

CITIC 1616 HOLDINGS LIMITED

中信1616集團有限公司

(Incorporated in Hong Kong with limited liability)



Annual Report 2006

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CHAIRMAN'S LETTER TO SHAREHOLDERS

The Group recorded a net profit of HK\$201.5 million for the year 2006, a 106.0% increase from 2005. Turnover for 2006 rose 39.2% to HK\$1,364.2 million.

Business Overview

The Group operates an international telecoms hub which is one of the leading independent telecoms hubs in Asia, providing interoperable connections between approximately 240 customers (mainly telecoms operators) in approximately 50 countries/areas. Building on the Group's advanced and well-established technology platform, the Group has developed the following core services to telecoms operators worldwide: Fixed-Lined/Hybrid Carrier Voice Hubbing Services; Mobile Carrier Voice Hubbing Services; SMS Hubbing Services; as well as Mobile Value Added Services and Enterprise Solutions. These services are supported by the Group's application development skills and its established extensive connectivity network.

During the last three years, the Group handled a substantial volume of China's in-bound and out-bound international voice traffic and a large majority of the in-bound and out-bound international messages for one of the largest mobile telecoms operators in China.

Most of the Group's Mobile Value Added Services are designed to be utilized by the subscribers of the mobile telecoms operators that connect to the Group's telecoms hub. These Mobile Value Added Services increase existing traffic volume and create new revenue stream. The Group in turn benefits from increasing in traffic volume. The availability of Mobile Value Added Services also makes the Group's hub more attractive to telecoms operators.

Business Strategies

The Group's mission is to become one of the leading independent telecoms hub based service providers in the world, and the Group intends to achieve this leadership position by pursuing the following business strategies:

- further develop and strengthen the Group's established, long-standing relationships with major telecoms operators, in particular, its relationship with telecoms operators in China;
- maintain and expand the Group's leadership in hub based telecoms services by providing interoperable interconnections for multiple types of traffic between multiple types of networks;
- maintain growth in core business, in particular by expanding the scale of the Group's interoperability capabilities and providing an increasing amount of Mobile Value Added Services so as to enhance its network coverage and telecoms traffic and to expand its global customer base;
- selectively expand into high potential new businesses, such as 3G applications, and enhance its existing service portfolio through continuous technology improvements developed in cooperation with existing customers;

CHAIRMAN'S LETTER TO SHAREHOLDERS

- maintain leadership and growth in rolling out time-to-market integrated solutions for customers, which keep pace with the rapid and new technology development in the telecoms market;
- aggressively pursue expansion opportunities; and
- leverage on the Group's existing customer base by marketing additional services to existing customers.

Global Offering

The Group's parent company, CITIC Pacific has considered that the Group's business has grown to a size sufficient to command a separate listing and that such listing will also be beneficial to the Group for the following reasons:

- it provides flexibility to the Group in raising future funds from the capital markets to support its growth through continuing organic expansion as well as acquisitions; and
- it enables the Group to take advantage of the significant global growth potential by attracting new investors who are seeking investment opportunities in a pure-play international telecoms hubbing service provider.

The public offer of the Company was well received by the local and international investors. Approximately 938.3 million of the Group's shares (included over-allotment) were successfully placed internationally and offered to the public of Hong Kong at the top of the price range with substantial over-subscriptions. The Group's shares were listed on the Hong Kong Stock Exchange on 3 April 2007.

The Future

I am confident of the future developments of the Group. In light of the relative low penetration of mobile telecoms in the Asia Pacific region, and as the economies in the region thrive, more and more consumers will use mobile telecoms services, a market with enormous potential is taking shape. China is the biggest telecoms market in the world and is also about to issue 3G licences. Hence, the Group's target markets have immense growth potentials.

CITIC 1616 has a strong management team with all-round knowledge of the telecoms industry. We will focus on our core strategies, strive for excellence and endeavour to capture business opportunities to achieve higher returns for our investors.

Acknowledgement

Mr. Peter Chan Kwong Choi has resigned as Managing Director of the Group in December 2006. On behalf of the Board, I would like to express my gratitude to the contributions made by Mr. Chan during his employment.

On behalf of the Board, I would like to express my heart felt thanks to everyone at the Group in these years for their hard work and to our shareholders, customers and partners for their trust and support.

Shi Cuiming
Chairman

Hong Kong, 20 April 2007

BUSINESS REVIEW

1. Fixed-Line/Hybrid Carrier Voice Hubbing Services

The Group provides telecoms hubbing services to telecoms operators which principally engage in the provision of fixed line and hybrid (both fixed line and mobile) telecoms services and have their international voice services connected through either the traditional TDM technology or advanced IP networks. The Group's voice hubbing services handle fixed line-to-fixed line and fixed line-to-mobile (and vice versa) international calls for both fixed line and hybrid telecoms operators, as well as mobile roaming calls and data activities for hybrid telecoms operators.

The Group charges its customers, namely, originating telecoms operators, on usage basis (measured in terms of duration of the voice calls). A breakdown of the volume of voice calls (in terms of minutes) carried by the Group's Fixed-Line/Hybrid Carrier Voice Hubbing Services and their contribution to the Group's total turnover for the year ended 31 December 2006, compared with the year ended 31 December 2005 is as follows:

	For the year ended 31 December	
	2006	2005
Voice calls minutes carried (<i>in million</i>)	3,659.9	2,259.0
Turnover (<i>HK\$' million</i>)	575.5	385.3
Percentage of the Group's total turnover	42.2%	39.3%

The increase in volume of Fixed-Line/Hybrid Carrier Voice Hubbing Services of the Group, compared with the year 2005 was largely due to changes in the customer mix. In 2005, the Group implemented certain credit policies which had the effect of deterring delinquent customers from using the Group's hubbing services. In 2006, the Group recorded an increase in customers from 194 to 237, including the addition of several new major Asian telecoms operators. As a result, Fixed-Line/Hybrid Carrier Voice Hubbing Services continue to provide an important source of revenue and customer bases to the Group on which the Group expands its services.

Some features of the Group's Fixed-Line/Hybrid Carrier Voice Hubbing Services include:

Features	Description
Quality	<ul style="list-style-type: none"> • Connected through the Group's POPs and partners (including telecoms operators and telecoms service providers), the Group provides quality voice hubbing services to telecoms operators through TDM and other networks. At the same time, the Group can also deliver voice transit at different priority classifications according to different customers' requirements.
Reports and Performance Monitoring	<ul style="list-style-type: none"> • The Group's network operation centre provides 7x24 support, voice service quality analysis and close-to real time call routing statistics to ensure quality and optimal traffic balance across networks.

BUSINESS REVIEW

Features	Description
Flexibility	<ul style="list-style-type: none"> • The Group's voice services support interconnections over both traditional TDM and IP networks.
Customer Service	<ul style="list-style-type: none"> • Inquiry calls from telecoms operators which are the Group's customers are promptly answered by the Group's staff to address customers' inquiries and to solve their problems.
Billing and Statistics	<ul style="list-style-type: none"> • The Group's billing system and statistics on network performance enable the Group to closely monitor the status and quality of its services to customers.

2. Mobile Carrier Voice Hubbing Services

The Group provides interoperability services to mobile telecoms operators for international and/or roaming call traffic, as well as VoIP.

The Group charges its customers on usage basis (measured in terms of duration of the voice calls). A breakdown of the volume of voice calls (in terms of minutes) carried by the Group's Mobile Carrier Voice Hubbing Services and their contribution to the Group's total turnover for the year ended 31 December 2006, compared with the year ended 31 December 2005 is as follows:

	For the year ended	
	31 December	
	2006	2005
Voice calls minutes carried (<i>in million</i>)	1,038.3	854.6
Turnover (<i>HK\$'million</i>)	566.1	478.5
Percentage of the Group's total turnover	41.5%	48.8%

The increase in turnover for Mobile Carrier Voice Hubbing Services for the year ended 31 December 2006 was largely due to the increase in the volume of mobile voice traffic, which the Group believes was boosted in part by the Group's Mobile VAS offered to its customers and in part by natural growth in tandem with the growth in the global telecoms market during the period as wireless services have become increasingly available and affordable. The effect of Mobile VAS has yet to be ascertained given its recent launch. However, as mobile calls stimulated by the Mobile VAS may be channelled via the Group's hub, the Group expects that the effect of Mobile VAS on the Group's Mobile Carrier Voice Hubbing Services will grow over time.

As one of the main international telecoms hubs to China, the Group handled a substantial portion of the in-bound and out-bound international mobile voice traffic for one of the largest mobile telecoms operators in China.

BUSINESS REVIEW

As a provider of quality Mobile Carrier Voice Hubbing Services, the Group's core resources and efforts are focused on providing high quality international and roaming mobile traffic. As mobile roamers travel overseas more frequently, the overall amount of international mobile roaming traffic increases. At the same time, subscribers increasingly expect high quality connections when roaming internationally. The Group's goal is to increase the amount of these high quality connections.

China is currently the largest mobile market worldwide in terms of the number of subscriptions. The Group believes that its long-standing relationships with key mobile operators in China as well as the high growth of mobile telecoms traffic in China can further strengthen the Group's position as one of the major telecoms hubs for the China mobile market.

In addition to the features described above with respect to the Group's Fixed Line/Hybrid Carrier Voice Hubbing Services, the Group's Mobile Carrier Voice Hubbing Services also possess the following key features:

Features	Description
CLI Services	<ul style="list-style-type: none">• Calling Line Identification (CLI) enables the person being called to identify the number from which a call has been made.
Intelligent Routing and Conversion	<ul style="list-style-type: none">• In providing the Group's premium Mobile Carrier Voice Hubbing Services, the Group uses optimised CLI management and superior routing features to ensure the quality of the Group's services such as Answer Seizure Ratio, Post Dial Delay and other services for management of fail-over routing, least cost routing, premium routing, and customised individual routing plans in accordance with customers' requirements.

3. SMS Hubbing Services

The Group launched its first mobile international SMS hubbing services in 2003. In the same year, the Group became one of the international SMS carriers to China's mobile operators, carrying international SMS in and out of China and to the rest of the world. The Group handles a large majority of the in-bound and out-bound international messages for one of the largest mobile telecoms operators in China. As one of the leading SMS hubbing services providers in Asia, the Group supports SMS exchanges between GSM, CDMA and PHS networks and as an international telecoms hub, the Group is directly connected with major China telecoms operators for their SMS traffic. The Group is also one of the two providers of Hong Kong inter-operator SMS hubbing services and handles a substantial portion of the SMS traffic generated amongst Hong Kong mobile telecoms operators.

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In general, the Group charges its customers on a usage basis (measured in terms of number of messages transmitted) for inter-operator transmission. Occasionally, the Group bundles its inter-operator transmission with complimentary services for intra-operator transmission in Hong Kong. A breakdown of the volume of SMS carried by the Group's SMS Hubbing Services and their contribution to the Group's total turnover for the year ended 31 December 2006, compared with the year ended 31 December 2005 is as follows:

	For the year ended	
	31 December	
	2006	2005
SMS carried (<i>in millions</i>)	1,228.7	1,105.7
Turnover (<i>HK\$ millions</i>)	117.1	75.2
Percentage of the Group's total turnover	8.6%	7.7%

Note: The Group provided substantially less complimentary intra-operator SMS Hubbing Services in 2006. The increase in turnover of over 55% in 2006 was primarily due to an increase in volume of inter-operator SMS Hubbing Services for which the Group charges usage fees.

The Group believes that its total international SMS traffic will continue to grow and be driven by the promising increase in SMS traffic in and out of China and the extension of the reach of the interoperability of the Group's services.

The Group's SMS hub has been developed to meet international SMS requirements. Its SMS hub is able to provide interoperability between the different protocols and standards that telecoms operators use and to serve the increasingly diverse requirements of the Group's customers under both TDM and IP networks. Some of the features of the Group's SMS Hubbing Services include:

Features	Description
Inter-operator SMS (IOSMS)	<p>The Group's IOSMS capabilities enable its Hong Kong customers to provide to their subscribers the flexibility of sending SMS to local mobile subscribers of other telecoms operators through their own handsets or over the Internet. This is achieved as the Group's IOSMS service supports SS7 and IP connectivity. In addition, the Group's IOSMS service also has the following characteristics:</p> <ul style="list-style-type: none"> • blacklisting of originating and terminating addresses for SMS • scalable architecture and high throughput infrastructure to handle peak traffic message delivery • online access to traffic reports • billing system that can generate hourly call details reports

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Features

Description

- supports delivery of mobile terminated SMS to subscribers visiting other countries
 - fraud detection control
 - performance monitoring
- International SMS (ISMS)
- The Group's ISMS capabilities enable its customers to provide to their subscribers the flexibility of sending international SMS to subscribers of other foreign telecoms operators or receiving SMS when the subscribers are roaming in foreign countries. The Group's ISMS platform supports both SMS submission and termination over SS7 and IP connections. In addition to the standard SMPP versions 3.3 and 3.4, it also supports CMPP, UCP, CIMD2 and the MII YD/T 1921-2003 standard. The YD/T 1921-2003 is the protocol of peer-to-peer short message interworking between mobile networks and fixed networks in Mainland China which was announced by the MII in November 2003

This service also offers the following:

- the common features of the Group's IOSMS service
- SMS anti-spam: to prevent spamming and to reduce churn
- alarm triggering platform to monitor any potential fault down to operator level

The Group also provides a SMS bulk purchase service platform to customers where the messages, texts or other contents developed by customers can be provided in the form of SMS to the Group's mobile operators that have agreed to receive such information.

4. Mobile VAS and Enterprise Solutions

The Group offers Mobile VAS and Enterprise Solutions to its customers. In respect of Mobile VAS, typically customers pay a minimum service fee until the relevant services reach an agreed level of usage and/or number of subscribers, additional service fees will then be charged for any usage above that level. In respect of Enterprise Solutions, the service fees receivable by the Group vary in accordance with the amount of work the Group performs.

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A breakdown of the contribution of Mobile VAS and Enterprise Solutions to the Group's total turnover for the year ended 31 December 2006, compared with the year ended 31 December 2005 is as follows:

	For the year ended	
	31 December	
	2006	2005
	<i>HK\$' million</i>	<i>HK\$' million</i>
Mobile VAS	30.9	2.6
Enterprise Solutions	74.6	38.4
	105.5	41.0
Total	105.5	41.0
Percentage of the Group's total turnover	7.7%	4.2%

Notwithstanding the insignificant turnover recorded when compared with the other three core businesses, the Group believes that Mobile VAS helped boost, in part, turnover of voice and data hubbing services provided by the Group to major telecoms operators in Asia.

(i) Mobile VAS

The Group offers Mobile VAS to telecoms operators through their connections to the Group's hub.

Mobile VAS are attractive to telecoms operators because they provide new revenue streams for telecoms operators and help the Group to retain existing customers and attract new customers. Mobile VAS also help to increase traffic to the Group's hub and create higher entry-barrier for potential competitors.

The Group's current main Mobile VAS include:

- SIMN or Single IMSI Multiple Number service
- Mobile Roaming Call Back service
- PRS or Prepaid Roaming Card service
- SCCP Roaming Signaling Transit service

A number of the Group's Mobile VAS were first developed by the Group in response to the needs of major telecoms operators in China. The Group offered its first commercially launched CAMEL based Prepaid Roaming Card service in 2004 to capture the business opportunities generated from the increase in the number of Chinese prepaid roamers, following the introduction of the Individual Visit Scheme by the Chinese government permitting residents in a number of cities in China to visit Hong Kong or Macao on an individual basis. The Group pilot-launched its SIMN service for China's largest mobile operator in December 2005. The Group is extending many of its Mobile VAS to other countries and regions.

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The development of these Mobile VAS helps the Group in attracting additional customers and traffic and expanding the business scale of its telecoms hub. In addition to receiving service fees from telecoms operators when providing these Mobile VAS, the Group believes that Mobile VAS has positive effects on traffic volume and turnover of its overall voice hubbing services. The Group's provision and development of Mobile VAS also strengthen the Group's competitiveness particularly in the high end international and roaming telecoms traffic areas, which require constant product development.

Additional details of the main Mobile VAS services offered by the Group are set forth below:

SIMN or Single IMSI Multiple Number service	Allows mobile operators' subscribers to hold multiple overseas mobile phone numbers on their existing SIM cards, providing frequent travellers and mobile roamers the choice of saving roaming charges in SIMN-enabled regions to increase customer satisfaction and loyalty.
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As such, SIMN could enable an increase of international and roaming mobile voice traffic.

Postpaid SIMN

The postpaid SIMN service was commercially launched in January 2006.

The Group provided such services in Hong Kong, Macao, Beijing, Shanghai and 4 provinces in China, namely, Guangdong, Fujian, Jiangsu and Zhejiang.

The Group is rolling out its postpaid SIMN service to other provinces in China as well as to other Asian regions, including Malaysia, Singapore and Taiwan.

