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Exchange rates between the Hong Kong dollar and other currencies are influenced by the rate between the U.S. dollar and the Hong Kong dollar.

The following table sets forth the average, high, low and period-end exchange rate between the Hong Kong dollar and the U.S. dollar (in Hong Kong dollars per U.S. dollar) for the fiscal periods indicated:

	<u>Average⁽¹⁾</u> <u>HK\$</u>	<u>High</u> <u>HK\$</u>	<u>Low</u> <u>HK\$</u>	<u>Period-end</u> <u>HK\$</u>
Fiscal 2008	7.7915	7.8159	7.7497	7.8036
Fiscal 2009	7.7550	7.8094	7.7495	7.7505
Fiscal 2010	7.7646	7.8040	7.7495	7.7781
Fiscal 2011	7.7776	7.8087	7.7506	7.7876
Fiscal 2012	7.7670	7.8040	7.7532	7.7560
June 2012	7.7590	7.7610	7.7572	7.7572
July 2012	7.7561	7.7586	7.7538	7.7538
August 2012	7.7562	7.7574	7.7543	7.7560
September 2012	7.7540	7.7569	7.7510	7.7540
October 2012	7.7515	7.7549	7.7494	7.7494
November 2012	7.7505	7.7518	7.7493	7.7501
December 2012 (through December 14, 2012)	7.7497	7.7500	7.7493	7.7496

Note:

- (1) The average rates on the last business day of each month during the relevant fiscal year period or the average rates for each business day during the relevant monthly period.

Source: For all periods prior to January 1, 2009, the exchange rate refers to noon buying rate as reported by the Federal Reserve Bank of New York. For periods beginning on or after January 1, 2009, the exchange rate refers to the exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board.

B. Capitalization and indebtedness

Not applicable.

C. Reasons for the offer and use of proceeds

Not applicable

D. Risk factors

You should carefully consider the risks described below and other information contained in this annual report before making an investment decision. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us, or that we currently deem immaterial, may also adversely affect us.

Risks relating to our business and operations

We have a limited operating history in our Multimedia Production Business, which makes it difficult to evaluate our business.

We have a limited operating history in the Multimedia Production Business for you to evaluate our business, financial performance and prospects. Our historical results, which are based largely on the Telecom Business that we disposed of in May 2012, are not indicative of our future performance. To date, we have not achieved profitability in our Multimedia Production Business and, going forward, we may not be able to generate revenue or achieve profitability on annual basis.

We may not be able to implement our business plans and expansion strategies successfully.

We intend to increase the production volume of our television content significantly in 2013 and 2014. We also plan to distribute our television content to Internet portals and overseas markets. Our business plans and strategies have been formulated based on a number of assumptions including successful cooperation with our business partners. We might not be able to implement our business plans and expansion strategies successfully.

Our expansion strategies are expected to place substantial demands on our managerial, operational, financial and other resources. The success of our business plans and expansion strategies depend on our ability to:

- build our infrastructure on schedule and within budget;
- manage to produce good quality contents within budget which is appealing to our customers;
- able to generate revenue from the good quality contents through advertising and content licensing and distribution
- develop effective marketing channels in Hong Kong and international markets;
- control operational costs and maintain effective quality controls; and
- obtain the domestic free television programme service licence for broadcasting in Hong Kong.

The failure to achieve any of the above could increase our costs of operation and investments. The execution of our growth strategies will also incur substantial costs and require substantial resources. We may not be able to manage our operations efficiently to compete successfully in our existing markets or new markets that we may enter, which may materially and adversely affect our financial condition and results of operations.

We may not be granted a domestic free television programme service licence.

On December 31, 2009, we submitted an application for the domestic free television programme service licence in Hong Kong to the HKBA. If granted, this licence will allow us to provide free television programme services in Hong Kong. The grant of the licence is still pending. If the Chief Executive in Council rejects our application or if there is a prolonged delay in granting the licence, we will not be able to operate domestic free television programme services in Hong Kong in the short term or at all. As domestic free television programme services is expected to be one of the major distribution channels of our self-produced television content and the primary source of advertising revenue, this will mean that the Group will need to explore other distribution channels which involves large uncertainties, this may in turn adversely affect our financial condition and results of operations, and we may not be able to generate revenue in the short term or become profitable in the long term.

