

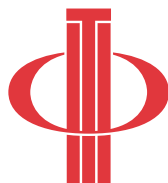
**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in CITIC 1616 Holdings Limited, you should at once hand this circular and the enclosed form of proxy to the purchaser(s) or the transferee(s), or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or the transfer was effected for transmission to the purchaser(s) or transferee(s).

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This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of the Company.



**CITIC 1616 HOLDINGS LIMITED**

**中信1616集團有限公司**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 01883)**

**MAJOR AND CONNECTED TRANSACTION  
ACQUISITION OF A 20% INTEREST IN  
COMPANHIA DE TELECOMUNICACOES DE MACAU, S.A.R.L.**

Financial Adviser to CITIC 1616 Holdings Limited



Independent Financial Adviser to the Independent Board Committee  
and the Independent Shareholders



A letter from the Board is set out on pages 4 to 12 of this circular. A letter from the Independent Board Committee containing its recommendation is set out on pages 13 to 14 of this circular. A letter from Platinum Securities, the Independent Financial Adviser, containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 15 to 24 of this circular.

A notice convening the Extraordinary General Meeting to be held at Island Ballroom, Level 5, Island Shangri-La Hotel, Two Pacific Place, Supreme Court Road, Hong Kong on Wednesday, 5 May 2010 at 10:30 a.m. is set out on pages 107 to 108 of this circular. Form of proxy for use in the Extraordinary General Meeting is enclosed. Whether or not you propose to attend the Extraordinary General Meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the registered office of the Company at 8th Floor, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the Extraordinary General Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the Extraordinary General Meeting and any adjournment thereof, should you so desire.

19 April 2010

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## DEFINITIONS

*In this circular, the following expressions have the meanings respectively set opposite them unless the context otherwise requires:*

“Acquisition”	the acquisition of the Sale Shares by the Company under the Sale and Purchase Agreement;
“associate”, “connected person”, “subsidiary”	each have the meaning ascribed to them by the Listing Rules;
“Board”	the board of Directors;
“CITIC Pacific”	CITIC Pacific Limited (中信泰富有限公司), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange;
“Company”	CITIC 1616 Holdings Limited (中信1616集團有限公司), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange;
“Completion”	completion of the Acquisition;
“Consideration”	the consideration payable by the Company to CITIC Pacific for the Acquisition;
“Consideration Shares”	405,826,087 new Shares to be issued by the Company to CITIC Pacific (or its nominees) to settle part of the Consideration;
“CTM”	Companhia de Telecomunicacoes de Macau, S.A.R.L., a company incorporated in Macau;
“DCH Holdings”	Dah Chong Hong Holdings Limited (大昌行集團有限公司), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange;
“Director(s)”	the director(s) of the Company;

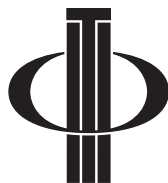
## DEFINITIONS

“EGM”	the extraordinary general meeting of the Company to be held at Island Ballroom, Level 5, Island Shangri-La Hotel, Two Pacific Place, Supreme Court Road, Hong Kong on Wednesday, 5 May 2010 at 10:30 a.m. to consider and, if thought fit, approve the Acquisition and the transactions contemplated under the Sale and Purchase Agreement by the Independent Shareholders;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	an independent board committee of the Board advising the Independent Shareholders on the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder, consisting of Mr. Yang Xianzu, Mr. Liu Li Qing and Mr. Kwong Che Keung, Gordon, all being independent non-executive Directors;
“Independent Financial Adviser” or “Platinum Securities”	Platinum Securities Company Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the entering into of the Sale and Purchase Agreement and a corporation licensed to carry out Type 1 (dealings in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO;
“Independent Shareholders”	shareholders of the Company, other than CITIC Pacific and its associates;
“Latest Practicable Date”	13 April 2010, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Macau”	the Macau Special Administrative Region of the PRC;

## DEFINITIONS

“MOP”	Pataca, the lawful currency of Macau;
“PRC”	the People’s Republic of China;
“Sale and Purchase Agreement”	the sale and purchase agreement dated 11 February 2010 between the Company and CITIC Pacific in relation to the Acquisition;
“Sale Shares”	30,000 shares of MOP1,000 each in CTM, representing a 20% interest in the share capital of CTM;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Share(s)”	share(s) of HK\$0.10 each in the capital of the Company;
“Shareholders”	holders of the Share(s); and
“Stock Exchange”	The Stock Exchange of Hong Kong Limited.

*For illustration purposes in this circular, the conversion rate of MOP1.00 = HK\$0.9625 was adopted.*



**CITIC 1616 HOLDINGS LIMITED**

**中信1616集團有限公司**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 01883)**

*Executive Directors:*

Xin Yue Jiang (*Chairman*)

Yuen Kee Tong

Chan Tin Wai, David

*Non-executive Directors:*

Kwok Man Leung

Fei Yiping

*Independent non-executive Directors:*

Yang Xianzu

Liu Li Qing

Kwong Che Keung, Gordon

*Registered Office:*

8th Floor

CITIC Tower

1 Tim Mei Avenue

Central

Hong Kong

*Head office and principal place of  
business in Hong Kong:*

8th Floor

CITIC Tower

1 Tim Mei Avenue

Central

Hong Kong

19 April 2010

*To the Shareholders*

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION  
ACQUISITION OF A 20% INTEREST IN  
COMPANHIA DE TELECOMUNICACOES DE MACAU, S.A.R.L.**

**INTRODUCTION**

On 11 February 2010, the Company (as purchaser) and CITIC Pacific (as seller) entered into the Sale and Purchase Agreement, pursuant to which the Company conditionally agreed to acquire from CITIC Pacific a 20% interest in CTM, representing the entire interest in CTM held by CITIC Pacific, for a consideration of HK\$1,400.40 million. The Consideration shall be satisfied by the Company at Completion as to HK\$467 million in cash and as to HK\$933.40 million by the issue of Consideration Shares to CITIC Pacific (or its nominees) at the issue price of HK\$2.30 per Consideration Share. As at the Latest Practicable Date, CITIC Pacific holds an approximately 52.57% interest in the issued share capital of the Company. Upon Completion, CITIC Pacific will hold an approximately 60.65% interest in the issued share capital of the Company as enlarged by the issue of the Consideration Shares.

## LETTER FROM THE BOARD

The Acquisition constitutes a major transaction for the Company. CITIC Pacific is the controlling shareholder of the Company and therefore is a connected person of the Company. Accordingly, the Acquisition also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. The Acquisition is subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

This circular provides you with, among other things, (i) further information on the Acquisition; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders; (iii) the advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (iv) financial information of the Group; (v) financial information of CTM; (vi) pro forma financial information of the Group; and (vii) a notice of the EGM.

### THE SALE AND PURCHASE AGREEMENT

Date : 11 February 2010

Parties:

(1) Seller : CITIC Pacific, the controlling shareholder of the Company

(2) Purchaser : the Company

### Assets to be acquired

The Sale Shares, representing a 20% interest in the share capital of CTM

The original acquisition costs paid by CITIC Pacific for the Sale Shares as at 1 August 1991 was approximately HK\$250 million.

### Consideration

The Consideration of HK\$1,400.40 million was determined after arm's length negotiation between the parties with reference to CTM's financial performance, trading multiples of other listed telecoms operators in Asia and research analysts' estimates of the valuation of CTM.

The Consideration shall be satisfied by the Company at Completion in the following manner:

- (a) an amount of HK\$467 million shall be paid in cash on the Completion date (which is funded by internal resources of the Company); and
- (b) the balance of HK\$933.40 million shall be satisfied by the issue of Consideration Shares to CITIC Pacific (or its nominees) at the issue price of HK\$2.30 per Consideration Share.

## LETTER FROM THE BOARD

The issue price of HK\$2.30 per Consideration Share to be issued by the Company represents:

- (i) a premium of approximately 1.8% over the closing price of HK\$2.26 per Share as quoted on the Stock Exchange on the last trading day of the Shares before the date of the Sale and Purchase Agreement;
- (ii) a premium of approximately 3.1% over the average closing price of approximately HK\$2.23 per Share as quoted on the Stock Exchange for the last 5 trading days up to the day before the date of the Sale and Purchase Agreement; and
- (iii) a premium of approximately 5.0% over the average closing price of approximately HK\$2.19 per Share as quoted on the Stock Exchange for the last 10 trading days up to the day before the date of the Sale and Purchase Agreement.

The Consideration Shares comprising 405,826,087 Shares represent approximately 20.52% of the existing issued share capital of the Company and approximately 17.03% of the share capital of the Company as enlarged by the issue of the Consideration Shares. The Directors will issue the Consideration Shares in the share capital of the Company pursuant to a specific mandate to be sought in the EGM.

Neither Completion nor the issue of the Consideration Shares will result in any change of control of the Company.