Prepaid SIMN

The prepaid SIMN service was only commercially launched in August 2006.

The Group provided such services in Hong Kong, Macao and China. The Group is rolling out its prepaid SIMN service to Taiwan.

Mobile Roaming Call Back service	As there is substantial difference in service charge between roaming originating call and roaming terminating call, this service enables mobile operators to gain full control over the pricing of roaming charges even when they are providing roaming services. By using the service, subscribers of mobile telecoms operators providing such service are able to reverse the call charge and thereby reduce international roaming call costs when they are abroad.
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BUSINESS REVIEW

Currently, this service allows mobile operators to offer their subscribers “call back” service in over 206 countries/ areas.

The Mobile Roaming Call Back service was commercially launched in December 2005 with a mobile telecoms operators in the PRC. The Group is pleased with the success of this service and plans to expand this service to additional telecoms operators in the future.

PRS or Prepaid Roaming Card service

In China, a majority of the mobile phone users are prepaid subscribers. PRS enables mobile telecoms operators to offer prepaid subscribers roaming voice and SMS functions like postpaid subscribers.

PRS also enables telecoms operators to segregate their prepaid roaming service from their existing postpaid roaming service to minimize the risk of affecting an existing revenue generating business.

By broadening the roaming subscriber base for both prepaid and postpaid connections, PRS could increase the overall traffic volume as well as the potential revenue of telecoms operators which in turn boost the Group’s Sales Margins.

The Group’s PRS was commercially launched in 2005 to telecoms operators in Hong Kong, Macao and China.

The Group is rolling out its PRS to prepaid subscribers in Taiwan, Vietnam, the Philippines, Malaysia and Singapore.

SCCP Roaming Signaling

This service offers mobile operators roaming services by providing Transit service SCCP transport over SS7 signaling protocol to overseas mobile operators.

It gives telecoms operators a fast, reliable and cost effective roaming connection to telecoms operators worldwide.

PRS and SIMN services could increase the Group’s SCCP Roaming Signaling Transit service subscription because SCCP connection with the Group is a pre-requisite for subscribing to these services.

As at 31 December 2006, this service is being provided to 23 customers (amongst them, a majority of the mobile telecoms operators of the Greater China Region) and signaling transit peering partners. The Group is rolling out this service to other customers in the region and in Asia.

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In addition to the above Mobile VAS, there are also various other offerings, which have yet to generate revenue but which increase the attractiveness of the Group's overall package of services, including:

- GPRS Roaming Exchange (GRX)

GRX is a secure inter-operator private-peering packet data network that provides a convenient way for mobile operators to interconnect with one another. The service enables mobile operators to exchange both GPRS roaming and inter-operator multimedia messaging service traffic.

- Customer service portal

The Group's customer service portal provides real-time network monitoring and comprehensive data analysis for the Group's customers through a user-friendly graphical user interface, which enables customers to search, filter and monitor the Group's service performance and the network situation more effectively and efficiently. The Group can also format historical and real time data generated from its system to suit customers' business and engineering purposes.

(ii) Enterprise Solutions

The Group's Enterprise Solutions include the provision of data services, facility management and system integration services.

Data Services

(a) IPLC services

The Group provides IPLC services jointly with the Group's partners in various countries from the speed of T1/E1 to STM-4. The Group also cooperates with its major customers in China to provide IPLC services from the speed of E1 to STM-16. Most of these services run on various cable systems including East-Asia Crossing, Pacific Crossing, Flag North Asia Loop, Japan-US, China-US, Asia-Pacific Cable Network 2 and SMW3. The Group charges its customers using its IPLC services and pays the leased circuit capacity suppliers in terms of either monthly fixed charge or according to the bandwidth used.

(b) Local private leased circuit services

In addition to IPLC services, the Group also provides local private leased circuit services to customers from the speed of T1/E1 to STM-16, as well as 10/100Mbps FE, GE and 10GE services.

The Group's local private leased circuit services are provided using its domestic fibre optic network. The Group's domestic fibre optic network also enables international and local operators to connect to HKIX2. It is also connected to major international gateways and various data centres in Hong Kong.

(c) Data centres

The Group operates two data centres in Hong Kong, the first data centre located in CITIC Tower and the second one located in Central, which together occupy a total area of approximately 55,000 sq. ft.

The Group also offers co-location services to telecoms operators. The second data centre of the Group has excess housing capacity, with considerable co-location spaces, to accommodate the increasing demand from telecoms operators as their network requirements increase. In addition to providing co-location spaces for telecoms operators' equipment thereby reducing their need to acquire housing spaces themselves, these data centres are also equipped with facilities crucial to telecoms operators' equipment. These facilities are managed by the Group's professional teams. Details of these facilities are described in the paragraph headed "Facility management and system integration services" below.

Facility management and system integration services

In addition to offering co-location services, the Group also provides and manages the facilities of its data centres so that customers can enjoy the additional maintenance services for their equipment on top of their co-location. The Group's data centres provide a secured, controlled environment as well as facilities important to the equipment co-located in them. To ensure un-interruptible power supply, the Group's data centres maintain direct electricity supply cables from the electricity company in Hong Kong and un-interrupted power systems with electricity generating capacity sufficient to support each data centre for two hours. Further, strict environment and protection controls such as raised floor system for system expansion and maintenance, FM200 gas-based fire suppression systems for fire extinguishing, and computer room air conditioning system to control temperature and humidity level are installed in the data centres. The data centres are also guarded by around-the-clock physical security to monitor access, equipped with access card and fingerprint security access control, CCTV monitoring system with recording functions for tracking and auditing, and are constantly monitored by the Group's professional teams.

The facility management services of the Group also extend to the fitting-out of customers' properties according to their specific telecoms uses. In addition, the Group provides outsource services for the provision, operation and maintenance of switching and transmission facilities to customers.

In relation to system integration, the Group offers services such as system testing, system installation, service design and implementation to complement customers' business requirements.

FINANCIAL REVIEW

Introduction

CITIC 1616's 2006 Annual Report includes a letter from the Chairman to shareholders, the annual accounts and other information required by accounting standards, legislation, and the Hong Kong Stock Exchange. This Financial Review is designed to assist the reader in understanding the statutory information by discussing the overall performance, and the financial position of the Group as a whole.

Pages 33 to 39 of the Annual Report contain the Consolidated Income Statement, Balance Sheet, Statement of Changes in Equity and Cash Flow Statement. Following these financial statements, on pages 40 to 71 of the Annual Report, are Notes that further explain certain figures presented in the statements.

On pages 31 to 32 is the report of CITIC 1616's auditor — KPMG — of their independent audit of CITIC 1616's Annual Accounts.

Basis of Accounting

CITIC 1616 prepares its financial statements in accordance with generally accepted accounting standards issued by the Hong Kong Institute of Certified Public Accountants which have been converged with International Financial Reporting Standards.

Turnover

From the year 2005 to the year 2006, turnover from telecoms operations increased by HK\$384.2 million, or 39.2%, from HK\$980.0 million to HK\$1,364.2 million. This increase was principally due to the growth in both Fixed-Line/Hybrid Carrier Voice Hubbing Services and Mobile Voice Carrier Hubbing Services and powered by the Group's concentrated efforts to increase the number of its customers from 194 to 237 during the year.

Mobile Carrier Voice Hubbing Services turnover increased from HK\$478.5 million for the year 2005 to HK\$566.1 million for the year 2006, representing a 18.3% increase. The mobile voice call minutes carried by the Group increased from 854.6 million minutes for the year 2005 to 1,038.3 million minutes for the year 2006, an increase of 21.5%. This was mainly attributable to the increase in international mobile traffic and increased usage of this service by the major mobile telecoms operator in China.

Fixed-Line/Hybrid Carrier Voice Hubbing Services turnover increased from HK\$385.3 million for the year 2005 to HK\$575.5 million for the year 2006, representing a 49.4% increase. The fixed line/hybrid voice call minutes carried by the Group increased from 2,259.0 million minutes for the year 2005 to 3,659.9 million minutes for the year 2006. This considerable increase was mainly due to: (1) an increase in number of its customers such as the addition of several new major Asian telecoms operators, and (2) an increase in demand for the Group's services from existing customers due to overall growth in the market. The overall market grew in response to a number of factors, including consumers' increased access to telecoms services, lower barriers to entry to telecoms markets by telecoms operators and lower monthly commitments in respect of prepaid plans for mobile phone users.

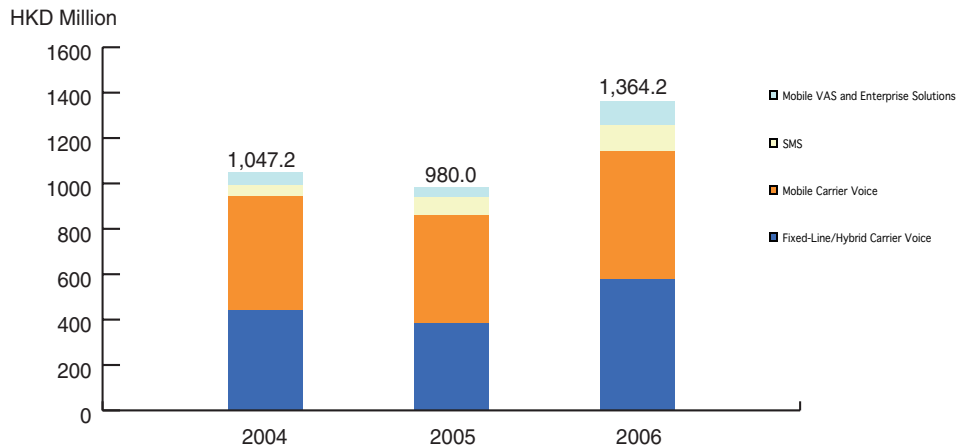
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In respect of SMS Hubbing Services, the Group recorded an increase from HK\$75.2 million for the year 2005 to HK\$117.1 million for the year 2006, representing a 55.7% increase though the Group recorded only a 11.1% increase in the number of SMS messages handled from 1,105.7 million messages to 1,228.7 million messages. This was primarily due to the reduction in the provision of complimentary intra-operator SMS Hubbing Services and an increase in the volume of SMS messages put through the Group's telecoms hub in 2006.

Mobile VAS and Enterprise Solutions accounted for an insignificant portion of the Group's turnover during 2005 and 2006. For Mobile VAS, turnover in 2005 was insubstantial.

Nevertheless, with the launch of additional Mobile VAS in 2006, the Group recorded Mobile VAS turnover of HK\$30.9 million in 2006. In addition, with the completion of data centre in the second half of 2006 and the additional turnover from the data business, the Group also recorded an increase in turnover from HK\$38.4 million in 2005 to HK\$74.6 million in 2006 for its Enterprise Solutions services.

Turnover from telecoms operations 2004-2006

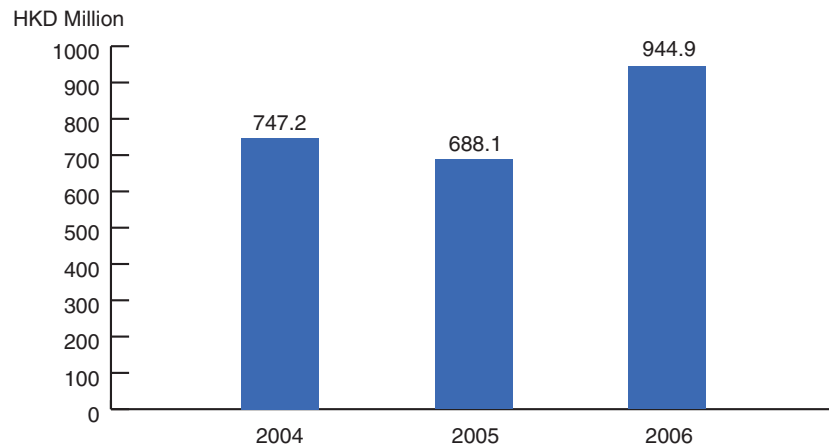


Network, operations and support expenses

Network, operations and support expenses increased by HK\$256.8 million, or 37.3%, from HK\$688.1 million for the year 2005 to HK\$944.9 million for the year 2006. The increase was mainly due to the increase of carrier costs of HK\$233.8 million as a result of the increase in traffic volume. As a percentage of turnover, network, operations and supports represented 70.2% for the year 2005 and 69.3% for the year 2006. The main reason for this percentage decrease was primarily due to the Group's ability to achieve certain economies of scale as a result of the increase in traffic volume. Operating lease expenses from the use of IPLC (including STMs) amounted to HK\$46.1 million in 2006, a decrease of 6.3% from HK\$49.2 million in 2005.

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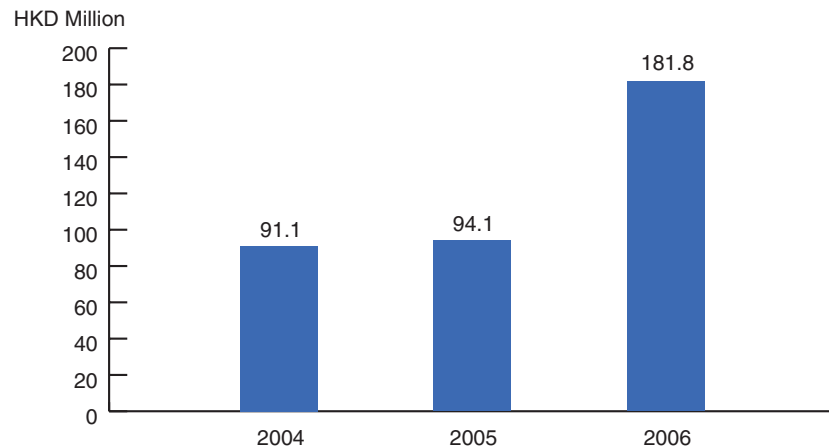
Network, operations and support expenses 2004-2006



Profit for the year from continuing operations

As a result of the significant increase in turnover, the Group's profit for the year from continuing operations increased by HK\$87.7 million, or 93.2%, from HK\$94.1 million for the year 2005 to HK\$181.8 million for the year 2006.

Profit for the year from continuing operations 2004-2006

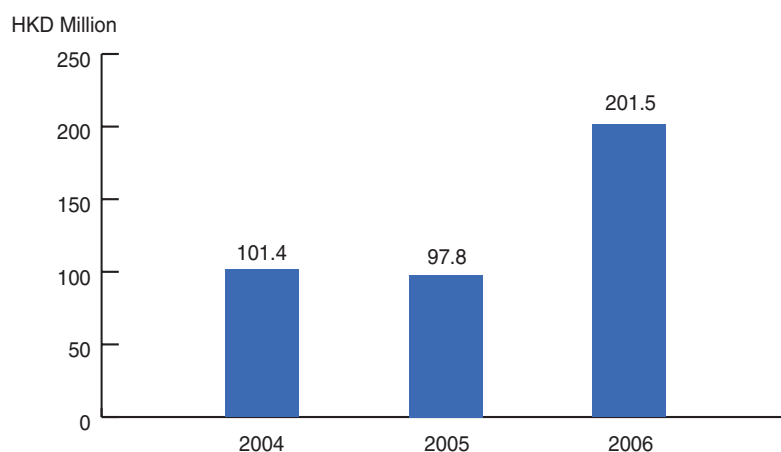


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Profit attributable to equity holders of the Company

Primarily as a result of the increase in turnover, economies of scale achieved in network, operations and support expenses discussed above, the Group achieved an increase of profit attributable to equity holders of the Company from HK\$97.8 million for the year ended 31 December 2005 to HK\$201.5 million for the year ended 31 December 2006.

Profit attributable to equity holders of the Company 2004-2006



Taxation

The Group's income tax increased by HK\$20.0 million, or 110.5%, from HK\$18.1 million for the year 2005 to HK\$38.1 million for the year 2006. This increase was mainly due to the increase in profit from operations. The effective tax rate for continuing operations increased from 16.2% for the year 2005 to 17.3% for the year 2006 as a result of a lower percentage of non taxable income in 2006.

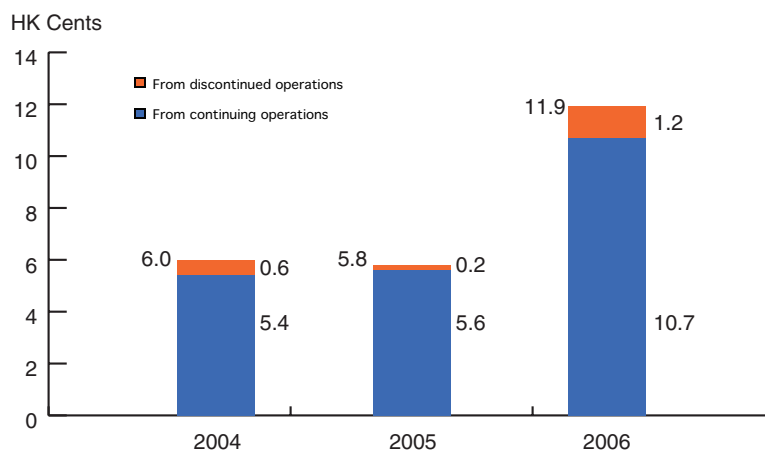
Earnings per share

Earnings per share from continuing and discontinued operations was 11.9 cents for 2006, an increase of 105.2% compared with 5.8 cents in 2005. All the increase in earnings per share was attributable to the increase in profit attributable to the equity holders of the Company as the number of the ordinary shares outstanding in the two years was the same.

