

## **Risk Factors**

*You should carefully consider the risks described below and the other information in this annual report before deciding to invest in City Telecom (H.K.) Limited.*

### **Risks Relating to Our Business and Operations**

#### ***We have Substantially Less Financial and Human Resources to Apply to the Development of Our Business Than Some of Our Main Competitors.***

Our main competitors for international telecommunications, local telephony and Internet services are PCCW-HKT, Hutchison Global Communications Limited, New World Telecom Company Limited, Wharf T&T Limited, iCable and Netvigator. These competitors are well established and have substantially greater financial resources than we do. Some are subsidiaries of business conglomerates in Hong Kong. Certain areas of the international telecommunications and Internet business are very capital intensive. Our competitors may be able to devote more human and financial resources to research and development, network improvement and marketing than we can. Since our inception, the growth of our market share has depended primarily on our ability to react more quickly to changes in new technology and consumer trends, offer more competitively priced services, and provide better customer support than our competitors. We cannot assure you that we will continue to be successful at executing this strategy. If these competitors devote substantial human and financial resources to their businesses, it could hurt our ability to remain competitive in the quality and range of services we could provide and we could lose customers to these competitors. This may limit the growth of our customer base, reduce our revenues and adversely affect our profits.

#### ***Our Growth and Profitability Could be Affected by an Increasing Number of Local and Foreign Entrants in the International and Local Telecommunications and Internet Markets.***

The Hong Kong government has taken several steps over the past few years to liberalize and deregulate the telecommunications industry in Hong Kong, including issuing new wireless and wire-line fixed network licenses. We expect the Hong Kong government to continue to take actions of these types over the next several years. Further, in contrast to its previous manner of issuing network licenses, it no longer requires recipients of new fixed network licenses to meet predetermined milestones or to post a performance bond to support roll-out targets. In addition, as of February 5, 2003, 207 public non-exclusive telecommunication service licences (each a "PNETS License") for the provision of external telecommunications service had been issued to various network operators in Hong Kong. Some of these licensees are subsidiaries of major foreign telecommunications providers. They include Singapore Telecom from Singapore, KDDI Corporation ("KDDI") from Japan, British Telecom from the United Kingdom, and AT&T from the United States. Increasing liberalization of the international telecommunications market in Hong Kong may further attract new local and foreign entrants to the market and broaden the variety of international telecommunications services supplied by existing service providers, thereby heightening the level of competition in the industry. Increased competition could result in price reductions, reduced gross margins or loss of market share, any of which could adversely affect our future growth and profitability.

The number of companies that provide Internet services in Hong Kong has grown from 56 in 1995 to 234 as of November 2002. Among the Internet service licensees are such recognized foreign companies as Deutsche Telecom, MCI Worldcom and AT&T. While most of these companies have not been actively developing their Internet business in Hong Kong, they could pose a significant threat to our business if and when they commit substantial resources to doing so. In addition, we compete with other integrated Internet

service providers in Hong Kong such as Netvigator, iCable and Hutchison. If we are not able to compete successfully with them, our Internet business may not become profitable.

***We Rely on Third Parties to Provide a Substantial Portion of Our International Telecommunications and Internet Services. Our Transmission Costs Could be Increased by Changes in Our Relationships with Them.***

We depend on our contractual relationships with and the network infrastructure of local network operators, such as PCCW-HKT, which own undersea cables, and overseas telecommunications carriers in providing telecommunications and Internet services to our customers. Some of these third parties are our competitors in our telecommunications or Internet services, or both. For the year ended August 31, 2002, payments to our top five overseas carriers and local network operators accounted for approximately 79% of our total gross costs of transmission. The terms and conditions of the local and international arrangements currently in place could be subject to changes or modification upon renewal of the terms of the relevant agreements. If the terms and conditions upon renewal are less favorable or the arrangements are not renewed, the costs associated with providing our services could increase significantly.