Moreover, if there is a prolonged delay in obtaining the domestic free television programme service licence, we may not be able to effectively manage our financial resources, given that the operation of domestic free television programme service is expected to incur a substantial amount of capital and operating expenditure, and while awaiting the grant of the licence, we would not be able to optimally utilize our financial resources in longer term investments.

Our new business in the provision of domestic free television programme services may not become profitable in the long term.

If the domestic free television programme service licence is granted, we will incur additional expenditure for programme production before we can generate revenue. In addition, given that the Multimedia Production Business is a new business venture and the industry incumbent, Television Broadcasts Limited has dominated the viewership on domestic free television programme services by a large margin, we may not be able to become profitable in the long term.

The construction and development of a Television and Multimedia Production Centre is subject to a number of risks beyond our control.

Since February 2012, we have started building a Television and Multimedia Production Centre on land granted by Hong Kong Science and Technology Parks Corporation at Tseung Kwan O Industrial Estate. Construction of the Television and Multimedia Production Centre is expected to cost at least HK\$800.0 million.

The construction and development of this Centre are subject to a number of risks which are beyond our control, including:

- the possibility of construction delay or costs over run due to inclement weather, labor or material shortages, work stoppages market inflation and delayed regulatory approvals;
- the possibility of discovering previously undetected defects or problems; and
- natural disasters, social disorder and other extraordinary events.

The occurrence of any of these events could delay the construction and development of the Television and Multimedia Production Centre or increase our costs, which may in turn have a material adverse effect on our business, financial condition and results of operations.

The development of our Multimedia Production Business and Distribution Business requires significant capital expenditures, which may not be available on terms satisfactory to us or may impose a burden on our other business activities.

We expect to incur capital expenditures of approximately HK\$700.0 million in 2013, majority of which will be for the building of the Television and Multimedia Production Centre. While we intend to fund such expenditures by using our currently available cash, as well as unutilized banking facilities, we may not have adequate capital to fund our projected capital expenditures if there is any event which could cause prolonged delay in the launch of our domestic free television programme service, prolonged delay in the construction and development of the Television and Multimedia Production Centre or an increase in the construction costs. If we cannot finance our operations and capital expenditure using existing available cash and cash generated from operations, if any, we may be required to, among other things, incur additional debt, reduce capital expenditures, sell assets, or raise equity. Market conditions may impair our ability to obtain financing to support our capital expansion plans. Additional debt or equity financing may not be available, and debt financing, if available, may involve restrictions on our investing, financing and operating activities.

If we fail to capture viewer preferences, our business prospects and reputation could be materially and adversely affected.

The success of our self-produced television content primarily depends on our ability to capture viewer preferences, which vary in different demographic groups and regions and could change rapidly. In general, the popularity of television content among viewers is mainly determined by the producer's ability to originate and source viewer-engaging content, create high-quality scripts and characters that appeal to a broad range of viewers, and cast popular talents and directors. If the viewers' reaction to our television content is largely different from our predicted viewer preferences, the success and popularity of the television content will be at risk. If our television content fails to perform as expected, we may not be able to establish a strong reputation in television content production business and our business prospects could be materially and adversely affected.

Our business could be materially and adversely affected by claims of infringement of intellectual property rights.

Monitoring and preventing the unauthorized use of the Group's intellectual property rights may be difficult, costly and time-consuming. If we are unable to adequately protect our copyrights and other intellectual property rights, these rights may be infringed, our business, financial condition, results of operations and prospects may be materially and adversely affected.

Moreover, third parties may claim that our self-produced television content misappropriates or infringes their intellectual property rights, including those with respect to their previous productions, scripts and characters. Any litigation regarding intellectual property rights could be costly and time-consuming and could divert the attention of our management and key personnel from our business operations. If we are unsuccessful in defending any such assertions or claims, our business, financial condition, results of operations and reputation may be materially and adversely affected.

Our success depends on our ability to attract and retain high-quality production crew and talent artistes in a highly competitive market.

The Multimedia Production Business requires the collaboration of many different work streams and people with different expertise, and hence our ability to attract and retain high-quality production crew and popular talent artistes is a key factor for our success. Loss of producers, other members of our production team or talent artistes could adversely affect our production volume and quality and, as a result, we could be materially and adversely affected.

In addition, we face competition for high-quality production crew and popular talent artistes from other television content production companies and other organizations. Competition for these individuals could require us to offer higher compensation and other benefits in order to attract and retain them, which would increase our operating expenses.