Earnings per share from continuing operations was 10.7 cents for 2006, an increase of 91.1% compared with 5.6 cents in 2005. All the increase in earnings per share was attributable to the increase in profit from continuing operations attributable to the equity holders of the Company as the number of the ordinary shares outstanding in the two years was the same.

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Earnings per share 2004-2006



Note:

(i) From continuing and discontinued operations

The basic earnings per share for each of the years ended 31 December 2004, 2005 and 2006 is calculated based on the profit attributable to the equity holders of the Company during the relevant period and the 1,692,000,000 ordinary shares pursuant to the sub-division of share capital of the Company in connection with the change to the Company's capital structure on 16 March 2007 (Reorganisation), as if the shares were outstanding throughout the entire relevant period; and immediately before the share offering.

(ii) From continuing operations

The basic earnings per share from continuing operations for each of the years ended 31 December 2004, 2005 and 2006 is calculated based on the profit from continuing operations attributable to the equity holders of the Company during the relevant period and the 1,692,000,000 ordinary shares pursuant to the sub-division of share capital of the Company in connection with the Reorganisation, as if the shares were outstanding throughout the entire relevant period; and immediately before the share offering.

(iii) From discontinued operations

The basic earnings per share from discontinued operations for each of the years ended 31 December 2004, 2005 and 2006 is calculated based on the profit from discontinued operations attributable to the equity holders of the Company during the relevant period and the 1,692,000,000 ordinary shares pursuant to the sub-division of share capital of the Company in connection with the Reorganisation, as if the shares were outstanding throughout the entire relevant period; and immediately before the share offering.

(iv) Diluted earnings per share

There were no diluted potential ordinary shares during the relevant period and, therefore, diluted earnings per share are the same as basic earnings per share for each of the years ended 31 December 2004, 2005 and 2006.

Disposal of subsidiaries

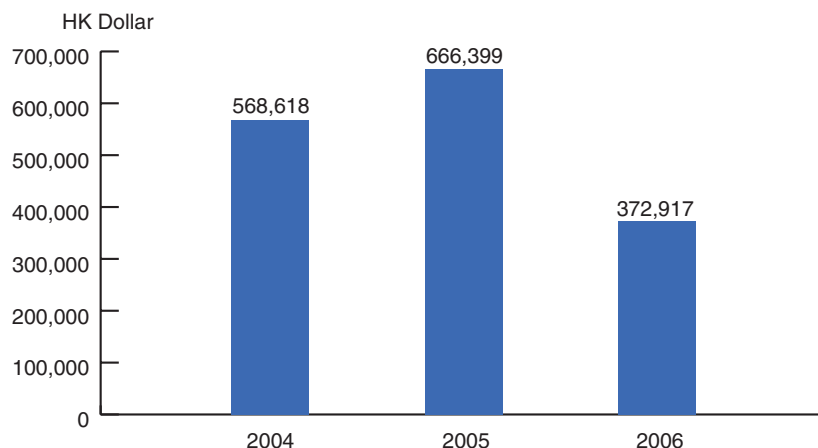
In June 2006, the Group disposed two subsidiaries engaged in property leasing operations to a wholly owned subsidiary of CITIC Pacific Limited at the carrying value and the fair value of HK\$162,051,000. After the disposal, the Group had discontinued all property related operations.

FINANCIAL REVIEW

Total equity per share

Total equity per share at 31 December 2006 was HK\$372,917 per share, a decrease of 44.0% compared with HK\$666,399 in 2005. The decrease was mainly due to HK\$495,000 per share interim dividend declared and paid in 2006.

Total equity per share for 2004-2006



Note: The total equity per share is calculated based on the total equity divided by total number of issued and fully paid ordinary shares at end of the year.

Dividend per share

An interim dividend of HK\$495,000 per share is declared and paid for 2006. The Company did not declare or pay any dividend for the year ended 31 December 2005.

Segment reporting

As all of the Group's total turnover and profits were derived from telecommunications operations, accordingly no separate business segment analysis is presented for the Group. Further, the Group's business participates primarily in only one geographical location classified by the location of assets, i.e. Hong Kong, accordingly, no segmental analysis is provided.

Capital expenditure

The Group's capital expenditures was HK\$30.2 million and HK\$47.6 million for the years ended 31 December 2006 and 2005 respectively. The decrease was mainly due to the deferment of capital expenditure to the beginning of 2007.

Group liquidity and capital resources

As at 31 December 2006, the Group had a cash and cash equivalents of HK\$43.4 million (2005: HK\$34.1 million). The increase in cash and cash equivalents during the year was mainly due to Group's net cash generated from operating activities was HK\$250.7 million.

As at 31 December 2006, the Group had no outstanding borrowing.

FINANCIAL REVIEW

Funding and banking facilities

During the year, the Group generally funded its operations with internally-generated cashflow and banking facilities. As at 31 December 2006, the Group had banking facilities amounting to US\$3.85 million (equivalent to approximately HK\$30.03 million). Of the bank facilities of US\$3.85 million, US\$110,000 (equivalent to approximately HK\$858,000) was utilised as guarantees for the Group's purchase from carriers, and US\$130,000 (equivalent to approximately HK\$1,014,000) was utilised as Letter of Credit for the Group's purchase of equipment.

Securities and guarantees

As at 31 December 2006, the Group had not made any pledge on or created any securities over its assets and had not provided any corporate guarantee.

Capital commitments

As at 31 December 2006, the Group had outstanding capital commitments of HK\$41.2 million, in respect of the acquisition of network equipment which had not yet to be delivered to the Group of which HK\$23.8 million were outstanding contractual capital commitments and HK\$17.4 million were capital commitments authorised but for which contracts had yet to be entered into.

Contingent liabilities

As at 31 December 2006, the Group did not have any contingent liabilities.

Exchange rate risk

Currently, all of the Group's sales revenue and substantially all of its cost of sales are denominated in US\$, to which the Hong Kong dollar is pegged. The Group has not been exposed nor anticipates itself being exposed to material risks due to changes in exchange rates. Accordingly, the Group does not have any hedging policies in place in respect of exchange rate risk.

Credit risk

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 7 to 180 days from the date of billing. Debtors with balances over 1 year are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group has a certain concentration of credit risk of the total trade and other receivables due from the Group's largest customers and customers from China, with the 5 largest customers accounting for approximately 45% and 49% of the Group total trade and other receivables as at 31 December 2005 and 2006, respectively. The credit risk exposure to these customers in China and the remaining trade receivables balance has been and will be monitored by the Group on an ongoing basis and the historic impairment losses on for bad and doubtful debts have been within management's expectations.

Forward looking statements

This Annual Report contains certain forward looking statements with respect to the financial condition, results of operations and business of the Group. These forward looking statements represent the Company's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements.

Forward looking statements involve inherent risks and uncertainties. Readers should be cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward looking statement.

THREE YEAR SUMMARY

Three year summary

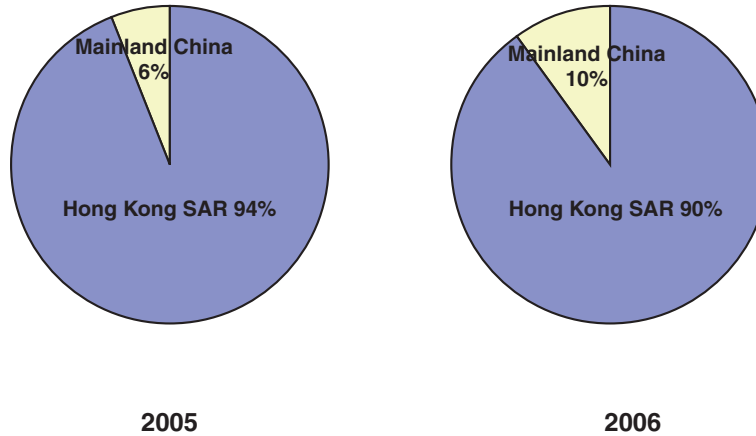
	Year ended 31 December		
	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Results</i>			
Turnover	<u>1,047,152</u>	<u>980,046</u>	<u>1,364,209</u>
Profit from operations and before taxation	108,699	112,167	219,903
Income tax	<u>(17,564)</u>	<u>(18,130)</u>	<u>(38,095)</u>
Profit for the year from continuing operations	91,135	94,037	181,808
Discontinued operations			
Profit for the year from discontinued operations	<u>10,343</u>	<u>3,744</u>	<u>19,710</u>
Profit for the year	<u>101,478</u>	<u>97,781</u>	<u>201,518</u>
Attributable to:			
Equity holders of the Company	101,478	97,806	201,518
Minority interests	<u>—</u>	<u>(25)</u>	<u>—</u>
	<u>101,478</u>	<u>97,781</u>	<u>201,518</u>
<i>Assets and liabilities</i>			
Property, plant and equipment	341,029	320,409	278,073
Non-current other receivables	24,034	26,910	37,891
Deferred tax assets	5,994	5,288	7,478
Net current assets	<u>238,955</u>	<u>352,529</u>	<u>86,925</u>
Total assets less current liabilities	610,012	705,136	410,367
Deferred tax liabilities	<u>(41,394)</u>	<u>(38,737)</u>	<u>(37,450)</u>
NET ASSETS	<u>568,618</u>	<u>666,399</u>	<u>372,917</u>
<i>Capital and reserves</i>			
Share capital	2,001	2,001	1
Reserves	<u>566,592</u>	<u>664,398</u>	<u>372,916</u>
Total equity attributable to equity holders of the Company	568,593	666,399	372,917
Minority interests	<u>25</u>	<u>—</u>	<u>—</u>
TOTAL EQUITY	<u>568,618</u>	<u>666,399</u>	<u>372,917</u>
Basic and diluted earnings per share			
From continuing and discontinued operations (HK cents)	<u>6.0</u>	<u>5.8</u>	<u>11.9</u>
From continuing operations (HK cents)	<u>5.4</u>	<u>5.6</u>	<u>10.7</u>
From discontinued operations (HK cents)	<u>0.6</u>	<u>0.2</u>	<u>1.2</u>

Note: The results of the Group for the year ended 31 December 2005 and 2006 were prepared in accordance to note 1 to the Financial Statements. The results for the year ended 31 December 2004 were extracted from the prospectus of the Company dated 22 March 2007.

HUMAN RESOURCES

As at the end of December 2006, the Group employed 173 staff (2005 : 161 staff) in its headquarters in Hong Kong and its principal subsidiaries.

Headcount by Territory



Human Resources Management

CITIC 1616 is an equal opportunity employer and adheres to non-discriminatory employment practices and procedures in recognizing and respecting individual's rights. Striving to administer a fair and consistent human resources management policy to the mutual benefit of its employees and the Group, it also upholds a high standard of business ethics and personal conduct of its employees. Every employee of the Group is required to strictly follow the Code of Conduct which covers the professional and technical standard of requirements in conducting business, and all heads of business units are charged with the responsibility of disseminating the Group's requirements to the people concerned.

Employee Compensation

CITIC 1616 aims to attract, retain and motivate employees who have the relevant skills, knowledge and competencies to develop, support and sustain the continued success of the Group. Employee's cash remuneration typically comprises a base salary and a variable compensation, mainly in the form of a performance-linked discretionary bonus which is based on the Company's result and the individual's performance. Its compensation strategy is to cultivate a pay-for-performance culture to incentivize and reward employee performance that will lead to a long-term enhancement of the overall caliber of the Group. On an annual basis, the Group review the cash compensation and benefit programmes provided for its employees to ensure that the total compensation is internally equitable, externally competitive, as well as in support of the Group's business strategy.

Remuneration Committee

The Remuneration Committee established on 16 March 2007, comprises three independent non-executive directors. Mr. Yang Xianzu is the Chairman of the Committee.

HUMAN RESOURCES

The primary duties of the Remuneration Committee are to make recommendations to the Board on the Group's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

Retirement Benefits

For the Hong Kong employees, the Group has set up the Mandatory Provident Fund Scheme (the "MPF Scheme"). Hong Kong based employees and the Group are required to contribute 5% of the relevant employee's monthly wage (up to a maximum contribution of HK\$1,000 by the Group) on a monthly basis to the fund, respectively. Employees may contribute more than 5% or HK\$1,000 into the fund. Prior to the establishment of the above statutorily required retirement scheme, the Group's employees are entitled to participate in the ORSO Scheme. A certain amount of employees have been members under both the ORSO Scheme and MPF Scheme. The ORSO Scheme has been frozen since 1 August 2003 and will eventually be dissolved by 1 August 2008 subject to the entire fund having been transferred out of the ORSO Plan.

Retirement benefit for employees in the mainland is based primarily on local mandatory requirements.

Training & Development

In relation to positions which require special skills and professional qualifications, the Group will provide special training and/or sponsor outside training sessions for the employees. Newly recruited employees are required to attend an introduction course covering topics including the Group's introduction, general employment terms & conditions, benefits, staff obligations, and spirit of team work. The Group also subscribes to periodic magazines relating to the telecoms industry for its employees so that the staff can keep abreast of technological developments in the telecoms industry.

The Group has adopted a sponsorship programme whereby employees may apply for a tuition sponsorship for studies relevant to their employment. The award of the sponsorship is at the sole discretion of the Group and the employee should comply with such conditions and terms imposed by the Group on the award of the sponsorship, including commitment to work for the Group for a pre-determined period after completion of the studies.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Shi Cuiming, aged 67, is the Chairman of the Company and he joined the Group in February 2004. Mr. Shi, a senior economist, graduated from the Department of Management Engineering at the Beijing Posts and Telecommunications College in 1963. From 1987 to 1997, Mr. Shi served as Director General of the Bureau of Finance, Director General of the Department of Operations and Finance and Director General of the Department of Finance of the Ministry of Posts and Telecommunications. From 1997 to early 1999, Mr. Shi served as Chairman of the Board of Directors of China Telecom (Hong Kong) Group Limited and Chairman of the Board of Directors and Chief Executive Officer of China Telecom (Hong Kong) Limited, later known as China Mobile (Hong Kong) Limited. Since early 1999, Mr. Shi served as an Executive Director and Vice President of the Unicom Group and was re-appointed as a Director in September 2000. Mr. Shi was appointed in April 2000 as an Executive Director and the Executive Vice President of China Unicom Limited until February 2004. Since February 2004, Mr. Shi has acted as the Chairman of CITIC Telecom 1616 Limited. Mr. Shi has over 40 years of experience in China's telecoms industry and he has extensive knowledge and experience in telecoms operations, finance and management.

Mr. Yuen Kee Tong, J.P. aged 58, is the Chief Executive Officer of the Company. Mr. Yuen is a member of the Association of Chartered Certified Accountants of United Kingdom and also a member of the Hong Kong Institute of Certified Accountants. He joined CITIC Pacific Limited ("CITIC Pacific") in 2001 as the Deputy Managing Director. Mr. Yuen resigned from the Board of CITIC Pacific on 8 January 2007 and assumed the position of director and Chief Executive Officer of the Company on the same day. Mr. Yuen has more than 20 years extensive experience in all aspects of telecoms industry. Mr. Yuen was the Deputy Chief Executive of Hong Kong Telecommunications Ltd. and later, Pacific Century CyberWorks Ltd. Mr. Yuen served many public bodies and advisory committees.

Dr. Li Bin, aged 39, is the Chief Operating Officer of the Company. He joined CITIC Pacific in January 2006 and was transferred to the Company in July 2006. Dr. Li obtained a Bachelor degree in Engineering of Industrial Electric Automation from Hua Zhong University of Science and Technology in China and also obtained a Master of Philosophy degree and a Doctor of Philosophy degree both in Electrical and Electronic Engineering from Hong Kong University of Science and Technology in Hong Kong. Dr. Li is a Senior Member of the Institute of Electrical and Electronic Engineer (IEEE) and in 2005, Dr. Li was selected in the list in Marquis Who's Who in Science and Engineering. Dr. Li previously worked in China Telecommunications Corporation and was the Executive Director and the Chief Executive Officer of China Motion Telecom International Limited. To date, Dr. Li has more than 15 years of experience in the telecoms industry.