The shareholdings in the Company as at the Latest Practicable Date and immediately following Completion and the issue of the Consideration Shares are summarised below:

	<b>As at the Latest Practicable Date</b>		<b>Immediately following Completion and the issue of the Consideration Shares<sup>#</sup></b>	
	<i>No. of Shares</i>	<i>Approximate %</i>	<i>No. of Shares</i>	<i>Approximate %</i>
CITIC Pacific (or its nominees)	–	–	405,826,087	17.026
Ease Action Investments Corp. (Note)	941,692,000	47.615	941,692,000	39.508
Richtone Enterprises Inc. (Note)	98,066,283	4.959	98,066,283	4.114
Directors	502,000	0.025	502,000	0.021
<b>Sub total</b>	<u>1,040,260,283</u>	<u>52.599</u>	<u>1,446,086,370</u>	<u>60.669</u>
Other Shareholders	<u>937,471,000</u>	<u>47.401</u>	<u>937,471,000</u>	<u>39.331</u>
<b>Total</b>	<u><u>1,977,731,283</u></u>	<u><u>100.00</u></u>	<u><u>2,383,557,370</u></u>	<u><u>100.00</u></u>

<sup>#</sup> Assuming that there will be no change in the Company's issued share capital from the Latest Practicable Date up to Completion save for the issue of the Consideration Shares



## LETTER FROM THE BOARD

Note: CITIC Pacific is the direct holding company of Crown Base International Limited, which is the direct holding company of Effectual Holdings Corp.. Effectual Holdings Corp. in turn holds CITIC Pacific Communications Limited, which is then the direct holding company of Douro Holdings Inc.. Douro Holdings Inc. is the direct holding company of Ferretti Holdings Corp.. Ferretti Holdings Corp. is the direct holding company of Ease Action Investments Corp.. Richtone Enterprises Inc. is a wholly-owned subsidiary of Peganin Corp., which is a wholly-owned subsidiary of Douro Holdings Inc.

An application will be made to the Stock Exchange for the listing of and permission to deal in the Consideration Shares which upon allotment, will rank pari passu with the existing Shares.

### Conditions

Completion is conditional upon the following conditions being satisfied on or before 30 September 2010 or such later date as may be agreed between CITIC Pacific and the Company (the “**Longstop Date**”):

- (a) all necessary consents or approvals required of the Company under the Listing Rules (including without limitation the passing of the resolutions by the Independent Shareholders at the EGM) for confirming the Sale and Purchase Agreement and approving the transactions contemplated thereunder having been obtained;
- (b) all necessary consents or approvals required of CITIC Pacific, if any, under the Listing Rules for approving the Sale and Purchase Agreement and the transactions contemplated thereunder having been obtained;
- (c) all consents, approvals, clearances and authorisations of any relevant governmental authorities in Macau or other relevant third parties as may be necessary for Completion having been obtained;
- (d) the board of directors of CTM having issued a statement confirming that no pre-emption rights were exercised and the sale and purchase contemplated under the Sale and Purchase Agreement may take place; and
- (e) the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, all the Consideration Shares.

If any of the conditions (which have not previously been waived) has not been satisfied on or before the Longstop Date, then the Sale and Purchase Agreement will immediately terminate.

## LETTER FROM THE BOARD

### Completion

Completion will take place within 3 business days following satisfaction or waiver of the conditions to the Sale and Purchase Agreement, or such other date as CITIC Pacific and the Company may agree in writing.

### INFORMATION ON CTM

CTM is engaged in fixed telephone services, telegram services, fixed telex services, fixed services for data transmission (except internet) and leased circuit services in Macau under a franchise with exclusive rights. The franchise is awarded to CTM until 2011.

CTM is granted the licences from the Macau government to provide mobile services in competition with other operators in Macau. The licence for GSM 2G mobile services is up to 8 July 2012 and the licence for WCDMA 3G mobile services is up to 28 May 2015. In addition, CTM is licensed to operate internet services on competitive basis up to 22 April 2013.

As at 31 December 2008, the audited net asset value of CTM was approximately MOP1,187 million (approximately HK\$1,142 million). For the financial years ended 31 December 2007 and 2008, the audited net profits (before and after taxation) of CTM were as follows:

<b>Audited net profits before taxation</b>		<b>Audited net profits after taxation</b>	
<i>(In million)</i>		<i>(In million)</i>	
<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>
MOP731	MOP802	MOP653	MOP707
(approximately HK\$704)	(approximately HK\$772)	(approximately HK\$629)	(approximately HK\$680)

At the annual general meeting of CTM held on 22 March 2010, Mr. Chan Tin Wai, David (an executive director of the Company), has been appointed as a member of the supervisory board of CTM with effect from 22 March 2010. Such appointment was nominated by CITIC Pacific.

### REASONS FOR AND BENEFITS OF THE ACQUISITION

CTM is currently a business partner of the Company. The Acquisition will help to further strengthen the business relationship between CTM and the Company. Areas of potential benefits to the Company include wholesales IDD distribution network, resources sharing for mobile services, product and data services. The Acquisition will also allow the Company to diversify its geographical reach and product portfolio, leveraging CTM's comprehensive range of international and domestic telephone services, mobile services, value-added services and internet and data network services.

### FINANCIAL EFFECTS OF THE ACQUISITION ON THE GROUP

Appendix III to this circular presents the pro forma financial information of the Group and describes the basis of preparation thereof.

## LETTER FROM THE BOARD

### **Earnings**

Upon completion of the Acquisition, the Group will hold a 20% equity interest in CTM. Such shareholding interest will be treated as an investment in an associate and will be accounted for using the equity method. Based on the performance of CTM in recent years, the Acquisition is expected to have a positive impact on the earnings base of the Group.

### **Net Asset Value**

Set out in Appendix III to this circular is the unaudited pro forma financial information of the Group which illustrates the effect of Completion on the Group, assuming that the Acquisition had taken place on 31 December 2009.

As set out in the unaudited pro forma statement of assets and liabilities of the Group in Appendix III to this circular, the Group had audited net assets of approximately HK\$1,716,940,000 at 31 December 2009.

Upon Completion, assuming the fair value of each Consideration Share is HK\$2.30, the value of the Consideration Shares amounts to HK\$933.40 million. Together with the HK\$467 million cash consideration, the total consideration amounts to HK\$1,400.40 million. As a result, the Group would have unaudited pro forma net assets of approximately HK\$2,650,340,000.

### **Liquidity**

As the Acquisition will be satisfied by issue of Consideration Shares of the Company amounting to HK\$933.40 million, and HK\$467 million in cash (which is funded by internal resources of the Group), the Group will not require borrowing to finance the Acquisition. At 31 December 2009, the Group had no outstanding borrowings and the Group's cash and bank deposits is approximately HK\$686.19 million.

### **WAIVER FROM STRICT COMPLIANCE WITH RULES 14.67(6)(a)(i) AND 14.67(7)**

The Company is unable to obtain the necessary consent from CTM to compile an accountants' report of CTM for inclusion in this circular pursuant to Rule 14.67(6)(a)(i) or otherwise to reproduce the full audited consolidated accountants' reports of CTM. In addition, the Company is only acquiring a 20% interest in CTM and CTM will not become a subsidiary of the Company upon Completion. The Company has, therefore, applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements to include in this circular the accountants' report pursuant to Rule 14.67(6)(a)(i) and a management discussion and analysis of results of CTM pursuant to Rule 14.67(7) and paragraph 32 of Appendix 1B.

The Directors are of the view that all sufficient financial information for the Shareholders to make an informed decision of the Acquisition has been included in this circular, it comprises an accurate and complete reproduction of the financial information of CTM which was permitted by CTM for inclusion in this circular and such reproduction is not misleading, and there is no material difference from those reviewed by the Company.

## LETTER FROM THE BOARD

### INFORMATION ON THE GROUP AND CITIC PACIFIC

The Group is one of the leading value-added services providers to telecoms operators in Asia, specialising in hub-based services, particularly focusing on China and Hong Kong. The Group has 4 main business segments, namely Voice Services, SMS Services, Mobile VAS and Data Services. Its independent hub connects with over 470 clients, mainly telecoms operators, in 62 countries or regions. The Group is also a major virtual private network (VPN) service provider in Asia, serving multinational corporations in China.

CITIC Pacific's operational focus is on China, both the mainland and Hong Kong. Its major businesses are special steel manufacturing, iron ore mining and property development in mainland China. Other businesses include energy and civil infrastructure. It also holds controlling interests in the Company and DCH Holdings.

### FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Board believes that the Acquisition will reinforce the Group as Asia's leading telecoms service provider. In addition, it will further strengthen the existing business relationship between the Group and CTM with clear synergies in the following areas:

**(a) Network Sharing**

The Acquisition will help to position the Group as preferred partner of CTM through enhancing the connectivity via the Group's hub. The Board believes that CTM is able to share the Group's IRU cables in a more cost effective way through the integration of network resources.

**(b) Business Development**

The Acquisition can secure CTM as the anchor customer of the Group on the back of new products and services launches. With the support of the Group, CTM is able to adopt the new standards in a timely manner to meet its end-users' needs.

**(c) Enhance International Traffic Business**

Following the completion, the Group will become the preferred services provider for CTM's inbound and outbound roaming voice and SMS traffic. It will help the Group to further expand its wholesale IDD business in Macau.

**(d) Increase Financial Return**

As CTM is a profitable and cash rich company without any liabilities, the Board believes that the Acquisition is able to enhance the Group's cash position by receiving cash dividend from CTM. Besides, the share of profit from CTM can also help to strengthen the Group's financial results performance.

## LETTER FROM THE BOARD

### LISTING RULES IMPLICATIONS

The Acquisition constitutes a major transaction for the Company. CITIC Pacific is the controlling shareholder of the Company and therefore is a connected person of the Company. Accordingly, the Acquisition also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. The Acquisition is subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules. In view of CITIC Pacific's interests in the Acquisition, CITIC Pacific and its associates will abstain from voting at the EGM.