We may lose investor confidence in the reliability of our financial statements if we fail to achieve and maintain effective internal control over financial reporting, which in turn could harm our business and adversely affect the trading prices of our ADRs.

Under the Sarbanes-Oxley Act of 2002, every public company must include a management report on its internal controls over financial reporting in its annual report, which contains management's assessment of the effectiveness of the company's internal controls over financial reporting. Under the Sarbanes-Oxley Act, we are also required to have an independent registered public accounting firm to attest to and report on the effectiveness of our internal controls over financial reporting.

We have evaluated our internal controls surrounding the financial reporting process for the current fiscal period so that management can attest to the effectiveness of these controls. However, we may identify conditions that could result in significant deficiencies or material weaknesses. As a result, we could experience a negative reaction in the financial markets and incur additional costs in improving the condition of our internal controls. For a detailed discussion of controls and procedures, see Item 15 "Controls and procedures."

Notwithstanding our efforts, our management could conclude that our internal control over financial reporting is not effective. Further, even if our management concludes that our internal controls over financial reporting are effective, our independent registered public accounting firm may conclude that our internal control over financial reporting is not effective. If we do not successfully design and implement changes to our internal controls and management systems, or if we fail to maintain the adequacy of these controls as such standards are modified or amended from time to time, we may not be able to comply with the Sarbanes-Oxley Act. This could subject us to regulatory scrutiny and penalties that may result in a loss of public confidence in our management, which could, among other things, adversely affect our customer and vendor confidence, stock price and our ability to raise additional capital and operate our business as projected.

We depend on certain key personnel, and our business and growth prospects may be disrupted by the loss of their services.

Our success depends upon the continued service of our key executives and Talents. If any of our key personnel were unable or unwilling to continue in their present positions we may not be able to replace them easily, our business may be significantly disrupted. Furthermore, as our industry is characterized by high demand and increased competition for Talents, we may need to offer higher compensation and other benefits in order to attract and retain key personnel. We might not be able to attract and retain the key personnel that we need to achieve our business objectives.

Risks relating to the regulatory, political and economic environment

Currency fluctuations of the Hong Kong dollar, our functional currency, may increase our operating costs and long term liability.

We are exposed to a certain amount of foreign exchange risk because our expected revenue will be predominantly denominated in Hong Kong dollars, while a certain portion of our operating costs are expected to be denominated in U.S. dollars, Renminbi or other foreign currencies.

Although the Hong Kong dollar has been linked to the U.S. dollar since 1983 at the rate of HK\$7.80 per US\$1.00, it may not continue to be linked. Any depreciation of the Hong Kong dollar against the U.S. dollar, Renminbi or other currencies would increase our operating costs, make our capital expenditure plans more expensive and adversely affect our profitability.

Our Chairman and Vice Chairman have significant ownership interest in the company. They could engage in transactions that lead to conflicts of interest resulting from their ownership interests.

Our Chairman and Vice Chairman each have an indirect ownership interest in our Company through Top Group International Limited, which, as of December 18, 2012, held approximately 42.00% of the Company's shares, of which 42.12% and 27.06% was owned by our Chairman and Vice Chairman, respectively. Top Group International Limited is a special purpose vehicle incorporated in the British Virgin Islands. Its board of directors consists of Mr. Wong and Mr. Cheung. Mr. Wong and Mr. Cheung have entered into a voting agreement pursuant to which they agreed to vote the 339,814,284 shares held by Top Group International Limited, the 15,236,893 shares held by Mr. Wong individually, and the 50,377,763 shares held by Mr. Cheung individually, collectively as a group. Our Chairman and Vice Chairman could take actions that may not be in the best interests of our other shareholders.

We may be classified as a passive foreign investment company, which could result in adverse U.S. federal income tax consequences to U.S. Holders of our American depository shares or ordinary shares.