Mr. Chan Tin Wai, David, aged 42, is the Chief Financial Officer of the Company and he joined the Company in June 2006. Mr. Chan obtained a LLB (Hons) degree and a Master degree of Law from the University of London in UK and a Master degree of Accounting from Curtin University in Australia. He is a member of the Institute of Chartered Accountants of England & Wales and also a Fellow member of the Association of Chartered Certified Accountants, the Institute of Chartered Secretary and Administrators, the Hong Kong Institute of Certified Public Accountants, the Taxation Institute of Hong Kong and the Hong Kong Institute of Chartered Secretaries. Mr. Chan worked in CITIC Pacific during the period from 1994 to

DIRECTORS AND SENIOR MANAGEMENT

2000. He had worked in several multi-national and Hong Kong blue chip companies and has over 19 years of experience in overseeing corporate finance, merger and acquisition activities, accounting, company secretarial, administration, human resources and legal matters.

Non-executive Directors

Mr. Lee Chung Hing, aged 53, has been a director of the Company since May 2000. Mr. Lee obtained a Bachelor degree in Social Science from the University of Hong Kong. Mr. Lee is the Deputy Managing Director of CITIC Pacific, the Chairman of Jiangyin Xingcheng Special Steel and Hubei Xin Yegang Co., Ltd., the Vice Chairman of CITIC Guoan Co., Ltd. (“CITIC Guoan”) and Air China Cargo Co., Ltd. and a director of Daye Special Steel Co., Ltd. and CP Mining Management Pty Limited. He joined CITIC Pacific in 1990.

Mr. Kwok Man Leung, aged 37, has been a director of the Company since May 2000. Mr. Kwok obtained a Master degree in Business Administration (EMBA) from the Chinese University of Hong Kong. He is a Chartered Financial Analyst. Mr. Kwok is the Director of Business Development Department of CITIC Pacific. He is also a director of Adaltis Inc., CITIC Guoan and New Hong Kong Tunnel Company Limited. He joined CITIC Pacific in 1993 after experience in sales and business development with a major Hong Kong listed company.

Independent non-executive Directors

***Mr. Yang Xianzu**, age 67, joined the Company as an Independent Non-Executive Director in March 2007. Mr. Yang, a senior engineer, graduated in 1965 from the Department of Telephone and Telegraph at the Wuhan College of Posts and Telecommunications. From 1990 to early 1999, Mr. Yang served as Vice Minister of the Ministry of Posts and Telecommunications and later as Vice Minister of the Ministry of Information Industry. In 1999, Mr. Yang was appointed Chairman of the Board of Directors and President of Unicom Group. During 2000 to August 2003, Mr. Yang was the Chairman of the Board of Directors and Chief Executive Officer of China Unicom Limited. Mr. Yang is currently a member of the Chinese People’s Political Consultative Conference, Vice-Chairman of China Commerce Association and China Entrepreneurs Association, Chairman of China Federation of Industrial Economics, Head of Strategic Development Consultation Committee of China Unicom, an external director of Shanghai Baosteel Group and China Electronics Corporation appointed by the State-owned Assets Supervision and Administration Commission, and an independent director of Dongfeng Motor Group Company Limited and China Wireless Technologies Limited.

***Mr. Liu Li Qing**, aged 66, joined the Company as an Independent Non-Executive Director in March 2007. Mr. Liu, a senior economist, graduated from Management Engineering in Beijing University of Posts and Telecommunications in 1963. Mr. Liu served as a Vice Minister of Ministry of Posts and Telecommunications from 1996 to 1998 and the Head of State Postal Bureau from March 1998 to April 2003. Mr. Liu is currently the Chairman of Sino French Life Insurance Company, a member of the Chinese People’s Political Consultative Conference (CPPCC), a Deputy Director of the Economic Committee of the CPPCC, and the Chairman of China Association of Communication Enterprises.

DIRECTORS AND SENIOR MANAGEMENT

*^Δ**Mr. Kwong Che Keung, Gordon**, aged 57, joined the Company as an Independent Non-Executive Director in March 2007. Mr. Kwong is also an Independent Non-executive Director of a number of companies listed on The Stock Exchange of Hong Kong Limited (“Stock Exchange”), including COSCO International Holdings Limited, Tianjin Development Holdings Limited, Beijing Capital International Airport Company Limited, Frasers Property (China) Limited, NWS Holdings Limited, China Oilfield Services Limited, Concepta Investments Limited, China Chengtong Development Group Limited, Global Digital Creations Holdings Limited, Ping An Insurance (Group) Company of China, Ltd., Quam Limited, TOM Online Inc., China Power International Development Limited, Henderson Land Development Company Limited, Henderson Investment Limited and Agile Property Holdings Limited. He has a Bachelor of Social Science degree from the University of Hong Kong and is a fellow member of the Institute of Chartered Accountants in England and Wales. From 1984 to 1998, Mr. Kwong was a partner of Price Waterhouse and was a council member of the Stock Exchange from 1992 to 1997.

* *Member of the Audit Committee*

^Δ *Member of the Remuneration Committee*

SENIOR MANAGEMENT

Mr. Yap Foo Loy, aged 44, is the Director of Commercial of the Company. He joined the Company in March 2003. Mr. Yap obtained a Bachelor degree in Mathematics and Computer Science in the University of Winsor in 1983 and a Master degree in Computer Science of the Simon Fraser University in 1989. Mr. Yap previously held senior position in the Nortel Networks Corporation during 1993 to 2003. To date, Mr. Yap has around 17 years of sales and operational experience in the telecoms industry.

Mr. Wong Chi Yin, Jimmy, aged 41, is the Director of Technical of the Company. He joined the Company in October 2005. Mr. Wong obtained a Bachelor of Science degree in Electrical Engineering from the University of Texas at Austin in 1988 and a Postgraduate Certificate of Multimedia and Internet Technology from the Open University of Hong Kong in 2004. Mr. Wong has been a member of The Institute of Engineering and Technology since 2005. Mr. Wong held various technical positions in Northern Telecom (Asia) Limited, Hong Kong Telecommunications Ltd., Hong Kong CSL Limited and Hutchison Telecommunications International Limited, during 1988 to 2005, responsible in overseeing the technical operations including the provision of mobile telephone services, 3G mobile multimedia services and fixed line communications. To date, Mr. Wong has around 18 years of operational experience in the telecoms industry.

Mr. Chan King Shing, Joseph, aged 45, is the Director of International Business of the Company. He joined the Company in March 2004 responsible for the international voice and data business. Before joining the Company, Mr. Chan held various senior positions in New World Telecommunications Limited, SUNDAY Communications Limited, Teleglobe Canada ULC and Hong Kong Telecommunications Ltd.. To date, Mr. Chan has over 20 years of operational experience in the telecoms industry.

Mr. Cheung Yuet Pun, aged 34, is the Director of Product Marketing of the Company. He joined the Company in February 2002. Mr. Cheung obtained a Bachelor of Science degree of Electrical Engineering from Queen’s University at Kingston, Canada in 1995. He was granted the Professional Engineer Licence of Ontario, Canada in 1999. Mr. Cheung previously worked in various departments within the Nortel Networks Corporation during 1996 to 2002. To date, Mr. Cheung has over 10 years of operational experience in the telecoms industry.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Leung Che Ming, aged 45, is the Director of Research and Development of the Company. He joined the Company in October 2003. Mr. Leung obtained a Master degree in Engineering Business Management of the University of Warwick in the United Kingdom in 1994. Mr. Leung was previously a director of Mini Micro Methods Limited. He started and operated his own company Advanced Telesoft Limited for software development from 1994 to 2003. To date, Mr. Leung has 20 years of operational and management experience in telecoms and technology development.

Mr. Ho Kai Leung, aged 48, is the Director of Network Operations of the Company. He joined the Company in April 2005. Mr. Ho obtained a Bachelor degree in Electronic Science of the Chinese University of Hong Kong in 1982 and a Master degree in Business Administration of the Hong Kong Polytechnic University in 1993. Mr. Ho has been a member of the Institute of Electrical Engineers and Chartered Engineer of the Engineering Council in the United Kingdom since 1988. Mr. Ho previously held various positions in Hong Kong Telecommunications Ltd., Hutchison Telecommunications International Limited and New World Telecommunications Limited, responsible in network operations, field installation and maintenance activities. To date, Mr. Ho has 20 years of operational experience in the telecoms industry.

Ms. Lee Yin Ming, Rosanna, aged 37, is the Associate Director of Finance of the Company. She joined the Company in January 2005. Prior to joining the Company, she worked in the Finance department of CITIC Pacific Group since April 1995 and Tse Sui Luen Jewellery Company Limited during 1992 to 1995. Ms. Lee is a member of the Association of Chartered Certificated Accountants in the United Kingdom and the Hong Kong Institute of Certified Public Accountants in Hong Kong. To date, Ms. Lee has around 14 years of experience in accounting and finance operations.

Mr. Lee Lik Keung, aged 34, is the Accounting Manager of the Company. Mr. Lee joined the Company in December 2003. Mr. Lee obtained a Bachelor degree in Business of the Monash University in Australia and a Master degree in Finance of the Curtin University of Technology in Australia. Mr. Lee is a Fellow member of the Association of Chartered Certificated Accountants in the United Kingdom and a member of the Hong Kong Institute of Certified Public Accountants in Hong Kong. From 1995 to 2003, he held various accounting positions in Moores Rowland and CITIC Pacific. To date, Mr. Lee has around 11 years of experience in accounting and finance operations.

DIRECTORS' REPORT

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2006.

Principal place of business

CITIC 1616 Holdings Limited (formerly World Navigation Limited, the "Company") is a company incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 8/F, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong.

Principal activity

The principal activity of the Company is the provision of international telecommunications services and investment holding. But the provision of international telecommunications services ceased during the year and the Company is now engaged in the provision of sales and marketing functions and investment holding.

Financial statements

The profit of the Company for the year ended 31 December 2006 and the state of the Company's affairs as at the date are set out in the financial statements on pages 33 to 71.

Dividend

An interim dividend of HK\$495,000 (2005: Nil) per share was paid to the shareholders on 29 December 2006. The directors do not recommend the payment of a final dividend for the year ended 31 December 2006 (2005: Nil).

Change of the Company's name

By a special resolution passed on 22 December 2006 and by a Certificate of Change of Name issued by the Registrar of Companies on 5 January 2007, the name of the Company was changed from World Navigation Limited 寶航有限公司 to CITIC 1616 Holdings Limited 中信1616集團有限公司.

Subsidiaries

Details of subsidiaries are set out in note 12 to the financial statements.

Reserves

Movement in the reserves of the Group and the Company during the year are set out in the Consolidated Statement of Changes in Equity on page 37.

Property, plant and equipment

The movements in property, plant and equipment are set out in note 11 to the financial statements.

DIRECTORS' REPORT

Directors

The directors who held office during the year and up to the date of this report were:

Mr Shi Cuiming	(appointed on 8 January 2007)
Mr Yuen Kee Tong	(appointed on 8 January 2007)
Dr Li Bin	(appointed on 8 January 2007)
Mr David Chan Tin Wai	(appointed on 8 January 2007)
Mr Lee Chung Hing	
Mr Kwok Man Leung	
Mr Peter Chan Kwong Choi	(resigned on 21 December 2006)
Ms Frances Yung Ming Fong	(resigned on 2 January 2007)

In accordance with Article 7 of the Company's Articles of Association, Messrs Shi Cuiming, Yuen Kee Tong, Li Bin, David Chan Tin Wai, Lee Chung Hing and Kwok Man Leung shall retire in the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Directors' interests in contracts of significance

No contract of significance in relation to the Company's business to which the Company, any of its holding companies, subsidiaries or fellow 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.

Arrangements for acquisition of shares or debentures

CITIC Pacific Limited ("CITIC Pacific"), the ultimate holding company of the Company, adopted the CITIC Pacific Share Incentive Plan 2000 ("the Plan") on 31 May 2000 under which the board of CITIC Pacific may invite any director, executive or employee of CITIC Pacific or any of its subsidiaries to subscribe for options over CITIC Pacific's shares. The following options were granted under the Plan:

Date of grant	Number of share options granted	Exercise price per share
28 May 2002	11,550,000	HK\$18.20
1 November 2004	12,780,000	HK\$19.90
20 June 2006	15,930,000	HK\$22.10

Mr Lee Chung Hing, Ms Frances Yung Ming Fong and Mr Kwok Man Leung, directors of the Company, had options subsisting as at 31 December 2006. Mr Kwok Man Leung had exercised part of his options during the year. The options that remained to be exercised by the above directors of the Company represented less than 1% of the issued share capital of CITIC Pacific as at 31 December 2006.

Apart from the above, at no time during the year was the Company, any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate.

DIRECTORS' REPORT

Management contracts

No contract of significance 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.

Auditors

The financial statements have been audited by KPMG who retire and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By Order of the Board

David Chan Tin Wai
Director

CITIC Secretaries Limited
Secretary

Hong Kong, 22 February 2007

INDEPENDENT AUDITOR'S REPORT



**Independent auditor's report to the shareholders of
CITIC 1616 Holdings Limited (formerly World Navigation Limited)**
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of CITIC 1616 Holdings Limited (formerly World Navigation Limited) (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 33 to 71 which comprise the consolidated and company balance sheets as at 31 December 2006, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

INDEPENDENT AUDITOR'S REPORT

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

22 February 2007

FINANCIAL STATEMENTS

Consolidated Income Statement

For the year ended 31 December 2006

	<i>Note</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Turnover	2	1,364,209	980,046
Other revenue	3	2,146	295
Other net loss	4	(211)	(931)
		1,366,144	979,410
Network, operations and support expenses	5(c)	(944,860)	(688,113)
Depreciation	5(c)	(72,449)	(67,551)
Staff costs	5(b)	(67,380)	(51,437)
Other operating expenses		(61,552)	(60,142)
		219,903	112,167
Profit from operations and before taxation	5	219,903	112,167
Income tax	6(a)	(38,095)	(18,130)
		181,808	94,037
Profit for the year from continuing operations		181,808	94,037
Discontinued operations	8		
Profit for the year from discontinued operations		19,710	3,744
		201,518	97,781
Profit for the year		201,518	97,781
Attributable to:			
Equity holders of the Company		201,518	97,806
Minority interests		—	(25)
		201,518	97,781
Dividends payable to equity holders of the Company attributable to the year:	9		
Interim dividend declared during the year		495,000	—
		495,000	—

The notes on pages 40 to 71 form part of these financial statements.

FINANCIAL STATEMENTS

Consolidated Balance Sheet

At 31 December 2006

	<i>Note</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	11	278,073	320,409
Non-current other receivables	14	37,891	26,910
Deferred tax assets	13(a)	7,478	5,288
		323,442	352,607
Current assets			
Trade and other receivables	14	459,701	331,872
Amount due from ultimate holding company	10(c)	—	253,240
Current tax recoverable	6(b)	277	16,284
Cash and cash equivalents	15	43,432	31,884
		503,410	633,280
Non-current assets and the assets of disposal group classified as held for sale	21	—	144,091
		503,410	777,371
Current liabilities			
Trade and other payables	16	373,061	284,668
Amount due to ultimate holding company	10(c)	2,237	—
Current tax payable	6(b)	41,187	10,391
		416,485	295,059
Liabilities directly associated with the assets of disposal group classified as held for sale	21	—	129,783
		416,485	424,842
Net current assets		86,925	352,529
Total assets less current liabilities		410,367	705,136

FINANCIAL STATEMENTS

Consolidated Balance Sheet (continued)

At 31 December 2006

	<i>Note</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Non-current liabilities			
Deferred tax liabilities	13(a)	37,450	38,737
		37,450	38,737
NET ASSETS		372,917	666,399
CAPITAL AND RESERVES			
Share capital	17(a)	1	2,001
Reserves		372,916	664,398
Total equity attributable to equity holders of the Company		372,917	666,399
Minority interests		—	—
TOTAL EQUITY		372,917	666,399

Approved and authorised for issue by the Board of Directors on 22 February 2007

Li Bin
Director

Chan Tin Wai, David
Director

The notes on pages 40 to 71 form part of these financial statements.

FINANCIAL STATEMENTS

Balance Sheet

At 31 December 2006

	<i>Note</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	11	10,365	18,629
Investments in subsidiaries	12	1	1
Deferred tax assets	13(a)	4,617	1,488
		14,983	20,118
		14,983	20,118
Current assets			
Trade and other receivables	14	9,535	82,122
Amounts due from subsidiaries	12	407,086	339,035
Amount due from ultimate holding company	10(c)	—	253,317
Current tax recoverable	6(b)	—	15,710
Cash and cash equivalents	15	14,068	10,233
		430,689	700,417
		430,689	700,417
Current liabilities			
Trade and other payables	16	25,036	36,071
Amounts due to subsidiaries	12	320,403	564,308
Amount due to ultimate holding company	10(c)	2,237	—
		347,676	600,379
		347,676	600,379
Net current assets		83,013	100,038
NET ASSETS		97,996	120,156
CAPITAL AND RESERVES			
Share capital	17(a)	1	2,001
Reserves	17(c)	97,995	118,155
		97,996	120,156
TOTAL EQUITY		97,996	120,156

Approved and authorised for issue by the Board of Directors on 22 February 2007

Li Bin
Director

Chan Tin Wai, David
Director

The notes on pages 40 to 71 form part of these financial statements.