***If We are Unable to Continue to Lower Our Cost of Transmitting International Calls, We May Not be Able to Maintain the Profitability of Our International Telecommunications Service.***

The international telecommunications industry in Hong Kong is extremely competitive. To maintain or grow our market share, we must continue to offer our subscribers international telecommunications services at or below the price offered by our competitors. We therefore must continue to lower our costs of providing these services if we are to maintain our profitability in this business. We cannot be sure that we will be able to decrease our cost levels. If we fail to do so, our operating results could be adversely affected.

***Our Growth and Expansion May Strain Our Ability to Manage Our Operations, Increase Our Costs of Operation and Adversely Affect the Quality of Our Services.***

We have pursued and continue to pursue a strategy of aggressive growth in the Internet and international and local telecommunications businesses. As part of this strategy, we have constructed a satellite base station, invested in undersea cables for Internet and international telecommunications transmissions and are currently rolling out and marketing our local telephony services. The deployment of these projects has resulted and will result in greater demands on our systems and controls and may place a strain on our administrative, operational and financial resources. Our ability to manage future growth will depend upon our ability to continue to:

- manage the simultaneous implementation of our infrastructure development and marketing plans;
- cope with both predictable and unforeseen problems associated with being a relatively new entrant in rapidly evolving industries;
- effectively monitor our operations so as to control costs and maintain effective quality controls;
- maintain high traffic volume and offer competitive prices to customers.

Our failure to achieve any of the above in an efficient manner and at a pace consistent with the growth of our business could have an adverse effect on the quality of our services and increase our costs of operation.

***Our Fixed Telecommunications Network Business has Incurred Losses since Inception and We Expect It to Incur Future Losses.***

For the year ended August 31, 2002, we incurred an operating loss of approximately HK\$121 million from our fixed telecommunications network service operations. While we have stopped offering our content and e-service operations, we expect our fixed telecommunications network service business will continue to incur net losses as we expend substantial resources on developing and marketing broadband Internet access services and local telephony services. We cannot assure you that we will achieve or sustain profitability in our fixed telecommunications network operations.

***Because Some of Our Businesses are Still at an Early Stage of Implementation, Evaluation of Our Business and Our Prospects is Difficult.***

Because of the short operating history of our broadband Internet and local telephony services, our historical financial data may not be a meaningful basis for you to evaluate us and our prospects. These businesses are still at an early stage of implementation, and the revenue, potential income and cash flows from these new businesses are unproven. Accordingly, evaluation of our businesses and our prospects is difficult, and we cannot give you any assurance that we will succeed in these businesses.

***Growth of Our Fixed Telecommunications Network Business Could be Adversely Affected if Internet Usage in Hong Kong Does Not Continue to Increase.***

Our business strategy in part depends on the number of Internet users in Hong Kong increasing as well as increases in the types of products and services that Hong Kong consumers rely on the Internet to provide. We cannot be certain that Internet growth in Hong Kong will continue at as fast a rate as we expect. If Internet usage fails to increase or evolves away from the products and services we provide, the amount of revenues that we are able to derive from our Internet business will be limited.

***The Development of a Fixed Telecommunications Network and International Transmission Facilities Requires Significant Capital Expenditures. These Capital Expenditures May Vary Materially from Those Currently Planned and May Impose a Burden on Our Financing and Operating Activities.***

Since our application to provide wireless fixed network telecommunications services was approved on February 3, 2000, we have been spending, and will continue to spend, a significant amount on, among other things, constructing base stations in various key locations in Hong Kong, installing microwave transmission dishes and cable systems on each connected building, and obtaining access rights to these buildings. We commenced the installation of in-ground fibre optic cable in certain high-population density areas in Hong Kong in January 2003, and we invested in two undersea cables as part of our strategy to establish our own international transmission facilities and limit our reliance on third party infrastructure. Finally, we have made, and will continue to make, capital investments in the development of our local telephony service.