Based on the market price of our American depository shares, the value of our assets, and the composition of our income and assets, though not without doubt, we do not believe we were a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for our taxable year ended August 31, 2012. However, the application of the PFIC rules is subject to uncertainty in several respects, and we cannot assure you the U.S. Internal Revenue Service will not take a contrary position. A non-U.S. corporation will be a PFIC for any taxable year if either (1) at least 75% of its gross income for such year is passive income or (2) at least 50% of the value of its assets (based on an average of the quarterly values of the assets) during such year is attributable to assets that produce passive income or are held for the production of passive income. A separate determination must be made after the close of each taxable year as to whether we were a PFIC for that year. Because the value of our assets for purposes of the PFIC test will generally be determined by reference to the market price of our American depository shares and ordinary shares, fluctuations in the market price of our American depository shares and ordinary shares may cause us to become a PFIC. In addition, changes in the composition of our income or assets may cause us to become a PFIC. Furthermore, unless our share value increases and/or we invest a substantial amount of our cash, we may be a PFIC for our current taxable year ending August 31, 2013. If we are a PFIC for any taxable year during which a U.S. Holder (as defined in "Item 10. Additional Information—E. Taxation—United States Federal Income Taxation") holds an American depository share or an ordinary share, certain adverse U.S. federal income tax consequences could apply to such U.S. Holder. See "Item 10. Additional Information—E. Taxation—United States Federal Income Taxation—Passive Foreign Investment Company."

Risks relating to our ADSs.

As a foreign private issuer, we are not subject to U.S. proxy rules and are subject to Exchange Act reporting obligations that, to some extent, are more lenient than those of a U.S. issuer.

As a foreign private issuer, we are exempt from certain provisions of the Exchange Act that are applicable to U.S. domestic issuers, including (i) the sections of the Exchange Act regulating the solicitation of proxies, consents or authorizations in respect of a security registered under the Exchange Act, (ii) the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and liability for insiders who profit from trades made in a short period of time, and (iii) the rules under the Exchange Act requiring the filing with the SEC of quarterly reports on Form 10-Q containing unaudited financial and other specified information, or current reports on Form 8-K, upon the occurrence of specified significant events. In addition, the executive compensation disclosure requirements to which we are subject under Form 20-F are less rigorous than those required of U.S. issuers under Form 10-K. Furthermore, foreign private issuers are not required to file their annual report on Form 20-F until 120 days after the end of each fiscal year, while U.S. domestic issuers that are not large accelerated filers or accelerated filers are required to file their annual report on Form 10-K within 90 days after the end of each fiscal year. Foreign private issuers are also exempt from the Regulation FD, aimed at preventing issuers from making selective disclosures of material information.

Holders of ADSs must act through the depositary to exercise their rights as shareholders of our company.

Holders of our ADSs do not have the same rights of our shareholders and may only exercise the voting rights with respect to the underlying ordinary shares in accordance with the provisions of the deposit agreement for the ADSs. When a general meeting is convened, you may not receive sufficient notice to permit you to withdraw your ordinary shares to allow you to cast your vote with respect to any specific matter. In addition, the depositary and its agents may not be able to send voting instructions to you or carry out your voting instructions in a timely manner. We will make all reasonable efforts to cause the depositary to extend voting rights to you in a timely manner, but you might not receive the voting materials in time to ensure that you can instruct the depositary to vote your ADSs. Furthermore, the depositary and its agents will not be responsible for any failure to carry out any instructions to vote, for the manner in which any vote is cast or for the effect of any such vote. As a result, you may not be able to exercise your right to vote and you may lack recourse if your ADSs are not voted as you requested. In addition, in your capacity as an ADS holder, you will not be able to call a shareholders' meeting.

The depositary for our ADSs will give us a discretionary proxy to vote our ordinary shares underlying your ADSs if you do not vote at shareholders' meetings, except in limited circumstances, which could adversely affect your interests. Holders of our ordinary shares are not subject to this discretionary proxy.

You may be subject to limitations on transfers of your ADSs.

Your ADSs are transferable on the books of the depositary. However, the depositary may close its transfer books at any time or from time to time when it deems expedient in connection with the performance of its duties. In addition, the depositary may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary deems it advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

Your right to participate in any future rights offerings may be limited, which may cause dilution to your holdings and you may not receive cash dividends or other distributions if it is impractical to make them available to you.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make rights available to you in the United States unless we register the rights and the securities to which the rights relate under the Securities Act or an exemption from the registration requirements is available. Also, under the deposit agreement, the depositary will not make rights available to you unless either both the rights and any related securities are registered under the Securities Act, or the distribution of them to ADS holders is exempted from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective. Moreover, we may not be able to establish an exemption from registration under the Securities Act. Accordingly, you may be unable to participate in our rights offerings and may experience dilution in your holdings.