### EXTRAORDINARY GENERAL MEETING

Set out on pages 107 to 108 of this circular is a notice convening the EGM to be held at Island Ballroom, Level 5, Island Shangri-La Hotel, Two Pacific Place, Supreme Court Road, Hong Kong on Wednesday, 5 May 2010 at 10:30 a.m. at which an ordinary resolution will be proposed to the Independent Shareholders to consider and, if thought fit, approve the Acquisition and the transactions contemplated under the Sale and Purchase Agreement.

In accordance with Rule 13.39(4) of the Listing Rules, the voting of shareholders at the EGM will be taken by poll. The chairman of the EGM will demand a poll for the resolutions to be proposed at the EGM in accordance with the Company's Articles of Association. In view of CITIC Pacific's interests in the Acquisition, CITIC Pacific and its associates, in aggregate holding 1,039,758,283 Shares as at the Latest Practicable Date, will abstain from voting at the EGM. The results of the poll will be published on the websites of the Company and the Stock Exchange on the day of the above meeting.

A form of proxy for use at the EGM is enclosed. Whether or not you propose to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the registered office of the Company at 8th Floor, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM and any adjournment thereof, should you so desire.

### RECOMMENDATION

The Directors (including the independent non-executive Directors whose views are set out in the section headed "Letter from the Independent Board Committee" in this circular) consider that the terms of the Acquisition are on normal commercial terms, fair and reasonable and in the interests of the Shareholders as a whole. Accordingly, the Directors recommend that all the Independent Shareholders should vote in favour of the proposed ordinary resolutions set out in the notice of the EGM to approve the Acquisition.

## LETTER FROM THE BOARD

### ADDITIONAL INFORMATION

The Independent Board Committee, comprising all of the three independent non-executive Directors, has been established to advise the Independent Shareholders on the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder. Your attention is drawn to its letter of recommendation set out on pages 13 to 14 of this circular.

Barclays Capital is acting as the sole financial adviser to the Company.

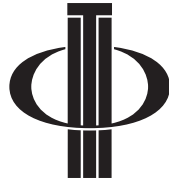
Platinum Securities has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard. Your attention is drawn to their letter of recommendation set out on pages 15 to 24 of this circular.

Your attention is also drawn to the additional information set out in appendices to this circular.

Yours faithfully,  
By Order of the Board  
**CITIC 1616 Holdings Limited**  
**Xin Yue Jiang**  
*Chairman*

**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

*The following is the text of the letter of recommendation from the Independent Board Committee which has been prepared for the purpose of inclusion in this circular:*



**CITIC 1616 HOLDINGS LIMITED**

**中信1616集團有限公司**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 01883)**

19 April 2010

*To the Independent Shareholders*

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION  
ACQUISITION OF A 20% INTEREST IN  
COMPANHIA DE TELECOMUNICACOES DE MACAU, S.A.R.L.**

**INTRODUCTION**

We refer to the circular of the Company dated 19 April 2010 (the “Circular”), of which this letter forms part. Unless specified otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed by the Board to advise you on the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder. Platinum Securities has been appointed as the Independent Financial Adviser to advise you and us in this regard. Details of their advice, together with the principal factors and reasons they have taken into consideration in giving such advice, are set out on pages 15 to 24 of this Circular. Your attention is also drawn to the letter from the Board in the Circular and the additional information set out in the appendices thereto.

**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

**RECOMMENDATION**

Having considered the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder and taking into account the independent advice of the Independent Financial Adviser and the relevant information contained in the letter from the Board, we are of the opinion that the Sale and Purchase Agreement and the transactions contemplated thereunder, are on normal commercial terms, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

Accordingly, we recommend that you vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

Yours faithfully

For and on behalf of

**Independent Board Committee**

**Yang Xianzu**

**Liu Li Qing**

**Kwong Che Keung,  
Gordon**



## LETTER FROM PLATINUM

*The following is the text of the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders for the purpose of incorporation into this circular.*



**PLATINUM** Securities Company Limited

22/F Standard Chartered Bank Building  
4 Des Voeux Road Central  
Hong Kong

**Telephone** (852) 2841 7000

**Facsimile** (852) 2522 2700

19 April 2010

*To the Independent Board Committee and the Independent Shareholders*

Dear Sir or Madam,

### **MAJOR AND CONNECTED TRANSACTION ACQUISITION OF A 20% INTEREST IN COMPANHIA DE TELECOMUNICACOES DE MACAU, S.A.R.L.**

#### **INTRODUCTION**

We refer to the announcement of the Company dated 11 February 2010. On 19 April 2010, the Company despatched a circular (the "Circular") in relation to the proposed Acquisition to the Shareholders, of which this letter forms part. Details of the Acquisition are contained in the letter from the Board in the Circular and the appendices to the Circular, which you should read carefully.

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the Acquisition is on normal commercial terms, in the ordinary and usual course of business of the Group, fair and reasonable, in the interests of the Company and the Shareholders as a whole, and as to whether the Independent Shareholders should vote in favour of the Acquisition. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

We are independent from, and are not connected with the Company or any other party to the Acquisition or any of their respective associates, connected persons or parties acting in concert with any of them and accordingly, we are considered eligible to give independent advice to the Independent Board Committee and the Independent Shareholders.

We will receive a fee from the Company for our role as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition. Apart from this normal professional fee payable to us in connection with this appointment, no arrangements exist whereby we will receive any

## LETTER FROM PLATINUM

fees or benefits from the Company or any other party to the Acquisition or any of their respective associates, connected persons or parties acting in concert with any of them.

In formulating our opinion, we have relied on the information and facts supplied to us by the Company. We have reviewed, among other things: (i) the annual report of the Group for the financial year ended 31 December 2009 (the "2009 Annual Report"); and (ii) the interim report of the Group for the six months ended 30 June 2009 (the "2009 Interim Report").

We have assumed that all information, facts, opinions and representations contained in the Circular are true, complete and accurate in all material respects and we have relied on the same. The Directors have confirmed that they take full responsibility for the contents of the Circular and have made all reasonable inquiries that no material facts have been omitted from the information supplied to us.

We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy or completeness of the information of all facts as set out in the Circular and of the information and representations provided to us by the Company. Furthermore, we have no reason to suspect the reasonableness of the opinions and representations expressed by the Company and/or the Directors which have been provided to us. In line with normal practice, we have not, however, conducted a verification process of the information supplied to us, nor have we conducted any independent in-depth investigation into the business and affairs of the Company. We consider that we have reviewed sufficient information to enable us to reach an informed view and to provide a reasonable basis for our opinion regarding the Acquisition.

The Independent Board Committee, comprising the independent non-executive Directors, namely, Mr. Yang Xianzu, Mr. Liu Li Qing and Mr. Kwong Che Keung, Gordon, has been established to advise the Independent Shareholders in relation to the Acquisition.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In formulating our opinion in relation to the Acquisition and giving our independent financial advice to the Independent Board Committee and the Independent Shareholders, we have considered the following principal factors and reasons:

#### **1. Background of the Acquisition**

On 11 February 2010, the Company (as purchaser) and CITIC Pacific (as seller) entered into the Sale and Purchase Agreement, pursuant to which the Company conditionally agreed to acquire from CITIC Pacific a 20% interest in CTM, representing the entire interest in CTM held by CITIC Pacific, for a consideration of HK\$1,400.40 million. The Consideration shall be satisfied by the Company at Completion as to HK\$467 million in cash and as to HK\$933.40 million by the issue of the Consideration Shares to CITIC Pacific (or its nominees) at the issue price of HK\$2.30 per Consideration Share.

## LETTER FROM PLATINUM

### 2. Principal terms of the Acquisition

#### The Sale and Purchase Agreement

Date: 11 February 2010

Parties:

- (1) Seller: CITIC Pacific, the controlling shareholder of the Company
- (2) Purchaser: the Company

#### Assets to be acquired

The Sale Shares, representing a 20% interest in the share capital of CTM

The original acquisition costs paid by CITIC Pacific for the Sale Shares as at 1 August 1991 was approximately HK\$250 million.

#### Consideration

The Consideration of HK\$1,400.40 million was determined after arm's length negotiation between the parties with reference to CTM's financial performance, trading multiples of other listed telecom operators in Asia and research analysts' estimates of the valuation of CTM.

The Consideration shall be satisfied by the Company at Completion in the following manner:

- (a) an amount of HK\$467 million shall be paid in cash on the Completion date (which is funded by internal resources of the Company); and
- (b) the balance of HK\$933.40 million shall be satisfied by the issue of the Consideration Shares to CITIC Pacific (or its nominees) at the issue price of HK\$2.30 per Consideration Share.

The Consideration Shares comprising 405,826,087 Shares represent approximately 20.52% of the existing issued share capital of the Company and approximately 17.03% of the share capital of the Company as enlarged by the issue of the Consideration Shares. The Directors will issue the Consideration Shares in the share capital of the Company pursuant to a specific mandate to be sought in the EGM.

Please refer to the letter from the Board in the Circular for further details on the terms and conditions of the Acquisition, including the conditions to and Completion.

**3. Business of the Group**

As stated in the letter from the Board in the Circular, the Group is one of the leading value-added services providers to telecoms operators in Asia, specialising in hub-based services, particularly focusing on China and Hong Kong. The Group has 4 main business segments, namely Voice Services, SMS Services, Mobile VAS and Data Services. Its independent hub connects with over 470 clients, mainly telecoms operators, in 62 countries or regions. The Group is also a major virtual private network (VPN) service provider in Asia, serving multinational corporations in China.

