

There are no restrictions, either pursuant to our Articles, or pursuant to the laws of Hong Kong, on the rights of non-residents of Hong Kong or foreign persons to hold or exercise voting rights with respect to our ordinary shares, or export or import capital.

E. Taxation

The following provides a general outline of the material tax considerations that may be relevant to a decision to own or dispose of our American depositary shares or shares but does not purport to deal with the tax consequences applicable to all categories of investors. Prospective investors should consult their own professional advisers on the Hong Kong, United States and overall tax implications of investing, holding or disposing the American depositary shares or shares under the laws of the countries in which they are liable to taxation. The discussion below is applicable to both U.S. and non-U.S. citizens as an investor.

Hong Kong Taxation

Tax on dividends

No tax is payable in Hong Kong by withholding or otherwise in respect of dividends paid by City Telecom.

Profits tax

No tax is imposed in Hong Kong in respect of gains from the sale of our shares and American depositary shares, unless all the following three factors are present:

- (i) such gain is derived from or arising in Hong Kong;
- (ii) such gain is attributable to a trade, profession or business carried on in Hong Kong; and
- (iii) the property in question such as shares and American depositary shares was not a capital asset of that trade, profession or business.

Taxable gains will be subject to Hong Kong profits tax which is currently imposed on corporations at the rate of 17.5% and on unincorporated businesses or individuals at the rate of 16%.

Gains from sales of our shares, which are effected on the Hong Kong Stock Exchange, will be considered to be derived from or arising in Hong Kong. Liability to Hong Kong profits tax in respect of such gains would arise if the shares were not held as capital assets and the gains are attributable to a business, trade or profession carried out in Hong Kong.

Gains from sales of our American depositary shares will be considered to be derived from or arising in Hong Kong if the relevant purchase or sales contracts are effected in Hong Kong, and such gains will be subject to Hong Kong profits tax in the case of those persons dealing or trading in the American depositary shares as part of their trade, profession or business being carried out in Hong Kong. In any case of an exchange of any American depositary receipts evidencing American depositary shares for certificates representing shares, any gain on subsequent disposition of such shares will be the difference between the initial price of American depositary shares and the market value of such shares at the date of disposition.

Stamp duty

A sale or purchase of shares is subject to Hong Kong stamp duty which is payable by each of the seller and the purchaser in equal shares at the rate of HK\$1.00 per HK\$1,000 or part thereof by reference to the value of the consideration paid or the market value of the shares on the Hong Kong Stock Exchange or otherwise on the date the contract note for the sale or purchase is executed, whichever is greater. If, in the case of a sale or purchase of the shares by a person who is not resident in Hong Kong, the stamp duty on either or both of the contract notes is not paid, the transferee will be liable to pay stamp duty on the instrument of transfer in an amount equal to the unpaid duty. If the stamp duty is not paid on or before the due date, a penalty of up to ten times the duty payable may be imposed. In addition, a fixed duty of HK\$5.00 is currently payable on any instrument of transfer of shares.

In addition to the depositary's charges, if any, the withdrawal of the shares upon the surrender of American depositary receipts evidencing American depositary shares, and the issuance of American depositary receipts evidencing American depositary shares upon the deposit of the shares, will be subject to Hong Kong stamp duty at the rate described above for sale and purchase transactions, unless the withdrawal or deposit does not result in change in the beneficial ownership of the shares under Hong Kong law. Investors are not liable for stamp duty on the issuance of the American depositary shares upon the initial deposit of shares issued directly to the depositary or for the account of the depositary. No Hong Kong stamp duty is payable upon the transfer of American depositary receipts evidencing our American depositary shares if such American depositary receipts are not maintained on a register in Hong Kong.

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Tax treaty

There is currently no reciprocal tax treaty between Hong Kong and the U.S. regarding withholding.

United States Taxation

Certain U.S. Federal Income Tax Considerations

The following is a summary of certain United States federal income tax considerations that are anticipated to be material to the purchase, ownership, and disposition of our shares or American depositary shares by U.S. Holders, as defined below. This summary is based on the U.S. Internal Revenue Code of 1986, as amended (the "Code"), its legislative history, existing and proposed U.S. Treasury regulations, published rulings and court decisions, all as in effect on the date hereof. These laws are all subject to change or different interpretation, possibly on a retroactive basis. This summary does not discuss all aspects of United States federal income taxation which may be important to particular investors in light of their individual investment circumstances, such as investors subject to special tax rules including: partnerships, financial institutions, insurance companies, broker-dealers, tax-exempt organizations, and, except as described below, non-U.S. Holders, or to persons that will hold our shares or American depositary shares as part of a straddle, hedge, conversion, or constructive sale transaction for United States federal income tax purposes or that have a functional currency other than the United States dollar, all of whom may be subject to tax rules that differ significantly from those summarized below. In addition, this summary does not discuss any foreign, state, or local tax considerations. This summary assumes that investors will hold our shares or American depositary shares as "capital assets" (generally, property held for investment) under the United States Internal Revenue Code.

Each prospective investor is urged to consult its own tax advisor regarding the United States federal, state, local, and foreign income and other tax considerations of the purchase, ownership, and disposition of our shares or American depositary shares.

For purposes of this summary, a U.S. Holder is a beneficial owner of shares or American depositary shares that is for United States federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation, or other entity that is taxable as a corporation, created in or organized under the laws of the United States or any State or political subdivision thereof;
- an estate the income of which is includible in gross income for United States federal income tax purposes regardless of its source;
- a trust the administration of which is subject to the primary supervision of a United States court and which has one or more United States persons who have the authority to control all substantial decisions of the trust; or
- a trust that was in existence on August 20, 1996, was treated as a United States person, for United States federal income tax purposes, on the previous day, and elected to continue to be so treated.