We incurred capital expenditures of approximately HK\$524 million in fiscal 2002 and expect to incur capital expenditures of approximately HK\$250 million in fiscal 2003 and HK\$200 million in fiscal 2004 in connection with these projects and the development of our business. If capital requirements vary materially from those currently planned, we may require additional financing sooner than anticipated.

While we intend to fund such expenditures by using our cash in hand as well as cashflow from operations, we may not have adequate capital to fund these expenditures, in which case we may need to seek to raise additional capital through debt or equity financing or other means. Any such additional equity financing may be dilutive to our shareholders, and debt financing, if available, may involve restrictions on our financing and operating activities. If we are unable to obtain additional financing as needed, we may be required to reduce the scope of our operations or anticipated expansion.

***Internet Security Concerns Could Limit Our Ability to Develop Revenues from Internet Access Services.***

We hope to develop our Internet access services, particularly our broadband Internet service, as significant sources of our revenues. However, customers' concerns over the security of confidential information and the uninterrupted provision of Internet access service could limit our ability to sustain or develop this business in the future. Confidential information and the provision of Internet access services could be affected by computer viruses, break-ins and other inappropriate use of our network, such as e-mail spamming or junk e-mail. Computer viruses, break-ins or other problems could have the following effects on our Internet business:

- it could result in interruption, delays or cessation in Internet access services to our customers;
- it could potentially jeopardize the security of confidential information stored in the computer system of our customers; and
- it could result in costly litigation.

We may incur significant costs to protect us against the threat of security breaches or to alleviate problems caused by such breaches. In addition, alleviating these problems may cause interruptions, delays or cessation in service to our users, which could cause them to stop using our service or assert claims against us.

***We Began, Through HKBN, to Offer Local Telephony Services in April 2002. This New Service Offering Requires Us to Expend Financial and Administrative Resources, and We May Not be Able to Successfully Compete Against Existing Local Telephony Providers.***

As part of our plan to expand the fixed telecommunications network services that we provide, we began offering local telephony services in April 2002 through Hong Kong Broadband Network Limited ("HKBN"). We have limited experience in offering these services and we may experience problems with the roll-out that we do not currently anticipate. These problems could cause our expenditures to be greater than we expect, could delay the installation of the required equipment, or otherwise limit our ability to add local telephony subscribers. Further, we will be required to devote considerable managerial and technical resources to this roll-out in order to successfully develop a competitive local telephony service. Allocation of financial, managerial and technical resources to develop our local telephony services will reduce the resources we might otherwise devote to Internet access or our other service offerings.

There are currently a number of local telephony providers, including PCCW-HKT and others, that have more experience at providing these services. We cannot be sure that our service offering will compete effectively against the more established local telephony providers. If we are not able to successfully build market share in local telephony, our ability to generate profit from this business will be limited.

***We Depend on Key Personnel and the Quality of Our Management Would be Affected by the Loss of Their Services.***

Competition for qualified employees and personnel in the telecommunications and Internet services industry is intense and there are a limited number of Chinese-speaking professionals with knowledge of and experience in these industries. Our success depends to a significant degree upon our ability to attract and retain qualified management, and technical, marketing and sales personnel and upon the continued contributions of such management and personnel. We also rely extensively on the services of our executive officers, including Wong Wai Kay, Ricky, our chairman, and Cheung Chi Kin, Paul, our managing director. While we have employment agreements with members of our senior management staff, we cannot assure you that we will be able to retain their unique services.

***We are Involved in Several Legal Proceedings That, if Decided Unfavorably to Us, Could Adversely Affect Our Profitability***

We are currently involved in a number of legal proceedings in Hong Kong. If these proceedings are resolved in a manner adverse to City Telecom, our business and profitability could be harmed. The most significant proceedings are:

- A case in which the plaintiff alleges that we were not entitled to delivery fees and were liable for interconnection fees, totaling approximately HK\$96,400,000, pursuant to a carrier services agreement and a telecommunications service agreement between City Telecom and the plaintiff.
- A case in which PCCW-HKT (then Cable & Wireless HKT) alleges that certain of our business practices breached our agreements with PCCW-HKT and unlawfully interfered with their telecommunications business.
- A case in which the plaintiff alleges that one of our wholly owned subsidiaries wrongfully terminated a telecommunications service agreement between them leaving unpaid obligations to the plaintiff of approximately US\$3,600,000.