**4. Reasons for entering into the Acquisition**

As stated in the letter from the Board in the Circular, CTM is currently a business partner of the Company. The Acquisition will help to further strengthen the business relationship between CTM and the Company. Areas of potential benefits to the Company include wholesales IDD distribution network, resources sharing for mobile services, product and data services. The Acquisition will also allow the Company to diversify its geographical reach and product portfolio, leveraging CTM's comprehensive range of international and domestic telephone services, mobile services, value-added services and internet and data network services.

Based on information provided by the Company, we understand that the businesses of the Group and of CTM are complementary. In addition, as stated in the letter from the Board in the Circular, the Board believes that the Acquisition will reinforce the Group as Asia's leading telecoms service provider and further strengthen the existing business relationship between the Group and CTM with clear synergies in the following areas:

*(a) Network Sharing*

The Acquisition will help to position the Group as preferred partner of CTM through enhancing the connectivity via the Group's hub. The Board believes that CTM is able to share the Group's IRU cables in a more cost effective way through the integration of network resources.

*(b) Business Development*

The Acquisition can secure CTM as the anchor customer of the Group on the back of new products and services launches. With the support of the Group, CTM is able to adopt the new standards in a timely manner to meet its end-users' needs.

*(c) Enhance International Traffic Business*

Following the completion, the Group will become the preferred services provider for CTM's inbound and outbound roaming voice and SMS traffic. It will help the Group to further expand its wholesale IDD business in Macau.

## LETTER FROM PLATINUM

(d) *Increase Financial Return*

As CTM is a profitable and cash rich company without any liabilities, the Board believes that the Acquisition is able to enhance the Group's cash position by receiving cash dividend from CTM. Besides, the share of profit from CTM can also help to strengthen the Group's financial results performance.

Furthermore, as noted in the 2009 Annual Report, overseas business development represents one of the major, long-term strategic objectives of the Group and to achieve this objective, the Group aims to enhance international competitiveness through active overseas market development. Based on information provided by the Company, we also understand that the Group will continue to look for attractive business development opportunities in order to enhance the services it provides to customers and create additional value for the Shareholders.

As such, we are of the view that although the Acquisition is not in the ordinary and usual course of business of the Group, it is squarely in line with the Group's strategy.

### 5. Consideration Shares

As stated in the letter from the Board in the Circular, part of the Consideration will be satisfied by the issue of the Consideration Shares at the issue price of HK\$2.30 per Consideration Share (the "Issue Price").

A. *Comparison of the Issue Price to the net asset value ("NAV") per Share of the Group*

In order to assess the fairness and reasonableness of the Issue Price, we have compared the Issue Price against the NAV per Share of the Group.

The Issue Price of HK\$2.30 represents a premium of approximately 164% over the NAV per Share of the Group of approximately HK\$0.87 as at 31 December 2009.

B. *Comparison of the Issue Price to the historical closing price of the Shares*

In addition to the comparison with the NAV per Share of the Group, we have also compared the Issue Price to the historical closing prices of the Shares.

The Issue Price of HK\$2.30 represents:

- (i) a discount of approximately 15.4% over the closing price of HK\$2.72 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a premium of approximately 1.8% over the closing price of HK\$2.26 per Share as quoted on the Stock Exchange on the last trading date of the Shares before the date of the Sale and Purchase Agreement (the "Last Trading Date");

## LETTER FROM PLATINUM

- (iii) a premium of approximately 3.1% over the average closing price of approximately HK\$2.23 per Share as quoted on the Stock Exchange for the last 5 trading days up to the day before the Last Trading Date; and
- (iv) a premium of approximately 5.0% over the average closing price of approximately HK\$2.19 per Share as quoted on the Stock Exchange for the last 10 trading days up to the day before the Last Trading Date.

We note from the above analysis that the premium/discount of the Issue Price over the various historical closing prices of the Shares range from a premium of approximately 5.0% to a discount of 15.4%.

Although the Issue Price represents a discount to the closing price per Share as quoted on the Stock Exchange on the Latest Practicable Date, the Issue Price is nevertheless higher than all of the various historical closing prices of the Shares before the announcement of the Acquisition as illustrated in the above analysis. In addition, we are of the view that it is more meaningful to compare the Issue Price with the closing prices before the announcement of the Acquisition. Furthermore, by settling the Consideration partially through issuing the Consideration Shares, the Group would be able to maintain its financial flexibility by reserving its cash balance for future investment opportunities.

In light of the above, in particular:

- (i) the premium of the Issue Price over the NAV per Share of the Group;
- (ii) the Issue Price is higher than the historical closing prices of the Shares before the announcement of the Acquisition; and
- (iii) settling part of the Consideration through issuing the Consideration Shares would enable the Group to maintain financial flexibility,

we are of the view that it is reasonable to satisfy part of the Consideration through issuing the Consideration Shares and the Issue Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **6. Basis of Consideration**

As CTM is the only full telecommunications operator providing fixed telephone, mobile and internet services in Macau, to assess whether the Consideration is fair and reasonable, we have considered the Acquisition with reference to comparable companies that provide telecommunications services in a similar market to Macau. Amongst the Asian regions and countries, we are of the view that the telecommunications market in Hong Kong is the most comparable to that of Macau in terms of penetration rates for fixed telephone, mobile and broadband services, in addition to a similar location and size in terms of geographical area. As such, we have compared the Company against a number of

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Hong Kong listed companies that provide telecommunications services in Hong Kong (the “Comparable Companies”) which have been selected in accordance with the following criteria:

- (i) listed on the main board of the Stock Exchange; and
- (ii) approximately 50% or more of turnover is generated from the provision of integrated telecommunications services (fixed telephone, mobile or internet) in Hong Kong.

One should recognise that due to the unique business strategy and position of each company, it is not practicable to identify a company with the same proportion of revenue contribution as CTM. We are of the view that 50% sets a reasonable benchmark for us to conclude that a significant portion of the revenue from a particular company is generated from business similar to that of CTM, hence, comparable to the latter. The Comparable Companies are selected exhaustively based on the above criteria, which have been identified, to our best endeavour, in our research through public information.

In our assessment, we have considered price-to-earnings ratio (“PER”) as our benchmark, which is a commonly used valuation methodology for telecommunications companies. We have also considered using enterprise value to earnings before interest, taxation, depreciation and amortisation (“EV/EBITDA”), which is another commonly used valuation methodology for telecommunications companies, as another benchmark. However, as stated in the letter from the Board in the Circular, the Company is unable to obtain the necessary consent from CTM to compile the accountants’ report of CTM for inclusion in the Circular. Given the limited amount of financial information on CTM that is publicly available, we are unable to perform the EV/EBITDA analysis.

The results of the PER analysis are detailed in Table 1 below:

*Table 1: PER of Comparable Companies and of the Acquisition*

Company	PER	
	Latest financial year <i>Times</i>	Preceding financial year <i>Times</i>
City Telecom (H.K.) Limited	22.1	33.5
Hutchison Telecommunications Hong Kong Holdings Limited	14.4	29.6
PCCW Limited	11.2	9.0
SmarTone Telecommunications Holdings Limited	93.9 <i>Note 1</i>	15.1
<b>Simple average</b>	<b>15.9</b>	<b>21.8</b>
<b>Minimum</b>	<b>11.2</b>	<b>9.0</b>
<b>Maximum</b>	<b>22.1</b>	<b>33.5</b>
<b>The Acquisition</b>	<b>9.8</b>	<b>10.2</b>

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*Notes:*

1. Excluded as outlier.
2. PER is calculated as market capitalisation as at the Latest Practicable Date divided by profit attributable to shareholders after adjusting for fair value adjustment, disposal gain or loss, impairment and other material one-off items, if any.
3. For the Acquisition, PER is calculated as the Consideration divided by the Company's effective interests in the audited profit after taxation of CTM as represented by the Sale Shares after adjusting for fair value adjustment, disposal gain or loss, impairment and other material one-off items, if any.

*Sources:* Financial statements of respective Comparable Companies and Bloomberg as at the Latest Practicable Date.

As shown in Table 1 above, PER as implied by the Acquisition is below the average of that of the Comparable Companies in the latest financial year. As the financial performance of the Comparable Companies may be affected by the financial crisis in their latest financial years, we have also analysed PER for the preceding financial year as reference. Our results show that PER as implied by the Acquisition for the preceding financial year is also lower than the average of that of the Comparable Companies. As such, we are of the view that the Consideration is fair and reasonable.

### **7. Financial Impact**

#### *A. Effect on NAV per Share*

According to the 2009 Annual Report, NAV of the Group was approximately HK\$1,717 million. NAV per Share of the Group as at 31 December 2009, based on approximately 1,978 million Shares in issue as at the Latest Practicable Date, is approximately HK\$0.87. As stated in the letter from the Board in the Circular, upon Completion, the number of Shares in issue will increase to approximately 2,384 million Shares. In addition, assuming the fair value of the Share is HK\$2.30, the value of the Consideration Shares amounts to approximately HK\$933 million. Together with the HK\$467 million cash consideration, the total consideration amounts to approximately HK\$1,400 million. As a result, NAV of the Group will increase to approximately HK\$2,650 million or an NAV per share of approximately HK\$1.11 upon Completion. As such, the Acquisition would have a positive impact on the NAV per Share.

#### *B. Effect on earnings per Share*

According to the 2009 Annual Report, profit attributable to the Shareholders was approximately HK\$372 million. Earnings per Share based on the Shares in issue as at the Latest Practicable Date is approximately HK\$0.19. Upon Completion, the Group will hold 20% equity interest in CTM. Such shareholding interest will be treated as an investment in an associate and will be accounted for using the equity method. As stated in Appendix II to the Circular, the effective audited net profit after taxation of CTM for the financial year ended 31 December 2009 as represented by the Sale Shares is approximately HK\$143 million. Taking into account the



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number of Shares in issue upon Completion, the Acquisition would have a positive impact on earnings per Share.