A beneficial owner of our shares or American depositary shares that is not a U.S. Holder is referred to herein as a "Non-U.S. Holder."

A foreign corporation will be treated as a "passive foreign investment company" or "PFIC", for United States federal income tax purposes, if 75% or more of its gross income consists of certain types of "passive" income or 50% or more of its assets are passive for any year. Based on our current and projected income, assets, and activities, we presently believe that we are not a PFIC in the current year and do not anticipate becoming a PFIC in the future. This is, however, a factual determination made on an annual basis. Because the classification of certain of our assets for United States federal income tax purposes is uncertain, the PFIC rules are subject to administrative interpretation, and the relevant facts may change in the future, however, no assurance can be given that we are not or will not be treated as a PFIC. The discussion below under "U.S. Holders-Dividends" and "U.S. Holders-Sale or Other Disposition of Shares or American depositary shares," assumes that we will not be subject to treatment as a PFIC for United States federal income tax purposes. If we were currently or were to become a PFIC, U.S. Holders would be subject to special rules and a variety of potentially adverse tax consequences under the Code. See "PFIC Considerations" below.

U.S. Holders

For United States federal income tax purposes, a U.S. Holder of an American depositary share will be treated as the owner of the proportionate interest of the shares held by the depositary that is represented by an American depositary share and evidenced by such

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American depositary share. Accordingly, no gain or loss will be recognized upon the exchange of an American depositary share for the holders' proportionate interest in the shares. A U.S. Holder's tax basis in the withdrawn shares will be the same as the tax basis in the American depositary share surrendered therefore, and the holding period in the withdrawn shares will include the period during which the holder held the surrendered American depositary share.

Dividends. Any cash distributions paid by us out of our earnings and profits, as determined under United States federal income tax principles, will be subject to tax as ordinary dividend income and will be includible in the gross income of a U.S. Holder upon actual or constructive receipt. Cash distributions paid by us in excess of our earnings and profits will be treated first as a tax-free return of capital to the extent of the U.S. Holder's adjusted tax basis in our shares or American depositary shares, and thereafter as gain from the sale or exchange of a capital asset. Dividends paid in Hong Kong dollars will be includible in income in a United States dollar amount based on the United States dollar to Hong Kong dollar exchange rate prevailing at the time of receipt of such dividends by the depositary, in the case of American depositary shares, or by the U.S. Holder, in the case of shares held directly by such U.S. Holder. U.S. Holders should consult their own tax advisors regarding the United States federal income tax treatment of any foreign currency gain or loss recognized on the subsequent conversion of Hong Kong dollars received as dividends to United States dollars. Dividends received on shares or American depositary shares will not be eligible for the dividends received deduction allowed to corporations.

Under current law, "qualified dividend income" received by an individual after December 31, 2002 and before January 1, 2011 is subject to United States federal income tax rates lower than those applicable to ordinary income. The top federal income tax rate on such qualifying dividends received by an individual is 15%, or 5% for those individuals whose incomes fall in the 10- or 15- percent brackets. Based upon our existing and anticipated future operations and current assets, we believe that we are a "qualified foreign corporation" and that our dividends paid to U.S. Holders who are individuals will be eligible to be treated as "qualified dividend income", provided that such Holders satisfy applicable holding period requirements with respect to the American depositary shares and other application requirements. Dividends paid by foreign corporations that are classified as PFICs are not "qualified dividend income". See "PFIC Considerations" below.

Dividends received on shares or American depositary shares generally will be treated, for United States federal income tax purposes, as income from non-U.S. sources. Such non-U.S. source income generally will be "passive income" or "financial services income" for taxable years beginning on or before December 31, 2006, and as "passive category income", or in certain cases "general category income", for taxable years beginning after December 31, 2006, which is treated separately from other types of income for purposes of computing the foreign tax credit. A U.S. Holder may be eligible, subject to a number of complex limitations, to claim a foreign tax credit in respect of any foreign withholding taxes imposed on dividends received on shares or American depositary shares. U.S. Holders who do not elect to claim a foreign tax credit for federal income tax withheld may instead claim a deduction, for United States federal income tax purposes, in respect of such withholdings, but only for a year in which the U.S. Holder elects to do so for all creditable foreign income taxes.

In addition, the United States Treasury has expressed concerns that parties to whom depositary shares are pre-released may be taking actions that are inconsistent with the claiming of foreign tax credits by the holders of American depositary shares. Accordingly, the analysis of the creditability of foreign withholding taxes could be affected by future actions that may be taken by the United States Treasury.

Sale or Other Disposition of Shares or American depositary shares. A U.S. Holder will recognize capital gain or loss upon the sale or other disposition of shares or American depositary shares in an amount equal to the difference between the amount realized upon the disposition and the U.S. Holder's adjusted tax basis in such shares or American depositary shares, as each is determined in U.S. dollars. Any such capital gain or loss will be long-term if the shares or American depositary shares have been held for more than one year and will generally be United States source gain or loss. The claim of a deduction in respect of a capital loss, for United States federal income tax purposes, may be subject to limitations. If a U.S. Holder receives Hong Kong dollars for any such disposition, such U.S. Holder should consult its own tax advisor regarding the United States federal income tax treatment of any foreign currency gain or loss recognized on the subsequent conversion of the Hong Kong dollars to United States dollars.