FINANCIAL STATEMENTS

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

The Group

	Attributable to equity holders of the Company					Total HK\$'000		
	Share capital (Note 17(a)) HK\$'000	Capital redemption reserve (Note 17(b)) HK\$'000	Retained profits HK\$'000	Subtotal HK\$'000	Minority interests HK\$'000			
	At 1 January 2005	2,001	—	566,592	568,593		25	568,618
	Profit for the year	—	—	97,806	97,806		(25)	97,781
At 31 December 2005 and 1 January 2006	2,001	—	664,398	666,399	—	666,399		
Profit for the year	—	—	201,518	201,518	—	201,518		
Repurchase of shares	(2,000)	2,000	—	—	—	—		
Dividends approved and paid during the year	—	—	(495,000)	(495,000)	—	(495,000)		
At 31 December 2006	<u>1</u>	<u>2,000</u>	<u>370,916</u>	<u>372,917</u>	<u>—</u>	<u>372,917</u>		

The Company

	Share capital (Note 17(a)) HK\$'000	Capital redemption reserve (Note 17(b)) HK\$'000	Retained profits HK\$'000	Total HK\$'000	
	At 1 January 2005	2,001	—	131,932	133,933
	Loss for the year (note 17(c))	—	—	(13,777)	(13,777)
At 31 December 2005 and 1 January 2006	2,001	—	118,155	120,156	
Profit for the year (note 17(c))	—	—	472,840	472,840	
Repurchase of shares	(2,000)	2,000	—	—	
Dividends approved and paid during the year	—	—	(495,000)	(495,000)	
At 31 December 2006	<u>1</u>	<u>2,000</u>	<u>95,995</u>	<u>97,996</u>	

The notes on pages 40 to 71 form part of these financial statements.

FINANCIAL STATEMENTS

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	<i>Note</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Operating activities			
Profit before taxation		239,613	115,911
Adjustments for:			
— Surplus on revaluation of investment property	4	(23,000)	(11,000)
— Depreciation	5(c)	72,449	67,551
— Loss on disposal of other property, plant and equipment	4	37	617
— Finance costs	5(a)	5,499	11,141
— Interest income	3	(2,163)	(302)
Operating profit before changes in working capital		292,435	183,918
(Increase)/decrease in trade and other receivables		(138,655)	307,748
Increase/(decrease) in trade and other payables		91,724	(114,858)
Cash generated from operations		245,504	376,808
Hong Kong Profits Tax refunded		16,076	4,050
Hong Kong Profits Tax paid		(10,845)	(32,732)
Net cash generated from operating activities		250,735	348,126
Investing activities			
Interest received		2,163	302
Payment for purchase of property, plant and equipment		(33,315)	(54,005)
Proceeds from sales of property, plant and equipment		16	12
Net inflow from disposal of discontinued operations	20	160,318	—
Net cash generated from/(used in) investing activities		129,182	(53,691)

FINANCIAL STATEMENTS

Consolidated Cash Flow Statement (continued)

For the year ended 31 December 2006

	<i>Note</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Financing activities			
Interest paid		(5,499)	(11,141)
Loan from ultimate holding company		—	4,141
Loan repayment to ultimate holding company		(125,540)	—
Decrease/(increase) in amount due from ultimate holding company		255,465	(274,476)
Dividends paid to equity shareholders of the Company		(495,000)	—
Net cash used in financing activities		<u>(370,574)</u>	<u>(281,476)</u>
Net increase in cash and cash equivalents		9,343	12,959
Cash and cash equivalents at 1 January	15	<u>34,089</u>	<u>21,130</u>
Cash and cash equivalents at 31 December	15	<u><u>43,432</u></u>	<u><u>34,089</u></u>

The notes on pages 40 to 71 form part of these financial statements.

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), and accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. The adoption of these new and revised HKFRSs did not result in significant changes to the Company’s accounting policies applied in these financial statements and has no impact on the profit for the year and net assets of the Group as at the balance sheet date.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 26).

(b) Basis of preparation

The consolidated financial statements for the year ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as the “Group”).

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the investment property are stated at their fair value as explained in the accounting policies set out below (see note 1(d)).

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell (see note 1(q)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 23.

(c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

FINANCIAL STATEMENTS

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheets within equity, separately from equity attributable to the equity holders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity holders of the Company.

Where losses applicable to the minority exceed the minority interests in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(g)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 1(q)).

(d) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(f)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 1(n)(iii).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease, and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 1(f).

(e) Other property, plant and equipment

Property, plant and equipment, other than investment property (see note 1(d)), are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(g)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour and an appropriate proportion of relevant overheads.

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is initially recognised in the balance sheet at cost.

Cost comprises direct cost at construction including the capitalisation of staff cost on the application development and equipment assembly on respective property, plant and equipment. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use. These costs which are not eligible for capitalisation under accounting standards, are recognised as expenses under staff costs in the period in which they are incurred.

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No depreciation is provided in respect of construction in progress. Upon completion and commissioning for operation, depreciation will be provided at the appropriate rates specified below.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

Telecommunications equipment	7 — 33%
Other assets	20 — 33%

Both the useful life of an asset and its residual value, if not insignificant, are reviewed annually.

(f) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases except for property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 1(d)).

(ii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(g) Impairment of assets

(i) Impairment of trade and other receivables

Current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

FINANCIAL STATEMENTS

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the property, plant and equipment (other than investment property) may be impaired or, an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the period in which the reversals are recognised.

(h) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(g)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(g)).

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(j) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

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(k) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share based payments

The fair value of share options granted to employees of the Group by the ultimate holding company, CITIC Pacific Limited under the CITIC Pacific Share Incentive Plan 2000 ("the Plan") is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at the grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On the vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the ultimate holding company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(l) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly to equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

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The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligations.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(n) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit or loss as follows:

(i) Provision of voice hubbing services and short message services

Revenue derived from provision of voice hubbing services and short message services is recognised, net of discounts, when an arrangement exists, service is rendered, the amount is fixed or reliably determinable, and collectibility is probable.

FINANCIAL STATEMENTS

(ii) Fees from the provision of other telecommunication services

Revenue from the provision of other telecommunication services are recognised when the service is rendered.

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

(v) Barter transactions

When goods or services are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a revenue generating transaction.

When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a revenue generating transaction. The revenue is measured at the fair value of the goods or services rendered, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

(o) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

(p) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred.

(q) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs when the operation is abandoned.

FINANCIAL STATEMENTS

Where an operation is classified as discontinued, a single amount is presented on the face of the income statement, which comprises:

- the post-tax profit or loss of the discontinued operation; and
- the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

(r) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(s) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals, or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(t) Deferred revenue

Deferred revenue represents the receipt in advance for the provision of maintenance and technical support services, which is amortised over the remaining service period based on the service pattern.

(u) Deferred expenditure

Deferred expenditure represents prepayment for an indefeasible right of use over the lease term, which prepayment is amortised over the lease term based on the estimated usage ratio.

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2. TURNOVER

The Group is principally engaged in the provision of international voice hubbing services, short message services, other telecommunication services and property leasing.

Turnover recognised during the year may be analysed as follows:

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Continuing operations —		
Fees from the provision of voice hubbing services	1,141,656	863,822
Fees from the provision of short message services	117,092	75,252
Fees from the provision of other telecommunication services	105,461	40,972
	1,364,209	980,046
Discontinued operations —		
Gross rental income from discontinued operations (<i>note 8</i>)	2,845	6,183
	1,367,054	986,229

The direct outgoings of the gross rental income from investment property for the year amounted to HK\$436,000 (2005: HK\$1,079,000).

3. OTHER REVENUE

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Continuing operations —		
Bank interest income	1,309	295
Other interest income	837	—
	2,146	295
Discontinued operations —		
Interest income (<i>note 8</i>)	17	7
	2,163	302

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4. OTHER NET (LOSS)/GAIN

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Continuing operations —		
Net loss on disposal of other property, plant and equipment	(37)	(617)
Net foreign exchange loss	<u>(174)</u>	<u>(314)</u>
	(211)	(931)
Discontinued operations —		
Surplus on revaluation of investment property (<i>note 8</i>)	<u>23,000</u>	<u>11,000</u>
	<u><u>22,789</u></u>	<u><u>10,069</u></u>

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
(a) Finance costs:		
Discontinued operations —		
Interest on loan from ultimate holding company (<i>note 8 and 10(a)</i>)	<u>5,499</u>	<u>11,141</u>
	<u><u>5,499</u></u>	<u><u>11,141</u></u>
(b) Staff costs:		
Continuing operations —		
Salaries, wages and other benefits	65,483	49,842
Contribution to defined contribution retirement plan	<u>1,897</u>	<u>1,595</u>
	<u>67,380</u>	<u>51,437</u>
Discontinued operations (<i>note 8</i>) —		
Salaries, wages and other benefits	293	752
Contribution to defined contribution retirement plan	<u>14</u>	<u>33</u>
	<u>307</u>	<u>785</u>
	<u><u>67,687</u></u>	<u><u>52,222</u></u>
(c) Other items:		
Continuing operations —		
Network, operations and support expenses, including:	944,860	688,113
— carrier costs	864,653	630,826
— operating leases — international leased circuits	46,130	49,234
— other telecommunications service costs	<u>34,077</u>	<u>8,053</u>
Depreciation	72,449	67,551
Impairment loss on trade and other receivables	3,879	2,599
Auditors' remuneration	410	333
Operating lease charges in respect of land and buildings	<u>9,131</u>	<u>7,403</u>

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6. INCOME TAX

(a) Income tax in the consolidated income statement represents:

Continuing operations —

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax — Hong Kong Profits Tax		
Provision for the year	39,807	17,933
Over-provision in respect of prior years	—	(58)
	39,807	17,875
	39,807	17,875
Current tax — Overseas		
Provision for the year	1,765	2,206
	1,765	2,206
	1,765	2,206
Deferred tax		
Origination and reversal of temporary differences	(3,477)	(1,951)
	(3,477)	(1,951)
	38,095	18,130

The provision for Hong Kong Profits Tax for 2006 is calculated at 17.5% (2005: 17.5%) of the estimated assessable profits for the year.

Overseas taxation has been calculated based on the estimated assessable profit during the year at the appropriate current rates of taxation ruling at the relevant countries in which the Group operates.

Reconciliation between actual tax expense and accounting profit at applicable tax rates:

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before taxation	239,613	115,911
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	41,932	20,284
Tax effect of different tax rate	706	882
Tax effect of non-taxable revenue and non-deductible expenses	(6,113)	(4,028)
Tax effect of unused tax losses not recognised	672	1,274
Over-provision in respect of prior years	—	(58)
Others	898	(224)
	38,095	18,130

Discontinued operations —

No provision for Hong Kong Profits Tax was made for the discontinued operations as the companies comprising the discontinued operations either have no assessable profit during the year or have unrelieved tax losses carried forward which are not likely to be crystallised in the future.

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(b) Income tax in the consolidated balance sheet represents:

	The Group		The Company	
	2006	2005	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Continuing operations —				
<u>Hong Kong Profits Tax</u>				
Provision for the year	39,807	17,933	—	—
Provisional Profits Tax paid	(4,991)	(15,084)	—	—
	<u>34,816</u>	<u>2,849</u>	<u>—</u>	<u>—</u>
Balance recoverable relating to prior years	(2,639)	(15,710)	—	(15,710)
	<u>32,177</u>	<u>(12,861)</u>	<u>—</u>	<u>(15,710)</u>
<u>Taxation outside Hong Kong</u>				
Provision for the year	1,765	2,206	—	—
Balance payable relating to prior years	6,968	4,762	—	—
	<u>8,733</u>	<u>6,968</u>	<u>—</u>	<u>—</u>
	<u>40,910</u>	<u>(5,893)</u>	<u>—</u>	<u>(15,710)</u>
Representing:				
— current tax recoverable	(277)	(16,284)	—	(15,710)
— current tax payable	41,187	10,391	—	—
	<u>40,910</u>	<u>(5,893)</u>	<u>—</u>	<u>(15,710)</u>

(c) During the year, the Company had outstanding tax assessments in respect of prior years not yet agreed by the Hong Kong Inland Revenue Department ("IRD"). These assessments were subsequently agreed by the IRD and the balance of HK\$15,710,000 was refunded during the year ended 31 December 2006.

7. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, allowances and benefits	211	272
Retirement scheme contributions	1	—
Discretionary bonus	3,000	—
	<u>3,212</u>	<u>272</u>

A number of the Company's directors were granted share options of CITIC Pacific Limited, its ultimate holding company. Details of the share options plan are set out in note 22.

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8. DISCONTINUED OPERATIONS

In June 2006, the Group's properties leasing operations were discontinued following the disposal of two subsidiaries, namely Crown Gain Limited and Wise Guide Development Limited (collectively known as "Crown Gain Group") to a wholly owned subsidiary of CITIC Pacific Limited at the carrying value. There is no gain or loss on disposal.

The results of the discontinued operations for the year ended 31 December 2006 were as follows:

	<i>Note</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Turnover — rental income	2	2,845	6,183
Other revenue	3	17	7
Other net gain	4 & 11	23,000	11,000
Staff costs	5(b)	(307)	(785)
Other operating expenses		(346)	(1,520)
Profit from operations		25,209	14,885
Finance costs	5(a)	(5,499)	(11,141)
Profit before taxation	5	19,710	3,744
Income tax	6(a)	—	—
Profit for the year		19,710	3,744

9. DIVIDENDS

Dividends attributable to the year

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Interim dividend declared and paid of HK\$495,000 (2005: HK\$ Nil) per share	495,000	—

10. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in the financial statements, the Group entered into the following material related party transactions.

Name of party	Relationship
CITIC Pacific Limited	Ultimate holding company
CITIC Pacific Communications Limited ("CPC")	Intermediate holding company
CPCNet Hong Kong Limited ("CPCNet")	Fellow subsidiary
CPCNet Macau Limited ("CPCNet Macau")	Previously a 55% associate and currently an 85% fellow subsidiary
Companhia de Telecomunicacoes de Macau S.A.R.L. ("CTM")	A 20% associate of CITIC Pacific Limited
Goldon Investment Limited	A 40% associate of CITIC Pacific Limited
HKIX Hong Kong Limited	A minority shareholder of Asia Pacific Internet Exchange Limited

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Particulars of significant transactions between the Group and the above related parties during the year are as follows:

(a) Recurring transactions

	<i>Note</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Telecommunications services and related income from:			
– CTM		4,826	2,254
– CPCNet Macau		1,349	751
– CPCNet		927	777
– CPC		<u>14</u>	<u>735</u>
Telecommunications service expenses to CTM		<u>3,130</u>	<u>1,446</u>
Circuits operating lease charges payable to CTM		<u>827</u>	<u>620</u>
Management fee payable to CITIC Pacific Limited	<i>(i)</i>	<u>16,421</u>	<u>27,684</u>
Interest on other loans from CITIC Pacific Limited (<i>note 5(a) and 8</i>)		<u>5,499</u>	<u>11,141</u>
Operating leases charges and building management fee payable to Goldon Investment Limited	<i>(ii)</i>	<u>12,029</u>	<u>11,181</u>
Management fee paid to a wholly-owned subsidiary of HKIX Hong Kong Ltd		<u>1,000</u>	<u>1,000</u>

Notes:

- (i) Management fees were paid/payable to the ultimate holding company for the provision of financial and administrative services.
- (ii) Goldon Investment Limited, leases a property in Hong Kong to the Group under an operating lease. The amount represents the leases charges and building management fees paid to Goldon Investment Limited.

(b) Non-recurring transactions

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
A wholly owned subsidiary of CITIC Pacific Limited Disposal of Crown Gain Group (<i>note 20</i>)	<u>162,051</u>	<u>–</u>

(c) Amount due(to)/from ultimate holding company

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
The Group		
CITIC Pacific Limited:		
Continuing operations	(2,237)	253,240
Discontinued operations (<i>note 21</i>)	<u>–</u>	<u>(125,552)</u>
	<u>(2,237)</u>	<u>127,688</u>
The Company		
CITIC Pacific Limited	<u>(2,237)</u>	<u>253,317</u>

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The above related party balances are principally resulted from the Group's participation in a cash management arrangement at the direction and discretion of CITIC Pacific Limited. Under the arrangement, the companies periodically both transfer cash to and receive cash from certain related parties. These cash flows are related to the provision of the Group's telecommunication services and do not stem from transactions or other events that enter into the determination of the Group's net income. For purposes of the consolidated statements of cash flows, management has concluded that the cash inflows and outflows under this related party financing arrangement should be presented under "cash flows from financing activities" because the predominant source of the related cash flows is the result of CITIC Pacific Limited's cash management with the objective to provide each entity within the related party group, including the Company, the necessary cash resources on an as-needed basis. The advances of the Group's excess cash, if any, are non-interest bearing and represent in substance cash financing transactions within the related party group at the discretion of CITIC Pacific Limited.

