the shares to be issued upon exercise of all outstanding options granted under the scheme are 458,000 shares, representing approximately 0.07% 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 based 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.

## REPORT OF THE DIRECTORS (CONTINUED)

- (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 2006 are as follows:-

Participants	Date of grant	Exercise price per share	Exercisable period	No. of options outstanding as at 1 September 2005	Options exercised/lapsed during the year	No. of options outstanding as at 31 August 2006
Employees in aggregate	3 September 1998	HK\$0.26	3 September 2000 to 11 July 2007	190,000	50,000 (Note (i))	140,000
	10 September 1999	HK\$2.10	10 September 1999 to 11 July 2007	60,000	20,000 (Note (iv))	40,000
	20 October 2000	HK\$0.58	2 June 2001 to 11 July 2007	298,000	20,000 (Note (iv))	278,000
<b>Total</b>				<b>548,000</b>	<b>90,000</b>	<b>458,000</b>

Notes:

- (i) During the year ended 31 August 2006, 50,000 options were exercised and the weighted average closing price of the Shares of the Company immediately before the dates of exercise was HK\$0.68 per share.
- (ii) No options under the 1997 Share Option Scheme were granted or cancelled during the year ended 31 August 2006.
- (iii) All outstanding options are immediately exercisable.
- (iv) During the year ended 31 August 2006, a total of 40,000 options lapsed.

### 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 31 August 2006, 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 (Note)
Top Group International Limited	318,516,999	51.86 %
EK Investment Management Limited	67,900,000	11.06 %

Note: This percentage is based on 614,175,404 shares of the Company issued as at 31 August 2006.

Save as disclosed above, as at 31 August 2006, the Company had not been notified of any persons (other than the directors and chief executive of the Company) having any interest or short position 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:

	2006 %	2005 %
Purchases		
– the largest supplier	<b>34</b>	28
– five largest suppliers combined	<b>57</b>	53

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

Corporate Governance practices adopted by the Company are set out in the Corporate Governance Report on page 34 to 39.

## AUDITORS

The financial statements have been audited by KPMG 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, 20 November 2006