### *C. Effect on cash position*

According to the 2009 Annual Report, as at 31 December 2009, the Group had net cash of approximately HK\$686 million. Although the Consideration will partially be settled in cash, thereby decreasing the cash level of the Group, the Group would still be in net cash after settlement of the Consideration.

In light of the above, in particular, that the Acquisition:

- (i) would have a positive impact on NAV per Share;
- (ii) would have a positive impact on earnings per Share; and
- (iii) would decrease the cash level of the Group but the Group would nevertheless still be in net cash after settlement of the Consideration,

we are of the view that, on an overall basis, the Acquisition would have a positive financial impact on the Group.

### **8. Potential dilution**

Table 2 below sets out the shareholding structure of the Company as at the Latest Practicable Date and the potential dilutive effect upon Completion.

*Table 2: Shareholding structure of the Company and the potential dilution*

Name of Shareholder	As at the Latest Practicable Date		Immediately after Completion	
	<i>Number of Shares</i>	%	<i>Number of Shares</i>	%
CITIC Pacific	1,039,758,283	52.6	1,445,584,370	60.7
Directors	502,000	0.0	502,000	0.0
Other Shareholders	<u>937,471,000</u>	<u>47.4</u>	<u>937,471,000</u>	<u>39.3</u>
Total	<u><u>1,977,731,283</u></u>	<u><u>100.0</u></u>	<u><u>2,383,557,370</u></u>	<u><u>100.0</u></u>

From Table 2 above, shareholding of other Shareholders will decrease from approximately 47.4% as at the Latest Practicable Date to approximately 39.3% immediately after Completion, which represents a dilution of approximately 8.1%.

Taking into account that:

- (i) CITIC Pacific already has majority control of the Company and will remain as the single largest Shareholder of the Company;

## LETTER FROM PLATINUM

- (ii) as discussed in the above section headed “Consideration Shares”, the Issue Price is fair and reasonable; and
- (iii) as discussed in the above section headed “Consideration Shares”, partial settlement of the Consideration through issuing the Consideration Shares would enable the Group to maintain its financial flexibility,

we consider that the potential dilution of shareholding immediately after Completion is acceptable.

### RECOMMENDATION

We have considered the above principal factors and reasons and in particular, have taken into account the following in arriving at our opinion:

- (i) although the Acquisition is not in the ordinary and usual course of business of the Group, the Acquisition is nevertheless in line with the strategy of the Group;
- (ii) it is reasonable to satisfy part of the Consideration by issuing the Consideration Shares and the Issue Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole;
- (iii) the Consideration is fair and reasonable;
- (iv) the Acquisition would have an overall positive financial impact on the Group; and
- (v) the potential dilution of shareholding immediately after Completion is acceptable.

Having considered the above, we are of the view that the Acquisition is on normal commercial terms, in line with the strategy of the Group, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders and we recommend the Independent Shareholders to vote in favour of the resolution to be proposed in the EGM to approve the Acquisition.

Yours faithfully,  
For and on behalf of  
**Platinum Securities Company Limited**

**Ian Ramsay**  
*Director and Head of Corporate Finance*

**Lenny Li**  
*Assistant Director*

**1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP FOR THE THREE FINANCIAL YEARS ENDED 31 DECEMBER 2007, 31 DECEMBER 2008 AND 31 DECEMBER 2009**

The table set out below is the summary of the financial information of the Group for the three years ended 31 December 2007, 31 December 2008 and 31 December 2009, as extracted from the annual reports of the Company for each of the years ended 31 December 2007, 31 December 2008 and 31 December 2009.

**Consolidated income statements**

	<b>Year ended 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>(audited)</i> \$'000	<i>(audited)</i> \$'000	<i>(audited)</i> \$'000
<b>Turnover</b>	1,486,071	2,486,362	2,716,559
Other revenue	62,418	20,799	5,455
Other net gain/(loss)	56	(11,272)	513
	<u>1,548,545</u>	<u>2,495,889</u>	<u>2,722,527</u>
Network, operations and support expenses	(988,333)	(1,670,086)	(1,800,966)
Depreciation and amortisation	(78,823)	(113,240)	(110,937)
Staff costs	(103,327)	(180,034)	(220,466)
Other operating expenses	(71,685)	(133,684)	(141,876)
	<u>306,377</u>	<u>398,845</u>	<u>448,282</u>
<b>Profit from operations</b>	306,377	398,845	448,282
Finance costs	–	(26)	–
Share of loss of an associate	–	(944)	(1,323)
	<u>306,377</u>	<u>397,875</u>	<u>446,959</u>
<b>Profit before taxation</b>	306,377	397,875	446,959
Income tax	(43,678)	(65,747)	(75,432)
	<u>262,699</u>	<u>332,128</u>	<u>371,527</u>
<b>Profit attributable to equity holders of the Company</b>	<u>262,699</u>	<u>332,128</u>	<u>371,527</u>
<b>Basic and diluted earnings per share (HK cents)</b>	<u>14.3</u>	<u>16.8</u>	<u>18.8</u>

## Consolidated balance sheets

	<b>31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
	\$'000	\$'000	\$'000
<b>Non-current assets</b>			
Property, plant and equipment	326,489	363,105	541,691
Intangible assets	28,717	34,849	55,232
Goodwill	9,455	214,269	277,419
Interest in an associate	–	5,163	–
Non-current other receivables	34,772	29,716	21,481
Deferred tax assets	42,096	29,907	14,284
	<u>441,529</u>	<u>677,009</u>	<u>910,107</u>
	-----	-----	-----
<b>Current assets</b>			
Trade and other receivables	594,243	864,786	871,297
Current tax recoverable	1,043	250	2,704
Cash and bank deposits	780,621	794,988	686,190
	<u>1,375,907</u>	<u>1,660,024</u>	<u>1,560,191</u>
	-----	-----	-----
<b>Current liabilities</b>			
Trade and other payables	472,416	746,957	676,673
Current tax payable	22,045	36,166	38,396
	<u>494,461</u>	<u>783,123</u>	<u>715,069</u>
	-----	-----	-----
<b>Net current assets</b>	<u>881,446</u>	<u>876,901</u>	<u>845,122</u>
	-----	-----	-----
<b>Total assets less current liabilities</b>	<u>1,322,975</u>	<u>1,553,910</u>	<u>1,755,229</u>
	-----	-----	-----

	<b>31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
	\$'000	\$'000	\$'000
<b>Non-current liabilities</b>			
Deferred tax liabilities	35,125	36,200	38,289
	<u>35,125</u>	<u>36,200</u>	<u>38,289</u>
	-----	-----	-----
<b>NET ASSETS</b>	<b><u>1,287,850</u></b>	<b><u>1,517,710</u></b>	<b><u>1,716,940</u></b>
<b>CAPITAL AND RESERVES</b>			
Share capital	197,807	197,773	197,773
Reserves	<u>1,090,043</u>	<u>1,319,937</u>	<u>1,519,167</u>
<b>TOTAL EQUITY</b>	<b><u>1,287,850</u></b>	<b><u>1,517,710</u></b>	<b><u>1,716,940</u></b>

**2. EXTRACT FROM THE ANNUAL REPORT OF THE COMPANY FOR THE YEAR ENDED 31 DECEMBER 2009**

The following is an extract of the latest published audited consolidated financial statements of the Group for the year ended 31 December 2009 together with the notes therein, from the 2009 annual report of the Company.

**CONSOLIDATED INCOME STATEMENT**

*for the year ended 31 December 2009*

*(Expressed in Hong Kong dollars)*

	<i>Note</i>	<b>2009</b> \$'000	<b>2008</b> \$'000
<b>Turnover</b>	4	2,716,559	2,486,362
Other revenue	5	5,455	20,799
Other net gain/(loss)	6	<u>513</u>	<u>(11,272)</u>
		2,722,527	2,495,889
Network, operations and support expenses	7(c)	(1,800,966)	(1,670,086)
Depreciation and amortisation	7(c)	(110,937)	(113,240)
Staff costs	7(b)	(220,466)	(180,034)
Other operating expenses		<u>(141,876)</u>	<u>(133,684)</u>
<b>Profit from operations</b>		448,282	398,845
Finance costs	7(a)	–	(26)
Share of loss of an associate	17	<u>(1,323)</u>	<u>(944)</u>
<b>Profit before taxation</b>	7	446,959	397,875
Income tax	8(a)	<u>(75,432)</u>	<u>(65,747)</u>
<b>Profit attributable to equity holders of the Company</b>		<u><u>371,527</u></u>	<u><u>332,128</u></u>
<b>Basic and diluted earnings per share (HK cents)</b>	11	<u><u>18.8</u></u>	<u><u>16.8</u></u>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME***for the year ended 31 December 2009**(Expressed in Hong Kong dollars)*

	<b>2009</b>	<b>2008</b>
	<i>\$'000</i>	<i>\$'000</i>
<b>Profit for the year</b>	371,527	332,128
<b>Other comprehensive income for the year (after tax)</b>		
Exchange differences on translation of financial statements of overseas subsidiaries	<u>(3,129)</u>	<u>(859)</u>
<b>Total comprehensive income for the year attributable to equity holders of the Company</b>	<u><u>368,398</u></u>	<u><u>331,269</u></u>