Of the above balance, a loan from CITIC Pacific Limited amounted to HK\$125,552,000 as at 31 December 2005 which carried interest at the prevailing market rates.

(d) Trade receivables/(trade payables)

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amount due from/(to) CTM included in		
Trade receivables	1,359	507
Trade payables	<u>(873)</u>	<u>(391)</u>
	<u>486</u>	<u>116</u>
Trade receivables due from:		
CPCNet	263	396
CPCNet Macau	<u>1,524</u>	<u>350</u>

The amount due from/(to) related parties are under normal trading terms.

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11. PROPERTY, PLANT AND EQUIPMENT

The Group

Cost/Valuation:

	Tele- communications equipment <i>HK\$'000</i>	Other assets <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Continuing operations <i>HK\$'000</i>	Discontinued operations — Investment property <i>HK\$'000</i>	Total assets <i>HK\$'000</i>
At 1 January 2005	457,628	41,101	33,618	532,347	130,000	662,347
Additions	19,276	5,317	22,967	47,560	—	47,560
Disposals	(702)	(10)	—	(712)	—	(712)
Reclassification	26,702	662	(27,364)	—	—	—
Fair value adjustment (<i>note 8</i>)	—	—	—	—	11,000	11,000
	<u>502,904</u>	<u>47,070</u>	<u>29,221</u>	<u>579,195</u>	<u>141,000</u>	<u>720,195</u>
At 31 December 2005	<u>502,904</u>	<u>47,070</u>	<u>29,221</u>	<u>579,195</u>	<u>141,000</u>	<u>720,195</u>
Representing:						
Cost	502,904	47,070	29,221	579,195	—	579,195
Valuation — 2005	—	—	—	—	141,000	141,000
	<u>502,904</u>	<u>47,070</u>	<u>29,221</u>	<u>579,195</u>	<u>141,000</u>	<u>720,195</u>
At 1 January 2006	502,904	47,070	29,221	579,195	141,000	720,195
Additions	—	1,809	28,357	30,166	—	30,166
Disposals						
— through disposal of subsidiaries	—	—	—	—	(164,000)	(164,000)
— others	—	(133)	—	(133)	—	(133)
Reclassification	38,991	2,132	(41,123)	—	—	—
Fair value adjustment (<i>note 8</i>)	—	—	—	—	23,000	23,000
	<u>541,895</u>	<u>50,878</u>	<u>16,455</u>	<u>609,228</u>	<u>—</u>	<u>609,228</u>
At 31 December 2006	<u>541,895</u>	<u>50,878</u>	<u>16,455</u>	<u>609,228</u>	<u>—</u>	<u>609,228</u>
Representing:						
Cost	541,895	50,878	16,455	609,228	—	609,228
Valuation — 2006	—	—	—	—	—	—
	<u>541,895</u>	<u>50,878</u>	<u>16,455</u>	<u>609,228</u>	<u>—</u>	<u>609,228</u>

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	Tele-communications equipment <i>HK\$'000</i>	Other assets <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Continuing operations <i>HK\$'000</i>	Discontinued operations — Investment property <i>HK\$'000</i>	Total assets <i>HK\$'000</i>
Accumulated depreciation:						
At 1 January 2005	178,960	12,358	—	191,318	—	191,318
Charge for the year	57,473	10,078	—	67,551	—	67,551
Written back on disposals	(82)	(1)	—	(83)	—	(83)
	<u>236,351</u>	<u>22,435</u>	<u>—</u>	<u>258,786</u>	<u>—</u>	<u>258,786</u>
At 31 December 2005	<u>236,351</u>	<u>22,435</u>	<u>—</u>	<u>258,786</u>	<u>—</u>	<u>258,786</u>
At 1 January 2006	236,351	22,435	—	258,786	—	258,786
Charge for the year	62,352	10,097	—	72,449	—	72,449
Written back on disposals	—	(80)	—	(80)	—	(80)
	<u>298,703</u>	<u>32,452</u>	<u>—</u>	<u>331,155</u>	<u>—</u>	<u>331,155</u>
At 31 December 2006	<u>298,703</u>	<u>32,452</u>	<u>—</u>	<u>331,155</u>	<u>—</u>	<u>331,155</u>
Net book value:						
At 31 December 2006	<u>243,192</u>	<u>18,426</u>	<u>16,455</u>	<u>278,073</u>	<u>—</u>	<u>278,073</u>
At 31 December 2005	<u>266,553</u>	<u>24,635</u>	<u>29,221</u>	<u>320,409</u>	<u>141,000</u>	<u>461,409</u>
The Company						
						Other assets <i>HK\$'000</i>
Cost:						
At 1 January 2005						39,192
Additions						6
Disposals						(10)
						<u>39,188</u>
At 31 December 2005 and 1 January 2006						<u>39,188</u>
Disposals						(120)
						<u>39,068</u>
At 31 December 2006						<u>39,068</u>
Accumulated depreciation:						
At 1 January 2005						11,446
Charge for the year						9,114
Written back on disposals						(1)
						<u>20,559</u>
At 31 December 2005 and 1 January 2006						<u>20,559</u>
Charge for the year						8,222
Written back on disposals						(78)
						<u>28,703</u>
At 31 December 2006						<u>28,703</u>
Net book value:						
At 31 December 2006						<u>10,365</u>
At 31 December 2005						<u>18,629</u>

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Notes:

- (i) The investment property of the Group, Honest Motor Building, No. 9-11 Leighton Road, Causeway Bay, Hong Kong, was revaluated at 31 December 2005 by an independent firm of surveyors, Knight Frank, who have among their staff Fellows of the Hong Kong Institute of Surveyors, on an open market value basis.
- (ii) The Group leased out investment property under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

The Group's total minimum lease payments under non-cancellable operating leases are receivable as follows:

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 year	—	5,655
After 1 year but within 5 years	—	3,401
	—	9,056
	—	9,056

- (iii) The investment property is held under long-term lease in Hong Kong.
- (iv) Other assets included electronic data processing equipment ("EDP equipment"), furniture and fixtures, motor vehicles and office equipment.

12. INTERESTS IN SUBSIDIARIES

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	1	1
Amounts due from subsidiaries	407,086	339,035
	407,087	339,036
Amounts due to subsidiaries	(320,403)	(564,308)
	86,684	(225,272)

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed repayment terms.

At 31 December 2006, the Company had direct or indirect interests in the following subsidiaries, all of which are private companies, particulars of which are set out below:

Name of company	Place of incorporation/ operation	Principal activities	Percentage of equity attributable to the Company		Issued and fully paid-up capital*
			Direct	Indirect	
Amazing Gains Finance Limited	British Virgin Islands	Provision of leasing services	—	100%	US\$1
Asia Pacific Internet Exchange Limited	Hong Kong	Provision of financial and operational support to HKIX ¹	—	75%	HK\$100,000
CITIC Concept 1616 Limited	Hong Kong	Provision of systems integration services	—	100%	HK\$2

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Name of company	Place of incorporation/ operation	Principal activities	Percentage of equity attributable to the Company		Issued and fully paid-up capital*
			Direct	Indirect	
CITIC Consultancy 1616 Limited	Hong Kong	Provision of telecommunications consultancy services in Hong Kong	—	100%	HK\$2
CITIC Data 1616 Limited	Hong Kong	Provision of data services in Hong Kong	—	100%	HK\$2
CITIC Media 1616 Limited	Hong Kong	Provision of content services to licensed telecoms operators in Hong Kong	—	100%	HK\$1
CITIC Networks 1616 Limited	Hong Kong	Provision of systems integration services	—	100%	HK\$2
CITIC Telecom 1616 Limited	Hong Kong	Provision of licensed telecommunications services in Hong Kong	100%	—	HK\$2
CITIC TeleSoft 1616 Limited	Hong Kong	Provision of systems integration services	—	100%	HK\$2
Crown Yield (HK) Limited	Hong Kong	Provision of leasing services	—	100%	HK\$2
Data Communication Services Limited	Hong Kong	Equipment holding	100%	—	HK\$1,000 HK\$38,000,000#
Delight Way Holdings Inc.	British Virgin Islands	Investment holding	—	100%	US\$1
Fasini Corp.	British Virgin Islands/ Hong Kong	Provision of financing	—	100%	US\$1
Grand Aim Technologies Limited	British Virgin Islands	Investment holding	—	100%	US\$1
Grand Formosa Holdings Inc.	British Virgin Islands	Investment holding	—	100%	US\$1
Hen Fai Engineering Networks Company Limited	Hong Kong	Provision of field engineering services	—	100%	HK\$2
Joy Trend Holdings Inc.	British Virgin Islands	Investment holding	—	100%	US\$1

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Name of company	Place of incorporation/ operation	Principal activities	Percentage of equity attributable to the Company		Issued and fully paid-up capital*
			Direct	Indirect	
Logic Way Holdings Inc.	British Virgin Islands	Investment holding	100%	—	US\$1
Pacific Choice International Limited	British Virgin Islands	Investment holding	100%	—	US\$1
Smart Legend Co. Ltd.	British Virgin Islands	Investment holding	—	100%	US\$1
Unique Star Holdings Inc.	British Virgin Islands	Investment holding	—	100%	US\$1
World Navigation (BVI) Ltd.	British Virgin Islands/ Hong Kong	Provision of sales and marketing functions	100%	—	US\$1

* Represented ordinary shares, unless otherwise stated.

Non-voting deferred shares — the rights, privileges and restrictions of which are set out in the Articles of Association of Data Communication Services Limited.

¹ Hong Kong Internet Exchange (“HKIX”) is an exchange point providing mainly interconnection amongst internet access providers in Hong Kong.

13. DEFERRED TAXATION

(a) Deferred tax assets and liabilities recognised — continuing operations

The components of deferred tax (assets)/liabilities recognised in the balance sheet and the movements during the year are as follows:

The Group

	Depreciation allowances in excess of the related depreciation <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2005	43,501	(8,101)	35,400
(Credited)/charged to consolidated income statement	<u>(2,199)</u>	<u>248</u>	<u>(1,951)</u>
At 31 December 2005	<u>41,302</u>	<u>(7,853)</u>	<u>33,449</u>
At 1 January 2006	41,302	(7,853)	33,449
Credited to consolidated income statement	<u>(2,707)</u>	<u>(770)</u>	<u>(3,477)</u>
At 31 December 2006	<u>38,595</u>	<u>(8,623)</u>	<u>29,972</u>

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	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Represented by:		
Deferred tax assets	(7,478)	(5,288)
Deferred tax liabilities	37,450	38,737
	<u>29,972</u>	<u>33,449</u>

The components of deferred tax (assets)/liabilities recognised in the balance sheet and the movements during the year are as follows:

The Company

	Depreciation allowances in excess of the related depreciation	Tax losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2005	3,960	(15)	3,945
Credited to income statement	(1,507)	(3,926)	(5,433)
At 31 December 2005	<u>2,453</u>	<u>(3,941)</u>	<u>(1,488)</u>
At 1 January 2006	2,453	(3,941)	(1,488)
Credited to income statement	(1,367)	(1,762)	(3,129)
At 31 December 2006	<u>1,086</u>	<u>(5,703)</u>	<u>(4,617)</u>

(b) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(l), the Group has not recognised deferred tax assets in respect of the following cumulative tax losses as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under the current tax legislation.

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Deferred tax assets in respect of cumulative tax losses not recognised		
Discontinued operations	—	89,764
	<u>—</u>	<u>89,764</u>

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14. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2006	2005	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade debtors	423,634	278,071	—	75,321
Other receivables, prepayments and deposits	73,958	80,711	9,535	6,801
	<u>497,592</u>	<u>358,782</u>	<u>9,535</u>	<u>82,122</u>
Continuing operations	497,592	358,782	9,535	82,122
Discontinued operations	—	886		
	<u>497,592</u>	<u>359,668</u>		
Represented by:				
Continuing operations				
– Non-current portion	37,891	26,910	—	—
– Current portion	459,701	331,872	9,535	82,122
	<u>497,592</u>	<u>358,782</u>	<u>9,535</u>	<u>82,122</u>
Discontinued operations	—	886		
	<u>497,592</u>	<u>359,668</u>		

All of the current trade and other receivables are expected to be recovered within one year except for utility, rental and other deposits at 31 December 2006 amounted to HK\$12,270,000 (2005: HK\$9,597,000) (the Company: 2006: HK\$6,132,000; and 2005: HK\$3,459,000) included in other receivables will not be recovered within a year.

The Group's credit policy is set out in note 19(a).

During the year the Group is under agreement with an independent third party to provide outsourcing services for a period from 2002 to 2010 for an agreed consideration. At the same time, the Group entered into another agreement with the same party for the right to use the capacity of 3 STM-1 channels ("STMs") during the period from 2002 to 2018 at the same consideration as the first agreement. Both parties must fulfil the terms of both agreements, any default from either party could render the other agreement ineffective.

The directors of the Group made an assessment of the above transactions and concluded that they are an exchange of dissimilar assets, the income from their outsourcing activities are included in turnover and the operating lease expense from the use of the STMs are included in network, operations and support expenses.

The remaining net balance of HK\$27,300,000 (2005: HK\$26,910,000) of the deferred revenue and deferred expenditure is included in other receivables.

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Included in trade and other receivables are trade debtors (net of impairment losses for bad and doubtful debts) with the following ageing analysis as of the balance sheet date:

	The Group		The Company	
	2006	2005	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 year	411,488	253,134	—	75,078
Over 1 year	12,146	24,937	—	243
	<u>423,634</u>	<u>278,071</u>	<u>—</u>	<u>75,321</u>

Included in trade and other receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2006	2005	2006	2005
	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>
United States dollars	<u>US\$53,455</u>	<u>US\$34,363</u>	<u>US\$—</u>	<u>US\$9,657</u>

15. CASH AND CASH EQUIVALENTS

	The Group	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Continuing operations	43,432	31,884
Discontinued operations	—	2,205
	<u>43,432</u>	<u>34,089</u>

Included in cash and cash equivalents are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2006	2005	2006	2005
	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>
United States dollars	US\$4,124	US\$1,579	US\$1,399	US\$640
Renminbi	<u>RMB1,126</u>	<u>RMB331</u>	<u>RMB—</u>	<u>RMB—</u>

16. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2006	2005	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade creditors	329,739	240,774	2,016	18,896
Other payables and accruals	43,322	43,894	23,020	17,175
	<u>373,061</u>	<u>284,668</u>	<u>25,036</u>	<u>36,071</u>
Continuing operations	373,061	284,668	25,036	36,071
Discontinued operations	—	4,231	—	—
	<u>373,061</u>	<u>288,899</u>	<u>—</u>	<u>—</u>

All of the trade and other payables are expected to be recovered within one year.

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Included in trade and other payables are trade creditors with the following ageing analysis as of the balance sheet date. The credit periods granted by various suppliers range from 7 days to 180 days.

	The Group		The Company	
	2006	2005	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 year	279,451	197,771	40	17,303
Over 1 year	50,288	43,003	1,976	1,593
	<u>329,739</u>	<u>240,774</u>	<u>2,016</u>	<u>18,896</u>

Included in trade and other payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2006	2005	2006	2005
	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>
United States dollars	<u>US\$40,206</u>	<u>US\$29,224</u>	<u>US\$206</u>	<u>US\$2,138</u>

17. CAPITAL AND RESERVES

(a) Authorised and issued share capital

	The Group and the Company	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Authorised:		
1,000 ordinary shares of HK\$1 each	1	1
2,000,000 non-voting deferred shares of HK\$1 each	2,000	2,000
	<u>2,001</u>	<u>2,001</u>
Issued and fully paid:		
1,000 ordinary shares of HK\$1 each	1	1
2,000,000 non-voting deferred shares of HK\$1 each	—	2,000
	<u>1</u>	<u>2,001</u>

Non-voting deferred shares will not share the profits of the Company and in the case of the winding up or return of assets of the Company, the first HK\$100,000,000,000,000 billion shall be distributed to the holders of ordinary shares with the remainder of the assets being one half to be distributed among the holders of ordinary shares and the other half to be distributed among the holders of non-voting deferred shares.

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On 2 August 2006, the Company repurchased 2,000,000 non-voting deferred shares of HK\$1 each for a total consideration of HK\$40 and the non-voting deferred shares were then cancelled. The purpose of the repurchase was to ensure that the Company had only one class of shares prior to being listed.