In each of the proceedings mentioned above, we are vigorously defending City Telecom against the claims. However, we cannot predict the way that an arbitrator or a court of law will view the facts in dispute, and we cannot predict the outcome of these proceedings.

We have more fully set forth the facts and current status of these proceedings in this annual report under the heading Item 8 “Financial Information—Legal Proceedings”.

**Risks Relating to Our Technological Infrastructure**

***Slow System Performance Could Cause Us to Lose Internet Customers to Our Competitors.***

Our system’s performance may slow at certain peak times, especially with respect to the transmission of multimedia content. Our ability to increase our handling capacity, and increase the network’s performance, will depend on:

- the successful expansion of our own local fixed network, and
- our ability to secure more leased lines from PCCW-HKT and/or other network operators.

We cannot be sure that we will be able to increase the performance of our Internet system. If we do not, our customers may subscribe to Internet access services provided by one of our competitors.

***If We Experience System Failure or Shutdown in Communications Networks, We May Not be Able to Deliver Our Services.***

Connection for our international telecommunications, local telephony and Internet services is carried through the circuits of local fixed network operators or privately leased lines from PCCW-HKT, international cable lines, our own switching systems and other network related infrastructure. Our provision of such services depends largely on the stability of this network, portions of which are outside of our control. The network may be vulnerable to damage or interruptions in operation due to fire, power loss, telecommunications failures, network software flaws, virus attacks, transmission cable cuts and similar events. In general, any failure of our network, our servers, or any link in the delivery chain that results in an interruption in our operations, whether from operational disruption, natural disaster or otherwise, could damage our reputation, reduce our ability to attract and retain subscribers and adversely affect our results of operations.

Our local telephony service uses voice-over-Internet-protocol technology. We believe that we are one of the first companies to offer local telephony using this technology in Hong Kong. As a result, we may experience problems achieving the level of quality that consumers expect from local telephony service. If technical or other problems cause our local telephony service to fall below customers' expectations, we may not be able to achieve the subscriber targets that we have set, or operate this segment of our business profitably.

***We Will be Limited in Our Ability to Expand Our Telecommunications Business Unless We Obtain Additional Network Capacity.***

Following network upgrades completed in fiscal 2002, our international telecommunications network has the capacity to handle monthly traffic of approximately 120 million minutes. Our ability to continue to increase traffic volume depends on our ability to expand the network on a timely basis, which in turn is subject to:

- the availability of international leased lines from PCCW-HKT or other international carriers at favorable rates; and
- the development of our own telecommunications facilities.

If we fail to increase the capacity of our telecommunications network, our ability to increase our international telecommunications minutes and revenues will be limited.

***If We are Unable to Stay Ahead of Technology Trends and Evolving Industry Standards, Our Services May Become Obsolete.***

Internet businesses are characterized by rapidly changing technology and industry standards, evolving subscriber needs and the introduction of new services. The continuously changing nature of these services, and their increasingly shorter life cycles require us to continually improve our performance, services and network in order to compete successfully with the offerings of our competitors.

We cannot be certain that we can continue to be successful in responding in a timely and cost-effective

way to keep up with these developments. Furthermore, changing our services in response to market demand may require the adoption of new technologies that could render many of the technologies that we are currently implementing less competitive or obsolete. To respond successfully to technological advances and emerging industry standards, we may require substantial capital expenditure and access to related or enabling technologies in order to integrate the new technology with our existing technology. We may not be successful in responding to these changes or in continuing to offer the products and services demanded by our customers.