**CONSOLIDATED BALANCE SHEET***at 31 December 2009**(Expressed in Hong Kong dollars)*

	<i>Note</i>	<b>2009</b> \$'000	<b>2008</b> \$'000
<b>Non-current assets</b>			
Property, plant and equipment	13	541,691	363,105
Intangible assets	14	55,232	34,849
Goodwill	15	277,419	214,269
Interest in an associate	17	–	5,163
Non-current other receivables	19	21,481	29,716
Deferred tax assets	18(a)	14,284	29,907
		<u>910,107</u>	<u>677,009</u>
<b>Current assets</b>			
Trade and other receivables	19	871,297	864,786
Current tax recoverable	8(b)	2,704	250
Cash and bank deposits	20(a)	686,190	794,988
		<u>1,560,191</u>	<u>1,660,024</u>
<b>Current liabilities</b>			
Trade and other payables	21	676,673	746,957
Current tax payable	8(b)	38,396	36,166
		<u>715,069</u>	<u>783,123</u>
<b>Net current assets</b>		<u>845,122</u>	<u>876,901</u>
<b>Total assets less current liabilities</b>		<u>1,755,229</u>	<u>1,553,910</u>
<b>Non-current liabilities</b>			
Deferred tax liabilities	18(a)	38,289	36,200
		<u>38,289</u>	<u>36,200</u>
<b>NET ASSETS</b>		<u>1,716,940</u>	<u>1,517,710</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	22	197,773	197,773
Reserves	22(b)	1,519,167	1,319,937
<b>TOTAL EQUITY</b>		<u>1,716,940</u>	<u>1,517,710</u>



**BALANCE SHEET***at 31 December 2009**(Expressed in Hong Kong dollars)*

	<i>Note</i>	<b>2009</b> \$'000	<b>2008</b> \$'000
<b>Non-current assets</b>			
Property, plant and equipment	13	–	1,479
Investments in subsidiaries	16	4,071	4,071
Deferred tax assets	18(a)	2,305	3,340
		----- 6,376	----- 8,890
<b>Current assets</b>			
Trade and other receivables	19	1,122,741	972,767
Cash and bank deposits	20(a)	455,281	491,589
		----- 1,578,022	----- 1,464,356
<b>Current liabilities</b>			
Trade and other payables	21	190,045	227,146
		----- 1,387,977	----- 1,237,210
<b>Net current assets</b>			
		----- 1,387,977	----- 1,237,210
<b>NET ASSETS</b>			
		<u>1,394,353</u>	<u>1,246,100</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	22	197,773	197,773
Reserves	22(b)	1,196,580	1,048,327
		----- 1,394,353	----- 1,246,100
<b>TOTAL EQUITY</b>			
		<u>1,394,353</u>	<u>1,246,100</u>

## STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2009

(Expressed in Hong Kong dollars)

## The Group

	Note	Attributable to equity holders of the Company						Total
		Share capital	Share premium (Note 22(c))	Capital reserve (Note 22(d))	Capital redemption reserve (Note 22(c))	Exchange reserve (Note 22(e))	Retained profits	
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Balance at 1 January 2008</b>		197,807	629,517	12,917	2,000	(7)	445,616	1,287,850
<b>Changes in equity for 2008:</b>								
Dividends approved in respect of the previous year	22(a)(ii)	-	-	-	-	-	(61,310)	(61,310)
Purchase of own shares	22(b)(ii)							
- par value paid		(34)	-	-	-	-	-	(34)
- premium paid		-	-	-	-	-	(510)	(510)
- transfer between reserves		-	-	-	34	-	(34)	-
Release upon lapse of share options	26(b)(ii)	-	-	(2,453)	-	-	2,453	-
Total comprehensive income for the year		-	-	-	-	(859)	332,128	331,269
Dividends declared in respect of the current year	22(a)(i)	-	-	-	-	-	(39,555)	(39,555)
<b>Balance at 31 December 2008 and 1 January 2009</b>		197,773	629,517	10,464	2,034	(866)	678,788	1,517,710
<b>Changes in equity for 2009:</b>								
Dividends approved in respect of the previous year	22(a)(ii)	-	-	-	-	-	(126,574)	(126,574)
Equity-settled share-based transactions	26(b)(iii)	-	-	4,872	-	-	-	4,872
Release upon lapse of share options	26(b)(ii)	-	-	(207)	-	-	207	-
Total comprehensive income for the year		-	-	-	-	(3,129)	371,527	368,398
Dividends declared in respect of the current year	22(a)(i)	-	-	-	-	-	(47,466)	(47,466)
<b>Balance at 31 December 2009</b>		<u>197,773</u>	<u>629,517</u>	<u>15,129</u>	<u>2,034</u>	<u>(3,995)</u>	<u>876,482</u>	<u>1,716,940</u>

## The Company

		Share capital	Share premium (Note 22(c))	Capital reserve (Note 22(d))	Capital redemption reserve (Note 22(c))	Retained profits	Total
	Note	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Balance at 1 January 2008</b>		197,807	629,517	68,814	2,000	251,600	1,149,738
<b>Changes in equity for 2008:</b>							
Dividends approved in respect of the previous year	22(a)(ii)	-	-	-	-	(61,310)	(61,310)
Purchase of own shares	22(b)(ii)						
- par value paid		(34)	-	-	-	-	(34)
- premium paid		-	-	-	-	(510)	(510)
- transfer between reserves		-	-	-	34	(34)	-
Release upon lapse of share options	26(b)(ii)	-	-	(2,453)	-	2,453	-
Total comprehensive income for the year		-	-	-	-	197,771	197,771
Dividends declared in respect of the current year	22(a)(i)	-	-	-	-	(39,555)	(39,555)
<b>Balance at 31 December 2008 and 1 January 2009</b>		197,773	629,517	66,361	2,034	350,415	1,246,100
<b>Changes in equity for 2009:</b>							
Dividends approved in respect of the previous year	22(a)(ii)	-	-	-	-	(126,574)	(126,574)
Equity-settled share-based transactions	26(b)(iii)	-	-	4,872	-	-	4,872
Release upon lapse of share options	26(b)(ii)	-	-	(207)	-	207	-
Total comprehensive income for the year		-	-	-	-	317,421	317,421
Dividends declared in respect of the current year	22(a)(i)	-	-	-	-	(47,466)	(47,466)
<b>Balance at 31 December 2009</b>		<u>197,773</u>	<u>629,517</u>	<u>71,026</u>	<u>2,034</u>	<u>494,003</u>	<u>1,394,353</u>

**CONSOLIDATED CASH FLOW STATEMENT***for the year ended 31 December 2009**(Expressed in Hong Kong dollars)*

	<i>Note</i>	<b>2009</b> \$'000	<b>2008</b> \$'000
<b>Operating activities</b>			
Cash generated from operations	20(b)	464,045	441,571
Hong Kong Profits Tax paid		(59,876)	(41,330)
Overseas Tax paid		(2,047)	(708)
Hong Kong Profits Tax refunded		196	523
		<hr/>	<hr/>
<b>Net cash generated from operating activities</b>		402,318	400,056
		-----	-----
<b>Investing activities</b>			
Payment for purchase of property, plant and equipment		(249,055)	(115,837)
Proceeds from sale of property, plant and equipment		-	144
Payment for acquisition of subsidiaries and an associate (net of cash and cash equivalents acquired)	25	(96,654)	(181,294)
Interest received		6,819	20,436
		<hr/>	<hr/>
<b>Net cash used in investing activities</b>		(338,890)	(276,551)
		-----	-----
<b>Financing activities</b>			
Dividends paid to equity holders of the Company	22(a)	(174,040)	(100,865)
Decrease in amount due to ultimate holding company		-	(1,600)
Payment for repurchase of shares	22(b)(ii)	-	(544)
Interest element of finance lease rental paid		-	(26)
Capital element of finance lease rental paid		-	(5,839)
		<hr/>	<hr/>
<b>Net cash used in financing activities</b>		(174,040)	(108,874)
		-----	-----
<b>Net (decrease)/increase in cash and cash equivalents</b>		(110,612)	14,631
<b>Cash and cash equivalents at 1 January</b>	20(a)	794,988	780,621
<b>Effect of foreign exchange rate changes</b>		21	(264)
		<hr/>	<hr/>
<b>Cash and cash equivalents at 31 December</b>	20(a)	684,397	794,988
		<hr/> <hr/>	<hr/> <hr/>

**NOTES TO THE FINANCIAL STATEMENTS**

*(Expressed in Hong Kong dollars unless otherwise indicated)*

**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 Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“the SEHK”). 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. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

**(b) Basis of preparation of the financial statements**

The consolidated financial statements for the year ended 31 December 2009 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in an associate.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

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 major sources of estimation uncertainty are discussed in note 28.

**(c) Subsidiaries**

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.

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.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(i)(ii)).

**(d) Associates**

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 1(e) and (i)). The Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition, post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in an associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in an associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

**(e) Goodwill**

Goodwill represents the excess of the cost of a business combination or an investment in an associate, over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(i)(ii)). In respect of associate, the carrying amount of goodwill is included in the carrying amount of the interest in an associate and the investment as a whole is tested for impairment whenever there is objective evidence of impairment (see note 1(i)(i)).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in profit or loss.

On disposal of a cash generating unit or an associate during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) **Property, plant and equipment**

The following items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(i)(ii)):

- freehold land and buildings;
- land held under operating leases and buildings thereon, where the fair values of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease (see note 1(h));
- buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 1(h)); and
- other items of plant and equipment.

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.