Holders of ordinary shares are entitled to receive dividends as declared from time to time and every member present in person shall have one vote on a show of hands or one vote per share on a poll at general meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(b) Capital redemption reserve

Capital redemption reserve represents the nominal value of the shares repurchased which has paid out of the distributable reserves of the Company.

(c) Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes losses of HK\$11,532,000 and HK\$17,160,000 for the years ended 31 December 2005 and 2006 which have been dealt with in the financial statements of the Company respectively.

Reconciliation of the above amount to the Company's profit/(loss) for the year:

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amount of consolidated profit attributable to equity shareholders dealt with in the Company's financial statements	(17,160)	(11,532)
Interim dividends from subsidiaries attributable to the profit of the year, approved and paid during the year	490,000	—
Company's profit/(loss) for the year	472,840	(11,532)

18. COMMITMENTS AND CONTINGENCIES

(a) Capital commitments

Capital commitments of the Group outstanding at balance sheet date not provided for in the financial statements were as follows:

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted for	23,769	5,765
Authorised but not contracted for	17,440	—

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(b) Commitments under operating leases

- (i) The total future minimum lease payments under non-cancellable operating leases relating to land and buildings and other assets were payable as follows:

Land and buildings

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 year	21,816	8,045
After 1 year but within 5 years	40,508	32,002
	62,324	40,047

International leased circuits

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 year	14,547	16,084
After 1 year but within 5 years	51,801	56,472
After 5 years	19,068	29,381
	85,416	101,937

- (ii) The Group leases a number of international leased circuits under operating leases. The total future minimum lease payments expected to be received under non-cancellable leases are as follows:

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 year	10,353	9,475
After 1 year but within 5 years	1,322	4,368
	11,675	13,843

19. FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 7 to 180 days from the date of billing. Debtors with balances over 1 year are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

A significant portion of the Group's telecommunication services are provided to customers in the People's Republic of China (the "PRC"). As at 31 December 2005 and 2006, the balance due from these PRC customers amounted to HK\$105,759,000 and HK\$196,666,000 respectively. The credit risk exposure to these PRC customers and the remaining trade receivables balance has been monitored by the Group on an ongoing basis and the impairment loss on bad and doubtful debts have been within management's expectations.

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The Group has a certain concentration of credit risk of the total trade and other receivables due from the Group's largest trade debtor and the five largest trade debtors as follows:

	2006	2005
	%	%
Due from the Group's largest trade debtor	20	25
Due from the Group's five largest trade debtors	50	46

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

(c) Interest rate risk

The Group's exposure to market risk for changes in interest rate relates primarily to the Group's cash and cash equivalents and amount due to ultimate holding company. The interest rates and terms of repayment of the interest-bearing portion of amount due to ultimate holding company are disclosed in note 10(c).

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier.

	2006		2005	
	Effective	One	Effective	One
	interest rate %	year or less HK\$'000	interest rate %	year or less HK\$'000
Repricing dates for assets/(liabilities) which reprice before maturity				
Cash and cash equivalents	1.27%	43,432	1.09%	34,089
Loan from ultimate holding company	—	—	9.62%	(125,552)
		43,432		(91,463)

(d) Foreign currency risk

The Group's reporting currency is Hong Kong dollar ("HKD").

The Group mainly transacts in United States dollars and the telecommunication services provided to PRC customers represent a significant portion of the Group's turnover. The operating currency of these PRC customers is mainly Renminbi, which is not freely convertible into foreign currencies. On 1 January 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange quoted by the People's Bank of China ("PBOC"). However, the unification of the exchange rate does not imply convertibility of Renminbi into other foreign currencies. All foreign exchange transactions continue to take place either through the PBOC or other institutions authorised to buy and sell foreign currencies. Approval of foreign currency payments, including remittances of dividends, by the PBOC or other institutions requires submitting a payment application form together with relevant supporting documents.

The Group's other assets, liabilities and transactions were primarily denominated either in Hong Kong dollars or United States dollars. As the exchange rates of these currencies were relatively stable during the year, the management considered that the Group was not exposed to significant foreign currency risk.

(e) Fair values

The fair values of all financial assets and liabilities are not materially different from their carrying amounts.

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20. DISPOSAL OF SUBSIDIARIES

The Group disposed of two subsidiaries related to properties leasing business to a wholly owned subsidiary of CITIC Pacific Limited in June 2006 at the carrying value and the fair value of HK\$162,051,000. There is no gain or loss on disposal.

The disposal had the following effect on the Group's assets and liabilities:

Net assets disposed

	<i>HK\$'000</i>
Property, plant and equipment	164,000
Trade and other receivables	731
Cash and cash equivalents	1,733
Trade and other payables	<u>(4,413)</u>
 Total consideration	 <u>162,051</u>
 Satisfied by	
Cash	<u>162,051</u>
 Analysis of net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	
Cash and cash equivalents disposed	(1,733)
Cash consideration received	<u>162,051</u>
	<u>160,318</u>

21. ASSETS CLASSIFIED AS HELD FOR SALE

The directors resolved to dispose of the Group's interest in properties leasing operation to a wholly owned subsidiary of CITIC Pacific Limited. The assets and liabilities attributable to the operation had been classified as a disposal group held for sale and are presented separately in the consolidated balance sheet.

The net assets of the discontinued operations as at the balance sheet dates were as follows:

	2005 <i>HK\$'000</i>
Investment properties	141,000
Trade and other receivables	886
Cash and cash equivalents	<u>2,205</u>
 Total assets	 <u>144,091</u>
 Trade and other payables	 (4,231)
Loan from ultimate holding company (<i>note 10(c)</i>)	<u>(125,552)</u>
 Total liabilities	 <u>(129,783)</u>
 Net assets	 <u>14,308</u>

FINANCIAL STATEMENTS

The net assets of the discontinued operations as at the date of discontinuance were as follows:

	<i>HK\$'000</i>
Total assets	166,464
Total liabilities	<u>(132,452)</u>
Net assets	<u><u>34,012</u></u>

The cash flows of the discontinued operations for the period/year were as follows:

	1 June 2006	31 December 2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash from operating activities	2,511	5,285
Net cash from investing activities	17	7
Net cash used in financing activities	<u>(3,000)</u>	<u>(7,000)</u>
Decrease in cash and cash equivalents	<u><u>(472)</u></u>	<u><u>(1,708)</u></u>

22. EQUITY SHARE-BASED TRANSACTIONS

CITIC Pacific Limited, the ultimate holding company of the Company, adopted the CITIC Pacific Share Incentive Plan 2000 ("the Plan") on 31 May 2000 under which the board of directors of CITIC Pacific Limited may invite any director, executive or employee of CITIC Pacific Limited or any of its subsidiaries to subscribe for options over CITIC Pacific Limited shares.

Since adoption of the Plan, CITIC Pacific Limited has granted three lots of share options on 28 May 2002, 1 November 2004 and 20 June 2006 respectively. The options that remained to be exercised by the directors, executive or employee of the Company as at 31 December 2006 are as follows:

No. of Options	Exercise Price
1,200,000	HK\$18.20
1,550,000	HK\$19.90
2,400,000	HK\$22.10

All options granted and accepted can be exercised in whole or in part within 5 years from the date of grant.

The share options granted to the Company's directors are in respect of their services to CITIC Pacific Limited as a whole. No charge for these share options have been recognised in these financial statements (note 1(k)(ii)).

(a) The terms and conditions of the share options granted to an executive (other than non-executive directors) in respect of his services rendered to the Group during 2005 and 2006 are as follows, whereby all options are settled by physical delivery of shares:

	Number of options	Exercise period	Date of expiry
Options granted:			
— 20 June 2006	<u><u>200,000</u></u>	From 20 June 2006 to 19 June 2011	5 years from the date of grant

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- (b) The number and weighted average exercise prices of share options granted to the executive (other than non-executive directors) in respect of his services rendered to the Group are as follows:

	2006		2005	
	Weighted Average Exercise price	Number of Options '000	Weighted Average Exercise price	Number of Options '000
Outstanding at the beginning of the period	—	—	—	—
Granted during the period	HK\$22.10	200	—	—
Outstanding at the end of the period	HK\$22.10	<u>200</u>	—	<u>—</u>
Exercisable at the end of the period	HK\$22.10	<u>200</u>	—	<u>—</u>

The options outstanding at 31 December 2006 had an exercise price of HK\$22.10 and an average remaining contractual life of 4.5 years.

(c) **Fair value of share options and assumptions**

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The executive of the Company (other than the non-executive directors) was granted share options on 20 June 2006 in respect of his services rendered to the Group.

The fair value of an option on one CITIC Pacific Limited share granted in the current period measured as at the date of grant of 20 June 2006 was HK\$3.92 based on the following assumptions using the Binomial Model:

- Taking into account the probability of early exercise behaviour, the average expected term of the grant was determined to be 3.93 years
- Expected volatility of CITIC Pacific Limited's share price at 25% per annum (based on historical movements of share prices over last 4 years)
- Expected annual dividend yield of 5% (based on historical dividend payments)
- Rate of eligible grantees leaving service assumed at 1% per annum
- Early exercise assumption for option holders to exercise their options when the share price is at least 150% of the exercise price
- Risk-free interest rate of 4.69% per annum (based on linearly interpolated yields of the Hong Kong Exchange Fund Notes as at the grant date)

The result of the Binomial Model can be materially affected by changes in these assumptions so an option's actual value may differ from the estimated fair value of the options due to limitations of the Model.

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23. ACCOUNTING ESTIMATES AND JUDGEMENTS

Key sources of estimation uncertainty

The methods, estimates and judgements the directors used in applying the Group's accounting policies have a significant impact on the Group's financial position and operating results. Some of the accounting policies require the Group to apply estimates and judgements, on matters that are inherently uncertain. The critical accounting judgements in applying the Group's accounting policies are described below.

(a) Depreciation

Property, plant and equipment, other than investment property, are depreciated on a straight-line basis over the estimated useful lives. The Group reviews annually the useful life of an asset and its residual value, if any. The depreciation expense for future periods is adjusted if there are significant changes from previous estimation.

(b) Impairments

In considering the impairment loss that may be required for certain property, plant and equipment of the Group, recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to items such as level of turnover and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as turnover and operating costs.

Impairment loss for bad and doubtful debts are assessed and provided based on the directors' regular review of ageing analysis and evaluation of collectibility. A considerable level of judgement is exercised by the directors when assessing the credit worthiness and past collection history of each individual customer.

An increase or decrease in the above impairment loss would affect the net profit in future years.

(c) Recognition of deferred tax assets

Deferred tax assets in respect of tax losses carried forward are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted at the balance sheet date. In determining the carrying amounts of deferred tax assets, expected taxable profits are estimated which involves a number of assumptions relating to the operating environment of the Group and requires significant level of judgement exercised by the directors. Any change in such assumptions and judgement would affect the carrying amounts of deferred tax assets to be recognised and hence the net profit in future years.

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24. PARENT AND ULTIMATE HOLDING COMPANY

The directors consider the parent and ultimate holding company of the Company to be Ease Action Investments Corp., a company incorporated in the British Virgin Islands and CITIC Pacific Limited, a company listed and incorporated in Hong Kong respectively. The ultimate holding company produces financial statements available for public use.

25. COMPARATIVE INFORMATION

Certain comparative figures have been adjusted or reclassified as a result of the Group's discontinued operations. Further details are disclosed in Note 8.

26. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2006

Up to the date of issue of the financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 December 2006 and which have not been adopted in the financial statements.

Of these developments, the following relate to matters that may be relevant to the Group's operations and financial statements:

	Effective for accounting periods beginning on or after
HKFRS 7, Financial instruments: disclosures	1 January 2007
Amendments to HKAS 1, Presentation of financial statements: capital disclosures	1 January 2007
HK(IFRIC) 8, "Scope of HKFRS 2"	1 May 2006
HK(IFRIC) 9, "Reassessment of embedded derivatives"	1 June 2006

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that while the adoption of them may result in new or amended disclosures, it is unlikely to have a significant impact on the Group's results of operations and financial position.

STATUTORY DISCLOSURE

Corporate Governance

Throughout the year of 2006, the Code Provisions in the Code of Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) and the disclosure requirements contained in Appendix 23 of the Listing Rules are not applicable to CITIC 1616 as the Company was only listed on the Main Board of The Stock Exchange of Hong Kong Limited (“Stock Exchange”) in April, 2007.

Connected Transactions

The Group has entered into the following continuing connected transactions, each of which constitutes a non-exempt continuing connected transaction under Chapter 14A of the Listing Rules:

1. CPC Services Agreement

General terms

CITIC Pacific Communications Limited (“CPC”) is the holding company of the communication arm of CITIC Pacific Limited (“CITIC Pacific”). Its subsidiaries (including CPCNet Hong Kong Ltd. (100%-owned) and CPCNet Macau Limited (85%-owned) together with CPC, the “**CPC Group**”) and CITIC Guoan Co., Ltd. (“CITIC Guoan”) (50%-owned) may require services from the Group.

Under the CPC Services Agreement dated 21 March 2007 between the Company and CPC (“CPC Services Agreement”), the services to be provided by the Group to CPC Group include provision of private leased circuits, conveyance of telecoms traffic, equipment co-location and other available services which the Group offers to its customers.

Relevant members of the Group and relevant members of CPC Group have entered into, and may from time to time and as necessary enter into, separate implementation agreements for specific transaction or series of transactions contemplated under the CPC Services Agreement. Each implementation agreement has and will set out details of the service, price, duration and other relevant details, which reflect the particulars of the services required and the market conditions at the material time. As the implementation agreements are simply further elaborations on the provision of services contemplated by the CPC Services Agreement, they do not constitute new categories of connected transactions and the Group and CPC Group agreed to perform these implementation agreements subject to the terms of the CPC Services Agreement (including the annual caps).

Term

The term of the CPC Services Agreement is for three years commencing as from 1 January 2007 and ending on 31 December 2009.

STATUTORY DISCLOSURE

Reason for the transaction

The CPC Services Agreement allows the Group to enhance its customer base by securing a sophisticated user in the Group's services.

Pricing principles and annual caps

The amount of fees payable by CPC Group in respect of services provided by the Group for the three years ended 31 December 2004, 2005 and 2006 were approximately HK\$1.7 million, HK\$2.3 million and HK\$2.3 million, respectively.

The terms and conditions on which such services are to be provided by the Group under the CPC Services Agreement should be no less favourable to the Group than those offered from independent third parties. The price which the Group may receive from CPC Group for the relevant services shall be fair and reasonable with reference to market price and in any event shall be subject to an annual cap of HK\$2.5 million for each of the three years ending 31 December 2009.

The above annual caps, being the expected maximum annual transaction amount, have been determined on the basis of estimated volume of services required by CPC Group with reference to historical transaction value with CPC Group and the potential growth in demand generally in the market for such services with reference to market price.

2. Tenancy Agreements

General terms

Goldon Investment Limited ("Goldon") is a company in which CITIC Pacific has a 40% interest and therefore an associate of CITIC Pacific, and the owner of CITIC Tower in Hong Kong. Under the two Tenancy Agreements, both dated 22 December 2006 between the Company and Goldon ("Tenancy Agreements"), Goldon agreed to lease (with the right of exclusive possession) to the Company the premises located at 8th Floor and portion of 9th Floor, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong (with a floor area of approximately 29,038 sq.ft.). There is one tenancy agreement for each floor.

The premises are used by the Group as office premises and to house its telecoms equipments and facilities.

Term

The term of the Tenancy Agreements is for three years commencing from 16 November 2006 and ending on 15 November 2009.

Reason for the transaction

The Group has been operating in CITIC Tower in the past, and in view of administrative convenience will continue to do so provided the rentals are comparable to the market rates and are fair and reasonable.

STATUTORY DISCLOSURE

Pricing principles and annual caps

The aggregate rentals and building management fees paid by the Group to Goldon for its premises in CITIC Tower, Hong Kong in the three years ended 31 December 2004, 2005 and 2006 were approximately HK\$11.1 million, HK\$11.2 million and HK\$12.0 million, respectively. The rents were comparatively low during the three years ended 31 December 2006 as a result of the effect of severe acute respiratory syndrome in Hong Kong.

According to the Tenancy Agreements, the aggregate rentals and building management fee to be paid by the Company for each of the three years ending 31 December 2009 will not exceed HK\$24 million. The increase is mainly due to the increase in rental pursuant to the revised rental agreement entered into at the end of 2006. The property valuer has confirmed that such rental charge is in line with the market rent.

The independent valuer, Knight Frank Petty Limited, has reviewed the Tenancy Agreements and confirmed that the rentals reflect the prevailing market rates.