***Environmental Factors in Hong Kong Could Limit Our Ability to Make a Profit on Wireless Internet Services.***

Wireless transmission of information is subject to environmental influences, which could increase our costs of using this technology. In particular:

- Wireless technology requires an unobstructed line of sight between two linked antennas. Hong Kong is characterized by large variations in elevation and numerous tall buildings.
- Weather conditions, such as heavy rainfall, can adversely impact the transmission quality of wireless signals and necessitate shorter distances between antennas to maintain desired transmission quality. Hong Kong's weather patterns often result in heavy rainfall during certain periods of the year.

Each of these factors may cause us to install a larger number of antennas than we anticipate to provide quality service over our coverage areas. Installation of a greater number of antennae than we plan for could considerably increase our costs and affect the profitability of providing wireless services.

**Risks Relating to the Regulatory, Political and Economic Environment**

***Our Revenues May be Adversely Affected by Increases in Tariffs Mandated by the Chinese Government.***

China's Ministry of Information Industry (the "MII") and the State Development Planning Commission jointly set tariffs for all domestic and international long distance services in China using public switched telephone networks, leased lines and data services. Certain tariffs payable by us to our carrier partners were based, among other things, on the tariffs determined by these agencies with respect to the calls our subscribers make to persons in China. In October 2002, the MII substantially increased one of these tariffs, the termination rate for incoming telephone traffic from all countries and regions into China, as of November 1, 2002. To cover the increased cost for terminating traffic in China, we increased the rates we charged our customers for calls into China, which represented 63% of our international traffic for fiscal 2002. This rate increase led to an immediate drop of traffic into China. Further, our market share was adversely affected, as one of our competitors did not increase the rates it charged its customers for calls into China as a result of the increased tariff. The MII may make additional changes to termination rates and related tariffs in the future, which we would expect to affect the costs of termination and the rates we charge our customers for calls into China. We cannot predict the timing, likelihood or likely magnitude of this, or any other tariff adjustment generally or the extent or potential impact on our business of future tariff increases. Such increases may lead to a decrease in traffic for calls into China, reduce our revenues and adversely affect our business and results of operations.

***We Require Licenses From the Office of Telecommunications Authority to Provide Our Services. If One of These Licenses is Revoked or Not Renewed, We Would be Unable to Deliver the Services Authorized by That License.***

We are able to provide international telecommunications services pursuant to a public, non-exclusive telecommunications license for external telecommunications service operators issued by the Office of Telecommunications Authority ("OFTA") on November 10, 1998. Our dial-up Internet services operate under a PNETS license for international value-added network service operators, issued by OFTA on December 7, 1993 and amended to include Internet services in 1998. Our subsidiary, HKBN, launched our broadband Internet service pursuant to a wireless fixed telecommunications network services license ("FTNS License") awarded in February 2000 by the Telecommunications Authority. We operate our satellite base station pursuant to a fixed carrier license, valid for 15 years, that was granted by OFTA in May 2001. Each of these licenses is subject to OFTA's review annually.

Further, we received an undersea cable-based fixed telecommunications network services license from the Telecommunications Authority in March 2002. Finally, HKBN's wireless FTNS License was modified to include wireline-based fixed telecommunications network services in April 2002 by OFTA. OFTA's failure to renew or its revocation of any of these licenses would have a significant adverse impact on our future growth and profitability. In addition, future changes in Hong Kong's telecommunications and Internet regulations or policies could have an adverse impact on our operations.

***PCCW-HKT May Not Refund to Us a Portion of Our Expected Refund of HK\$97 Million in Universal Services Contributions.***

Pursuant to the terms of the Statement on Universal Services Contribution-Confirmed Level for 2000 and Provisional Level on and after January 1, 2001 issued by OFTA on November 30, 2002, we are entitled to receive a refund of the universal services contributions that we paid in respect of the period from January 1, 2000 to December 31, 2000 in the sum of approximately HK\$41 million, and in respect of the period from January 1, 2001 to June 30, 2002 in the sum of approximately HK\$56 million. PCCW-HKT refunded to us HK\$41 million in February 2003 but the timing for payment of the remaining balance of the refund is still subject to confirmation. Were PCCW-HKT to dispute the amount of the refund for this period, OFTA could determine that we are entitled to only a refund of a lesser amount, or to no refund at all, which would adversely affect our financial position for fiscal 2003. For an explanation of universal services contributions, please see Item 5 "Operating and Financial Review and Prospect-Overview-Our Expenses-International Telecommunications".