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 life as follows:

- freehold land is not depreciated.
- buildings situated on freehold land are depreciated on a straight-line basis over their estimated useful life, being no more than 50 years after the date of completion.
- buildings situated on leasehold land are depreciated on a straight-line basis over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.
- telecommunications equipment are depreciated on a straight-line basis at 7 – 33% per annum.
- other assets are depreciated on a straight-line basis at 20 – 33% per annum.

Both the useful life of an asset and its residual value, if any, are reviewed annually.

**(g) Intangible assets (other than goodwill)**

Intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(i)(ii)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

Indefeasible rights of use ("IRU") of telecommunications capacity	10 years
Customer relationships	7 – 8 years
Customer contracts	1 year
Trade names/trademarks	1 year

Both the period and method of amortisation are reviewed annually.

**(h) 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*

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

- property held under operating leases that would otherwise meet the definition of an investment property is classified as 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(h)(ii)); and
- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

*(ii) Assets acquired under finance leases*

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(f). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(i)(ii). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.



(iii) *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.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property or is held for development for sale.

(i) **Impairment of assets**

(i) *Impairment of investments in an associate, and other receivables*

Other 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. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investment in an associate recognised using the equity method (see note 1(d)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 1(i)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(i)(ii).
- For trade and other current receivables, the impairment loss is measured 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. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) *Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that property, plant and equipment, intangible assets, investments in subsidiaries, and goodwill may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell 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 the 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 if 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 first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, 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

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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 year in which the reversals are recognised.

(iii) *Interim financial reporting and impairment*

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(i)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(j) **Trade and other receivables**

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 1(i)(i)), 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 allowance for impairment of doubtful debts.

(k) **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.

(l) **Trade and other payables**

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

(m) **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 year 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 is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at 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 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 resulting 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 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 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).

**(n) 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 in other comprehensive income or directly to equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity respectively.

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.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, 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 tax balances 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.

**(o) Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company 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.

**(p) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. 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 profit or loss as follows:

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

Revenue derived from provision of voice 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.

*(ii) Provision of other telecommunications services*

Revenue from the provision of other telecommunications 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 transaction*

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.

**(q) 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. Exchange gains and loss are recognised in profit or loss.

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.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the closing foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

**(r) Borrowing costs**

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

**(s) 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.

**(t) 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.

**(u) Segment reporting**

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's business and geographical location classified by the location of assets.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

**(v) 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.

**(w) Deferred expenditure**

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

**2 CHANGES IN ACCOUNTING POLICIES**

The HKICPA has issued one new HKFRS, a number of amendments to HKFRSs and new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 8, *Operating segments*
- HKAS 1 (revised 2007), *Presentation of financial statements*
- Improvements to HKFRSs (2008)
- Amendments to HKAS 27, *Consolidated and separate financial statements – cost of an investment in a subsidiary, jointly controlled entity or associate*
- Amendments to HKFRS 2, *Share-based payment – vesting conditions and cancellations*

The amendments to HKFRS 2 and Improvements to HKFRSs (2008) have had no material impact on the Group's financial statements as the amendments and improvements were consistent with policies already adopted by the Group. The impact of the remainder of these developments is as follows:

- HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is consistent with internal reporting provided to the Group's most senior executive management. There were no additional reportable segments identified (see note 3).
- As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity holders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expenses are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.
- The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009, all dividends receivable from subsidiaries and associates, whether out of pre- or post-acquisition profits, will be recognised in the company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless the carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.



**3 SEGMENT REPORTING**

The Group manages its businesses by business operations and geography. On first-time adoption of HKFRS 8, *Operating segments* and in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has only identified one business segment, i.e. telecommunications operations. Further, the Group's business participates primarily in only one geographical location classified by the location of assets, i.e. Hong Kong. The Group's overseas operation constitutes an insignificant portion of the Group's business.

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of deferred tax assets, current tax recoverable, and other corporate assets. Segment liabilities include trade and other payables attributable to the operating activities of the segment.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by the segment and the expenses incurred by the segment or which otherwise arise from the depreciation or amortisation of assets attributable to the segment.

Revenue generated from the telecommunications segment includes the fees derived from the provision of voice services; provision of short message services; and provision of other telecommunications services. Revenue from the provision of these services to state-controlled entities in the People's Republic of China ("PRC") represents more than 10% of the Group's total revenue. The revenue received from this customer amounted to \$1,145,438,000 for the year ended 31 December 2009 (2008: \$1,202,099,000).

**4 TURNOVER**

The Group is principally engaged in the provision of voice services, short message services and other telecommunications services.

Turnover recognised during the year may be analysed as follows:

	2009 \$'000	2008 \$'000
Fees from the provision of voice services	1,726,885	1,613,362
Fees from the provision of short message services	285,982	247,107
Fees from the provision of other telecommunications services	703,692	625,893
	<u>2,716,559</u>	<u>2,486,362</u>

**5 OTHER REVENUE**

	2009 \$'000	2008 \$'000
Bank interest income	5,006	20,294
Other interest income	449	505
	<u>5,455</u>	<u>20,799</u>

## 6 OTHER NET GAIN/(LOSS)

	2009 \$'000	2008 \$'000
Net loss on disposal of property, plant and equipment	(95)	(2,322)
Net foreign exchange gain/(loss)	608	(8,950)
	<u>513</u>	<u>(11,272)</u>

## 7 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2009 \$'000	2008 \$'000
(a) Finance costs:		
Finance charges on obligations under finance lease	–	26
Total interest expense	<u>–</u>	<u>26</u>
(b) Staff costs (including directors' remuneration (note 9)):		
Contributions to defined contribution retirement plans	7,257	5,175
Equity settled share-based payment expenses (note 26)	4,872	–
Salaries, wages and other benefits	208,337	174,859
	<u>220,466</u>	<u>180,034</u>
(c) Other items:		
Network, operations and support expenses, including:	1,800,966	1,670,086
– carrier costs	1,271,123	1,343,048
– operating leases – leased circuits	171,985	118,958
– other telecommunications service costs	357,858	208,080
Depreciation	104,026	101,612
Amortisation	6,911	11,628
Impairment losses on trade and other receivables	754	13,769
Auditors' remuneration	3,391	3,169
Operating lease charges in respect of		
– land and buildings	48,943	39,602
	<u>48,943</u>	<u>39,602</u>

## 8 INCOME TAX

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

	2009 \$'000	2008 \$'000
<b>Current tax – Hong Kong Profits Tax</b>		
Provision for the year	59,726	52,725
Over-provision in respect of prior years	(23)	(72)
	<u>59,703</u>	<u>52,653</u>
	-----	-----
<b>Current tax – Overseas</b>		
Provision for the year	4,666	3,662
Under-provision in respect of prior years	139	–
	<u>4,805</u>	<u>3,662</u>
	-----	-----
<b>Deferred tax</b>		
Origination and reversal of temporary differences	10,924	9,025
Effect on deferred tax balances at 1 January resulting from a change in tax rate	–	407
	<u>10,924</u>	<u>9,432</u>
	-----	-----
	<u>75,432</u>	<u>65,747</u>
	=====	=====

The provision for Hong Kong Profits Tax for 2009 is calculated at 16.5% (2008: 16.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

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

	2009 \$'000	2008 \$'000
Profit before taxation	<u>446,959</u>	<u>397,875</u>
Notional tax on profit before taxation at 16.5% (2008: 16.5%)	73,748	65,649
Tax effect of different tax rate	398	604
Tax effect of non-taxable revenue and non-deductible expenses	(1,601)	(2,447)
Effect on deferred tax balances at 1 January resulting from a change in tax rate	–	407
Tax effect of unused tax losses not recognised	2,297	769
Under/(over)-provision in prior years	116	(72)
Others	474	837
	<u>75,432</u>	<u>65,747</u>
	=====	=====
Actual tax expense	<u>75,432</u>	<u>65,747</u>

(b) Income tax in the balance sheets represents:

**The Group**

	2009 \$'000	2008 \$'000
<b>Hong Kong Profits Tax</b>		
Provision for the year	59,726	52,725
Provisional Profits Tax paid	<u>(38,636)</u>	<u>(30,269)</u>
	21,090	22,456
Balance payable relating to prior years	<u>1,388</u>	<u>-</u>
	22,478	22,456
	-----	-----
<b>Overseas Tax</b>		
Through acquisition of subsidiaries ( <i>note 25</i> )	(3,003)	185
Provision for the year	2,828	3,101
Profits tax paid	(59)	(147)
Balance payable relating to prior years	13,450	10,392
Exchange adjustments	<u>(2)</u>	<u>(71)</u>
	13,214	13,460
	-----	-----
	<u>35,692</u>	<u>35,916</u>
	=====	=====
<b>Representing:</b>		
- current tax recoverable	(2,704)	(250)
- current tax payable	<u>38,396</u>	<u>36,166</u>
	35,692	35,916
	=====	=====