ITEM 4 INFORMATION ON THE COMPANY

A. History and development of the Company

The legal and commercial name of our Company is City Telecom (H.K.) Limited. We were incorporated on May 19, 1992 under the Hong Kong Companies Ordinance and is a limited liability company. Our registered office is located at 13th Floor, Trans Asia Centre, No.18 Kin Hong Street, Kwai Chung, New Territories, Hong Kong, telephone (852) 3145-6888. Our agent for U.S. federal securities laws purposes is CT Corporation System, 111 Eighth Avenue, New York, NY 10011.

We began offering international telecommunications services in September 1992 and in January 1999, we became the first company in Hong Kong to obtain a PNETS Licence. This licence gives us the right to offer international telecommunications services using ISR method and has had a significant positive impact on our international telecommunications revenues. We incorporated HKBN in Hong Kong in August 1999 and launched our broadband Internet access services in March 2000. In addition, we began providing local VoIP services in April 2002, IP-TV services in August 2003, and corporate data services in July 2004 using our Next Generation Network.

In December 2009, we submitted an application to the HKBA to obtain a domestic free television programme service licence in Hong Kong, which is still subject to be granted.

In August 2011, Hong Kong Science and Technology Parks Corporation granted us a parcel of land in Tseung Kwan O Industrial Estate, New Territories to build a Television and Multimedia Production Centre. Expected to be completed in 2014, the Centre will possess a gross floor area of approximately 500,000 square feet and consist of 12 studios, including an 18,000 square feet studio, which is expected to be the largest in Hong Kong and smaller studios of 3,000 square feet each. The Centre will become our headquarter.

In March and April 2012, we entered into the Telecom Group Agreement and the Guangzhou Agreement, respectively, and in May 2012, we completed the very substantial disposal transaction of both the FTNS business and the IDD business. Since then, the Multimedia Production Business has become the principal focus of the Group, which includes the production, sales and distribution of Cantonese television drama series, news programmes and other television programmes. It will also include the offering of free television programming services in Hong Kong, subject to the grant of the domestic free television programme service licence by the Chief Executive in Council.

Since mid-2011, we embarked a large scale recruitment process in the multimedia industry. From creative directors to post-production professionals, we now have a professional team of more than 500 talents together with about 220 artistes. In April 2012, we started our production, and so far, we have completed shooting for four television drama series with four others in progress (ranging from 10-30 hours per series). Our infotainment and variety programmes cover a spectrum of programmes with no boundary on subjects and locations, ranging from world class productions, such as "Challenge" to execute impossible missions including chasing a hurricane in the United States, climbing into a live volcano in Vanuatu, etc., to programmes introducing domestic local culture, such as "Secret of Food."

Upon the disposal of the Telecom Business, the news production operation unit remained with the Company and will continue to provide news content to the Telecom Business for their bbTV broadcasting use under a licensing arrangement. Once our broadcasting start, our news production operation unit will fully support the news programme production.

Apart from the above self-produced programmes, we also purchased popular and high quality contents from Japan, Korea and Mainland China including television drama series and cartoons. To adapt to local audiences, we maintain a professional dubbing team for the post production process, including dubbing to local language and subtitling. As of August 31, 2012, we had more than 850 episodes of purchased content in our library.

Some of the key events in our history and development include the following:

- In October 2006, our Liu Xiang "Be Ahead of Yourself" marketing campaign won the "Certificate of Excellence" of HKMA/TVB Awards for Marketing Excellence 2006.
- In February 2007, we launched our "bb50 and bb200" symmetric residential broadband service supported by our special duty unit ("SDU"), personalized customer care service.
- In June 2007, we were awarded "Best Retention Strategies" at the Hong Kong HRM Awards 2007.
- In July 2007, we were awarded "Integrated Support Team" of the year at the Asia Pacific Customer Service Consortium Customer Relationship Excellence Awards.
- In September 2007, we launched "Fibre-To-The-Home" residential broadband service, "FibreHome100", "FibreHome200" and "FibreHome1000." At the same time, we upgraded our entry level service broadband Internet access from 10 Mbps to 25 Mbps.
- In January 2008, we began to offer our "Dual Mode High Definition Terrestrial TV Receiver and IPTV Set-Top Box" to all of our customers in Hong Kong.