***Fluctuations of the Hong Kong Dollar May Increase Our Operating Costs.***

A major portion of our operating costs are interconnection charges paid to overseas carriers for the delivery of our international calls. Substantially all of these interconnection charges are denominated in U.S. dollars or other currencies. Any depreciation of the Hong Kong dollar, against the U.S. dollar or other currencies, would increase our operating costs and adversely affect our profitability.

***Fluctuations of the Hong Kong Dollar Could Adversely Affect the Value of the American Depositary Shares.***

Our outstanding shares are listed on The Stock Exchange of Hong Kong (the "SEHK"), on which shares are quoted and traded in Hong Kong dollars. Cash dividends, if any, in respect of the shares represented by the American depositary shares will be paid to the depositary in Hong Kong dollars and then converted by the depositary into U.S. dollars, subject to certain conditions. Any depreciation of the



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## Table of Contents

Hong Kong dollar against the U.S. dollar would, among other things, adversely affect the amounts a registered holder or beneficial owner of American depositary shares will receive from the depositary in respect of dividends, the U.S. dollar value of the proceeds which a holder would receive upon sale in Hong Kong of the shares and the secondary market price of the American depositary shares.

### ***The State of Hong Kong's Economy May Affect Our Profitability.***

As we are principally engaged in the provision of international telecommunications, local telephony and Internet services in Hong Kong, our financial position and the results of our operations will be affected by the conditions of the telecommunications and the Internet markets in Hong Kong, which may in turn be influenced by the general state of the Hong Kong economy. The Hong Kong economy has experienced considerable volatility during the late 1990s and from 2000 to 2002, and there can be no assurance that it will not continue to do so in the future. This could adversely affect our business operations.

### ***There May be Political Risks Associated with Doing Business in Hong Kong.***

A significant part of our facilities and operations are currently located in Hong Kong. Hong Kong is a Special Administrative Region of the People's Republic of China ("China") with its own executive, judicial and legislative branches. Hong Kong enjoys a high degree of autonomy from China under the principle of "one country, two systems". We, however, can give no assurance that Hong Kong will continue to enjoy autonomy from China. Any intervention by the government of China in the affairs of Hong Kong, in breach of the "one country, two systems" principle, may adversely affect our revenues and our share prices.

### ***You May Have Difficulty Enforcing Judgments Against Us or Our Management.***

City Telecom is incorporated in Hong Kong. All of City Telecom's directors and executive officers and some of the experts named in this annual report live outside the United States, principally in Hong Kong. Also, all or most of City Telecom's assets are located outside the United States. As a result, you may not be able to:

- effect service of process upon us or these persons within the United States, or
- enforce, against us or these persons within the United States, court judgments obtained in United States courts. These judgments include judgments relating to the federal securities laws of the United States.

There is also doubt as to whether Hong Kong courts will enforce judgments of United States courts, based only upon the civil liability provisions of the federal securities laws of the United States or the securities laws of any state of the United States.

## **Risks Relating to the shares and the American depositary shares**

### ***Our Share Price has been and May Continue to be Volatile.***

The trading price of our shares has been and is likely to continue to be extremely volatile. Since the our offering of our American depositary shares on November 4, 1999, the closing price of our ordinary shares on the SEHK ranged from HK\$8.950 to HK\$0.420. Our share price and the price of the American depositary shares could be subject to wide fluctuations in response to a variety of factors, including, among others:

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## Table of Contents

- actual or anticipated variations in our operating results;
- announcements of new services or pricing options by us or our competitors;
- changes in financial estimates by securities analysts;
- conditions or trends in the Internet and telecommunications industries;
- changes in the market valuations of companies that provide Internet and telecommunications services; and,
- rumors of and announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments.