3. Payment to HKIX Co

General terms

HKIX Hong Kong Ltd. ("HKIX Co") owns and operates Hong Kong Internet Exchange ("HKIX"), which is a layer-two settlement-free multi-lateral exchange point providing mainly interconnection amongst Internet access providers in Hong Kong. It owns 25% of Asia Pacific Internet Exchange Limited ("APIX"), which is a 75%-owned subsidiary of the Company, and provides a secondary site to HKIX on a non-profit basis. As HKIX Co is a substantial shareholder of the Company's subsidiary (i.e. APIX), HKIX Co and its subsidiaries are connected persons of the Company.

Pursuant to the Shareholders' Agreement entered into between HKIX Co, CITIC Data 1616 Limited, The Chinese University of Hong Kong Foundation Limited and the Company on 18 August 2004 ("the HKIX2 Shareholders' Agreement"), APIX will provide various financial and operational support to HKIX Co which includes an annual payment of HK\$1,000,000 to a wholly-owned subsidiary of HKIX Co. As a partner in the Hong Kong Internet Exchange 2 ("HKIX2") project, the Company's tangible contributions are provisions of financial support and the location to host HKIX2 free of charge. HKIX Co remains the operator of HKIX. The Group has not entered into similar agreement before and APIX is the only joint venture of the Group.

Term

Under the HKIX2 Shareholders' Agreement, the annual payment shall be for an initial period of 6 years until 17 August 2010 (which, subject to annual review by APIX, may be renewed on a yearly basis for no more than four years). The term and the annual payment were agreed as part of the overall arrangement concerning the governance and operation of APIX. Indeed, the term of six years (with an option to renew for no more than four years) (instead of a 3-year term) is appropriate for contracts of a similar nature, i.e. shareholders' agreement which relates to the continuous governance and operations of a company on a continuous basis. Shareholders' agreement usually does not have a fixed term and terminates according

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to the commercial agreement of the shareholders (e.g. a particular party ceasing to be a shareholder or a fixed term). As the HKIX2 Shareholders' Agreement relates to an unique service in internet services, namely, a mirror site to the HKIX, there is no comparable joint venture in Hong Kong which can produce a reference to determine the standard/normal term of this type of joint venture agreements. The parties have considered that the term of 6 years (with an option to renew for no more than 4 years) is a reasonable period to build up the cooperation and the term was arrived at based on the arm's-length negotiation between the parties, taking into account the operation and the development of such internet exchange centre in order to provide a productive outcome.

Reason for the transaction

The HKIX2 Shareholders' Agreement allows APIX to provide support for HKIX Co's future expansion and the right to provide a secondary site to HKIX on a non-profit basis. The benefit is the prestige of involving in the provision of HKIX2, the mirror site of a crucial internet exchange point in Hong Kong, and is intangible. As HKIX is unique and crucial in maintaining the internet connection and provide community services to the Hong Kong public at large, the Company sees the entering into of the HKIX2 Shareholders' Agreement as a good opportunity whereby it can participate and provide community services to the public.

Pricing principles and annual caps

As a term of the joint venture in APIX, the annual payment to a wholly-owned subsidiary of HKIX Co by APIX shall not be more than HK\$1 million a year in the form of financial support to HKIX Co.

4. Application for waiver for non-exempt continuing connected transactions

The Directors (including the independent non-executive Directors), having reviewed the relevant information (including the historical figures, the underlying agreements, the trend and the growth in demand generally in the market for the services rendered to CPC and the confirmations from the property valuer) provided by the Company relating to the continuing connected transactions set out in the sub-paragraphs headed "Reason for the transaction" and "Pricing principles and annual caps" under each of the transactions above, consider that the CPC Services Agreement, the Tenancy Agreements, and the annual payment to a wholly-owned subsidiary of HKIX Co have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms, and the proposed terms and the proposed annual caps are fair and reasonable and in the interest of the shareholders of the Company as a whole. Under the Listing Rules, such transactions will constitute non-exempt continuing connected transactions of the Company and will be subject to the disclosure and/or independent shareholders' approval requirements provided for in the Listing Rules.

The Company has, pursuant to Rule 14A.42(3) of the Listing Rules, applied to the Stock Exchange for a waiver from strict compliance from the following upon the Listing:

- (1) the announcement requirements under Rule 14A.34 of the Listing Rules, for the CPC Services Agreement and the payment to HKIX Co; and

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- (2) the announcement requirements and independent shareholders' approval requirements under Rules 14A.34 and 14A.35 of the Listing Rules, respectively, for Tenancy Agreements.

The Stock Exchange has granted a waiver from strict compliance with the applicable requirements under the Listing Rules as mentioned above and the Company should comply with the annual review requirements and the reporting requirements under Rules 14A.37 to 14A.41 and Rules 14A.45 to 14A.46 of the Listing Rules, subject to the respective annual caps for each of the continuing connected transactions set out above.

Management Contract

The Company will share certain administrative services, namely, company secretarial services and internal audit services, with CITIC Pacific, being a substantial shareholder of the Company. This arrangement may be terminated if CITIC Pacific's shareholding in the Company shall fall below 30% or by either party by giving a six month's notice in writing to the other. The charges payable by the Company under the administrative services agreement dated 21 March 2007 will be calculated based on cost of the services which are identifiable and allocated on a fair and equitable basis. Mr. Lee Chung Hing had indirect interests in the management agreement as he is a director of CITIC Pacific.

Independent Non-Executive Directors

The Company has, upon the appointment of the independent non-executive directors, received from each of them a confirmation of their independence pursuant to the new independence guidelines under the Listing Rules and that the Company considers such directors to be independent.

Directors' Interest in Securities

As at 31 December 2006, none of the directors of the Company had nor were they taken to or deemed to have, under Part XV of the Securities and Futures Ordinance ("SFO"), any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations or any interests which are required to be entered into the register under section 352 of the SFO or any interests which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules as the Company was only listed in April, 2007.

Disclosure under Rule 8.10(2) of the Listing Rules

Dr. Li Bin, a director and the Chief Operating Officer of the Company, has declared to the Company that his wife, Gu Jie ("**Ms. Gu**"), is a director of GTI (HK) Limited ("**GTI (HK)**"). GTI (HK) was incorporated in June 2005 in Hong Kong to engage in logistic system development and other telecoms services which include IDD connections mainly targeting calling-card vendors.

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GTI (HK) is an extension of the business of Galaxy Telesys Inc (“**Galaxy**”), which was incorporated in the US by Ms. Gu’s parents in 2001 to engage in US-based data communication, voice communication and network design. Both GTI (HK) and Galaxy are beneficially owned as to 100% by the parents of Ms. Gu. They employed less than 15 employees in total and with around 30 customers only. Galaxy and GTI (HK) are family-run business with technological settings which allow them to handle voice-only traffic with limited capacity.

The business of Galaxy and GTI (HK) does not compete with that of the Company, nor would it create any conflict of interest against the Company. Galaxy and GTI (HK) provide IDD connections mainly to calling-card vendors (as opposed to telecoms operators to which the Company focuses), are of such small scale and target a different market segment in the IDD market which the Company had not considered to enter into.

Ms. Gu became a director in August 2006 when Mr. Gu (the father of Ms. Gu) resigned as a director of GTI (HK) for health reasons. Ms. Gu is not involved in the business of Galaxy. Currently, she does not have any beneficial interest in both Galaxy and GTI (HK). Dr. Li Bin is not involved, nor does he have any beneficial interest, in the business of Galaxy and GTI (HK). The business of Galaxy and GTI (HK) were developed independently of Dr. Li Bin and prior to his joining the Company in 2006. They were also operated independently of the Company. Other than a transaction in 2006 pursuant to which GTI (HK) acquired IDD capacity from the Company for less than HK\$100,000, the Directors are not aware of any transactions between the Company, and Galaxy and/or GTI (HK) during the three years ended 31 December 2006.

Mr. Yuen Kee Tong, executive Director, will under an agreement with CITIC Pacific spend some of his time on the business of CITIC Pacific but has ceased to act as director of all subsidiaries or associated companies of CITIC Pacific. CITIC Pacific will pay Mr. Yuen for his such services separately. Mr. Yuen’s role in CITIC Pacific and its subsidiaries (excluding the Group) (“Retained Group”) after the listing of the Company will facilitate the continued operation and oversight of the remaining non-core telecoms businesses of CITIC Pacific. Mr. Yuen’s continued involvement will be on a non-executive and part-time basis and CITIC Pacific will not engage more than 5% of his time than the time he would spend with the Group.

Mr. Lee Chung Hing, non-executive Director, is the Vice-Chairman of CITIC Guoan. Mr. Kwok Man Leung, a non-executive Director, is a director of CITIC Guoan. CITIC Guoan’s primary business is its 41.63% interest in CITIC Guoan Information Industry Co. Ltd. (“Guoan Information”), a Shenzhen Stock Exchange listed company. Guoan Information operates cable television networks in 18 cities and one province in China. Guoan Information also has interests in systems integration, software development, hotel management, salt lake consolidated resources development and property development.

Guoan Information’s system integration services and Companhia de Telecomunicacoes de Macau S.A.R.L.’s international hubbing services, leased circuits, data centre and co-location services are the only areas of the Retained Group’s telecoms business which may compete with the Company’s business.

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Directors (except the independent non-executive Directors), have undertaken in favour of the Company to the effect that, save for those interests as disclosed or interest in any company which a Director together with any of his associates own less than 5%, at any time during which he is a Director, he will not engage, and will procure its associates not to engage, on its own account or with each other or in conjunction with or on behalf of any person, firm or company, carry on or be engaged in, concerned with or interested in, directly or indirectly, whether as a shareholder (other than being a director or a shareholder of the Group or its associated companies), partner, agent or otherwise, in the provisions of telecoms hub based service globally, or in any other business that may compete, directly or indirectly, with such business.

Disclosure Requirements under Appendix 16 of the Listing Rules

As required under Appendix 16 of the Listing Rules, additional financial information was extracted from the prospectus of the Group, which has been reviewed by KPMG. Details are as follows:

1. Basic and diluted earnings per share

	2006	2005
From continuing and discontinued operations (<i>HK cents</i>)	<u>11.9</u>	<u>5.8</u>
From continuing operations (<i>HK cents</i>)	<u>10.7</u>	<u>5.6</u>
From discontinued operations (<i>HK cents</i>)	<u>1.2</u>	<u>0.2</u>

(a) *From continuing and discontinued operations*

The basic earnings per share for the current and prior year is calculated based on the profit attributable to the equity holders of the Company during the year and the 1,692,000,000 ordinary shares pursuant to the sub-division of share capital of the Company in connection with the changes to the Company's capital structure on 16 March 2007 ("Reorganisation"), as if the shares were outstanding throughout the entire year; and immediately before the share offering.

(b) *From continuing operations*

The basic earnings per share from continuing operations for the current and prior year is calculated based on the profit from continuing operations attributable to the equity holders of the Company during the year and the 1,692,000,000 ordinary shares pursuant to the sub-division of share capital of the Company in connection with the Reorganisation, as if the shares were outstanding throughout the entire year; and immediately before the share offering.

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(c) *From discontinued operations*

The basic earnings per share from discontinued operations for the current and prior year is calculated based on the profit from discontinued operations attributable to the equity holders of the Company during the year and the 1,692,000,000 ordinary shares pursuant to the sub-division of share capital of the Company in connection with the Reorganisation, as if the shares were outstanding throughout the entire year; and immediately before the share offering.

(d) *Diluted earnings per share*

There were no diluted potential ordinary shares during the year and, therefore, diluted earnings per share are the same as basic earnings per share for the current and prior year.

2. Directors' Remuneration

Details of directors' remuneration are as follows:

Year ended 31 December 2005

	Fees	Basic salaries, allowances and other benefits	Contributions to defined contribution retirement plan	Discretionary bonus	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Executive director					
Mr Peter Chan Kwong Choi	—	272	—	—	272
Non-executive directors					
Mr Lee Chung Hing	—	—	—	—	—
Ms Frances Yung Ming Fong	—	—	—	—	—
Mr Kwok Man Leung	—	—	—	—	—
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	—	272	—	—	272
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

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Year ended 31 December 2006

	Fees <i>HK\$'000</i>	Basic salaries, allowances and other benefits <i>HK\$'000</i>	Contributions to defined contribution retirement plan <i>HK\$'000</i>	Discretionary bonus <i>HK\$'000</i>	Total <i>HK\$'000</i>
Executive director					
Mr Peter Chan Kwong Choi	—	211	1	3,000	3,212
Non-executive directors					
Mr Lee Chung Hing	—	—	—	—	—
Ms Frances Yung Ming Fong	—	—	—	—	—
Mr Kwok Man Leung	—	—	—	—	—
Total	—	211	1	3,000	3,212

A number of the Company's directors were granted share options of CITIC Pacific, its ultimate holding company. Details of the share options plan are set out in note 22 included in the Financial Statements.

The discretionary bonus of the Group was determined and approved by the Board with reference to the performance of the Group and the respective directors.

During the years ended 31 December 2005 and 2006, no emoluments were paid by the Company to any of the directors as an inducement to join or upon joining the Company or as compensation for loss of office and none of the directors has waived or agreed to waive any emoluments.

3. Individuals with highest emoluments

The five highest paid individuals of the Group for the year include one director (2005: Nil).

An analysis of the five individuals with the highest emoluments in the Group during the year is as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Directors	3,212	—
Employees	8,277	8,089
	11,489	8,089

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The aggregate emoluments in respect of the five highest paid individuals are as follows:

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and other emoluments	6,920	7,963
Discretionary bonuses	4,525	—
Retirement scheme contributions	44	126
	<u>11,489</u>	<u>8,089</u>

The emoluments of the individuals with the highest emoluments are within the following bands:

	2006	2005
	<i>Number of individual</i>	<i>Number of individual</i>
HK\$		
1,000,001 — 1,500,000	—	3
1,500,001 — 2,000,000	2	1
2,000,001 — 2,500,000	2	1
3,000,001 — 3,500,000	1	—
	<u>1</u>	<u>—</u>

During the years ended 31 December 2005 and 2006, no emoluments were paid by the Company to any of the five highest paid individuals as an inducement to join or upon joining the Company as or as compensation for loss of office.

4. Distributability of reserves

The aggregate amount of the reserves available for distribution to equity holders of the Company are as follows:

	The Company	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Available for distribution to equity holders of the Company	<u>95,995</u>	<u>118,155</u>

5. Segment reporting

As all of the Group's total turnover and profits were derived from telecommunications operations, accordingly no separate business segment analysis is presented for the Group. Further, the Group's business participates primarily in only one geographical location classified by the location of assets, i.e. Hong Kong, accordingly, no segmental analysis is provided.

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Contracts of Significance with Controlling Shareholder

The Company or certain of its subsidiary companies and CITIC Pacific, the controlling shareholder of the Company or certain of its subsidiary companies had entered into the following contracts of significance:—

- (a) CPC Services Agreement (as defined above); and
- (b) Tenancy Agreements (as defined above).

Save as mentioned in the paragraph headed “Management Contract”, there is no other contract of significance for the provision of services to the Company or any of its subsidiary companies by the controlling shareholder or any of its subsidiary companies.

Major Customers and Suppliers

The percentage of sales and purchases with the Group’s customers and suppliers are as follows:

Sales	2006	2005
The largest customer	30.6%	35.3%
Five largest customers combined	47.7%	51.5%
Purchases	2006	2005
The largest supplier	10.3%	13.6%
Five largest suppliers combined	31.1%	33.8%

Share Capital

On 2 August 2006, the Company repurchased the 2,000,000 Non-Voting Deferred Shares of HK\$1.00 each of the Company for a total consideration of HK\$40.00 and the Non-voting Deferred Shares were then cancelled.

Save as disclosed, the Company has not redeemed any of its shares during the year ended 31 December 2006. Neither the Company nor any of its subsidiary companies has purchased or sold any of the Company’s shares during the year ended 31 December 2006.

Service Contracts

As at 31 December 2006, there were no service contracts which were not determinable by the employer within one year without payment of compensation (other than statutory compensation) between any company in the Group and any director re-elected at the 2007 Annual General Meeting.

Auditors

In October, 2005, PricewaterhouseCoopers had resigned as auditors of the Company and KPMG was appointed as auditors of the Company in his stead.

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Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the directors as at the date of despatching the annual report, the Directors confirm that the Company has maintained the amount of public float as required under the Listing Rules.

CORPORATE INFORMATION

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Telephone: 2377 8888 Fax: 2376 2063

Website

www.citic1616.com contains a description of CITIC 1616's business, copy of the annual report to shareholders, announcements, press releases and other information.

Stock Codes

The Stock Exchange of Hong Kong: 1883
Bloomberg: 1883 HK
Reuters: 1883.HK

Share Registrars

Shareholders should contact our Registrars, Tricor Investor Services Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong on 2980 1333, or by fax: 2810 8185, on matters such as transfer of shares, change of name or address, or loss of share certificates.