As of January 31, 2003, we had approximately 506,320,663 shares issued and outstanding. All of the outstanding shares are freely tradable in our primary trading market, the SEHK, and can be traded in the United States in the form of American depositary shares in compliance with the holding period, volume, and manner of sale restrictions under Rule 144 under the Securities Act of 1933, as amended. It is possible that we may issue additional shares in connection with our financing activities, acquisition activities or otherwise. Any shares that we issue will be freely tradable on the SEHK, and, depending on the circumstances of their issuance, may also be freely tradable in the U.S. public market.

***Your Shareholdings May be Diluted as a Result of Any Conversion of Our Outstanding Warrants and Stock Options.***

As of January 31, 2003, there were outstanding options to purchase 21,860,000 shares under our share option scheme which was adopted in 1997 (the "1997 Scheme"), at an average conversion price of HK\$0.57, and we had 86,628,137 warrants outstanding that enable the holders thereof to subscribe for an equal number of shares at an initial subscription price of HK\$0.40 per share. Please see Item 6 "Directors, Senior Management and Employees–Share Ownership–Share Option Schemes" for details of the 1997 Scheme and the new scheme adopted in December 2002. Our warrants also trade on the SEHK. Upon conversion of such options and warrants, minority ownership would be diluted from 48.5% to 43.3%. Further, conversion would also result in a decrease in the net tangible book value per share of our currently outstanding shares.

**ITEM 4. INFORMATION ON THE COMPANY**

**City Telecom's History and Development**

City Telecom (H.K.) Ltd. was incorporated in Hong Kong on May 19, 1992 under the Companies Ordinance (Chapter 32 of the laws of Hong Kong) (the "Companies Ordinance"). Our registered office is located at Trans Asia Centre, 13<sup>th</sup>-16<sup>th</sup> Floors, 18 Kin Hong Street, Kwai Chung, 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.

City Telecom provides international telecommunications and, through HKBN, Internet access and other fixed telecommunications network services in Hong Kong. We believe that one of our most important competitive strengths has been our ability to quickly expand our service offerings when changes in regulation or technology have provided us with an opportunity to do so. Some of the major events of our history and development have been:

- In September 1992, we began to provide international telecommunications service using the toll-free transit communication technology, later marketed under the name 888 Calling Card Service.
- In May 1993, we obtained a PNETS License.
- In January 1994, we introduced a second international telecommunications service, marketed under the name 003 Guaranteed Fax Service, using the store-and-forward transmission technology. In September 1994, we launched a third international telecommunications service, called Globalink Long Distance Calling Card.
- In January 1997, we launched our fourth international telecommunications service, the IDD 300 Calling Service. In March of that year, to target our prospective and existing corporate subscribers, we established INC as a special business unit dedicated to providing high-quality, competitively priced international telecommunications services to corporations in Hong Kong. In June 1997, we obtained a PNETS license from OFTA for the provision of virtual private network services, catering to the needs of multinational corporations.
- In August 1997, we completed the initial public offering of our shares, which were listed on the Stock Exchange of Hong Kong.
- In February 1998, PCCW-HKT lost its monopoly over facsimile transmission using international simple resale. We launched our fax services using international simple resale in the same month. We launched our first Internet related service, [CTIm@il](mailto:CTIm@il), in March 1998. We launched our Internet business, named CTInets, in June 1998.
- In November 1998, PCCW-HKT lost its monopoly over voice transmission using international simple resale. That same month we became the first Hong Kong company to obtain a public, non-exclusive telecommunications service license covering the provision of international telecommunications services using international simple resale.
- In January 1999, we launched our new access number 1666 for our international telecommunications services, supported by the international simple resale arrangement.