## 9 DIRECTORS' REMUNERATION

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

	2009						
	Directors' fees \$'000	Basic salaries, allowances and benefits in kind \$'000	Discretionary bonuses \$'000	Retirement scheme contributions \$'000	Sub-total \$'000	Share-based payments \$'000	Total \$'000
<b>Executive directors</b>							
Xin Yue Jiang	120	2,364	2,800	12	5,296	282	5,578
Yuen Kee Tong	120	3,164	2,520	144	5,948	251	6,199
Chan Tin Wai David	120	2,110	2,156	12	4,398	219	4,617
Shi Cuiming	26	941	-	3	970	-	970
<b>Non-executive directors</b>							
Kwok Man Leung	146	-	-	-	146	47	193
Chan Chui Sheung Stella	120	-	-	-	120	47	167
<b>Independent non-executive directors</b>							
Yang Xianzu	240	-	-	-	240	47	287
Liu Li Qing	240	-	-	-	240	47	287
Kwong Che Keung Gordon	240	-	-	-	240	47	287
<b>Total</b>	<b>1,372</b>	<b>8,579</b>	<b>7,476</b>	<b>171</b>	<b>17,598</b>	<b>987</b>	<b>18,585</b>
	2008						
	Directors' fees \$'000	Basic salaries, allowances and benefits in kind \$'000	Discretionary bonuses \$'000	Retirement scheme contributions \$'000	Sub-total \$'000	Share-based payments \$'000	Total \$'000
<b>Executive directors</b>							
Shi Cuiming	120	3,413	2,800	12	6,345	-	6,345
Xin Yue Jiang	112	1,238	2,520	12	3,882	-	3,882
Yuen Kee Tong	120	3,155	2,520	144	5,939	-	5,939
Chan Tin Wai David	120	2,105	1,960	12	4,197	-	4,197
<b>Non-executive directors</b>							
Lee Chung Hing	41	-	-	-	41	-	41
Kwok Man Leung	120	-	-	-	120	-	120
Chau Chi Yin	54	-	-	-	54	-	54
Chan Chui Sheung Stella	23	-	-	-	23	-	23
<b>Independent non-executive directors</b>							
Yang Xianzu	240	-	-	-	240	-	240
Liu Li Qing	240	-	-	-	240	-	240
Kwong Che Keung Gordon	240	-	-	-	240	-	240
<b>Total</b>	<b>1,430</b>	<b>9,911</b>	<b>9,800</b>	<b>180</b>	<b>21,321</b>	<b>-</b>	<b>21,321</b>

The above remuneration is included in staff costs as presented in note 7(b).

A number of the Company's directors were granted share options of the Company and CITIC Pacific Limited, its intermediate holding company. Details of the share options plan are set out in note 26.

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

During the year ended 31 December 2009, 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 (2008: Nil).

#### 10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2008: four) are directors whose emoluments are disclosed in note 9. The aggregate of the emoluments in respect of the other two (2008: one) individuals are as follows:

	2009 \$'000	2008 \$'000
Salaries and other emoluments	3,607	2,142
Discretionary bonuses	3,080	1,584
Share-based payments	376	–
Retirement scheme contributions	244	105
	<u>7,307</u>	<u>3,831</u>

The emoluments of the two (2008: one) individuals with the highest emoluments are within the following bands:

	2009	2008
\$		
3,000,001 – 3,500,000	1	–
3,500,001 – 4,000,000	–	1
4,000,001 – 4,500,000	1	–
	<u>1</u>	<u>1</u>

During the years ended 31 December 2009 and 2008, no emoluments were paid by the Company to any of the highest paid individuals as an inducement to join or upon joining the Company or as compensation for loss of office.

## 11 EARNINGS PER SHARE

## (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company for the year ended 31 December 2009 of \$371,527,000 (2008: \$332,128,000) and the weighted average of 1,977,731,000 ordinary shares (2008: 1,977,756,000 shares) in issue during the year, calculated as follows:

*Weighted average number of ordinary shares*

	Number of shares	
	2009 '000	2008 '000
Issued ordinary shares at 1 January	1,977,731	1,978,066
Effect of shares repurchased	—	(310)
	<u>1,977,731</u>	<u>1,977,756</u>
Weighted average number of ordinary shares at 31 December	<u>1,977,731</u>	<u>1,977,756</u>

## (b) Diluted earnings per share

The diluted earnings per share for the years ended 31 December 2009 and 2008 are the same as the basic earnings per share as the potential ordinary shares outstanding during the year ended 31 December 2009 and 2008 were anti-dilutive.

## 12 RELATED PARTY TRANSACTIONS

## (a) Transactions with CITIC Pacific Limited and its affiliates and an associate of the Group

## (i) Recurring transactions

	Note	2009 \$'000	2008 \$'000
Telecommunications services and related income from:			
– Companhia de Telecomunicacoes de Macau, S.A.R.L. (“CTM”)	(1)	10,650	6,351
– ComNet (USA) LLC	(2)	24,364	20,836
Telecommunications service expenses to:			
– CTM		3,590	4,807
– ComNet (USA) LLC		19,014	16,014
Professional fees paid/payable to CITIC Pacific Limited	(3)	2,500	1,900
Operating lease charges and building management fees paid to Goldon Investment Limited	(4)	23,905	23,905
Management fee paid to a wholly-owned subsidiary of HKIX Hong Kong Ltd.	(5)	1,000	1,000

## Notes:

- (1) CTM is an associate of CITIC Pacific Limited.
- (2) ComNet (USA) LLC (formerly known as CM Tel (USA) LLC) is a wholly-owned subsidiary of the Group since May 2009 (note 17).
- (3) Professional fees were paid/payable to CITIC Pacific Limited, an intermediate holding company, for the provision of internal audit and company secretarial services.
- (4) Goldon Investment Limited (an associate of CITIC Pacific Limited) leases certain properties in Hong Kong to the Group under an operating lease. The amount represents the lease charges and building management fees paid to Goldon Investment Limited.
- (5) Financial and operational support expenses paid to a wholly-owned subsidiary of HKIX Hong Kong Ltd. (a minority shareholder of a subsidiary of the Group, Asia Pacific Internet Exchange Limited).
- (6) The directors are of the opinion that the above transactions with related parties were conducted on normal commercial terms in the ordinary course of business and the terms are fair and reasonable so far as the shareholders of the Company are concerned. The professional fees/management fees paid by the Group were reimbursement of costs incurred by the related parties, the price which the Group received or paid for the relevant services were fair and reasonable with reference to market price, or in the case of the payment in respect of HKIX Hong Kong Ltd., was in accordance with terms of a shareholder agreement.



(ii) *Non-recurring transactions*

	2009 \$'000	2008 \$'000
Acquisition of properties from Neostar Investment Limited (a wholly-owned subsidiary of CITIC Pacific Limited) (note 13(b))	150,000	–

(iii) *Trade and other receivables/(trade and other payables)*

	2009 \$'000	2008 \$'000
Amount due from/(to) CTM included in		
– Trade and other receivables	14,580	10,462
– Trade and other payables	(6,153)	(4,769)
	<u>8,427</u>	<u>5,693</u>
Amount due from/(to) ComNet (USA) LLC included in		
– Trade and other receivables (note 19)	–	23,256
– Trade and other payables (note 21)	–	(19,318)
	<u>–</u>	<u>3,938</u>

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

(b) **Transactions with other state-controlled entities in the PRC**

On 24 December 2008, CITIC Group became the major shareholder of the then ultimate holding company, CITIC Pacific Limited. CITIC Group is controlled by the PRC Government and the Company became a state-controlled entity. Other than those transactions with CITIC Pacific Limited and its affiliates and the associates of the Group as disclosed above, the Group conducts certain business activities with other state-controlled entities which include but are not limited to the following:

- Sales and purchase of goods and ancillary materials;
- Rendering and receiving services;
- Ancillary and social services;
- Purchase of property, plant and equipment; and
- Financial services arrangements.

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state-controlled. The Group has established its buying, pricing strategy and approval process for purchases and sales of products and services. Such buying, pricing strategy and approval processes do not depend on whether the counterparties are state-controlled entities or not.

Having considered the potential for transactions to be impacted by related party relationships, the Group's buying, pricing strategy and approval processes, and what information would be necessary for an understanding of the potential effect of the relationship on the financial statements, the directors are of the opinion that the following transactions with other state-controlled entities require disclosure:

(i) *Transactions with other state-controlled entities including state-controlled banks in the PRC*

	2009 \$'000	2008 \$'000
Interest income	4,505	220
Fees from provision of telecommunications services	1,110,424	26,176
Fees for network, operations and support services	(649,285)	(13,940)
	<u>                    </u>	<u>                    </u>

(ii) *Balances with other state-controlled entities, including state-controlled banks in the PRC*

	2009 \$'000	2008 \$'000
Bank deposits	251,282	429,516
Trade debtors	342,838	387,037
Trade creditors	(162,307)	(257,260)
	<u>                    </u>	<u>                    </u>

(c) **Key management personnel remuneration**

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 9 and certain of the highest paid employees as disclosed in note 10, are as follows:

	2009 \$'000	2008 \$'000
Short-term employee benefits	23,128	26,372
Share-based payments	1,128	–
Post-employment benefits	415	407
	<u>                    </u>	<u>                    </u>
	<u>24,671</u>	<u>26,779</u>

Total remuneration is included in "staff costs" (see note 7(b)).

## 13 PROPERTY, PLANT AND EQUIPMENT

## The Group

	Land and building held for own use <i>(Notes (a) &amp; (b))</i> \$'000	Tele- communications equipment \$'000	Other assets <i>(Note (c))</i> \$'000	Construction in progress \$'000	Total assets \$'000
<b>Cost:</b>					
At 1 January 2008	–	648,036	65,700	22,121	735,857
Exchange adjustments	–	141	(28)	–	113
Additions					
– through acquisition of subsidiaries <i>(note 25(b))</i>	–	16,326	397	–	16,723
– others	–	51,117	8,781	63,852	123,750
Disposals	–	(17,057)	(289)	–	(17,346)
Reclassification	–	22,205	587	(22,792)	–
At 31 December 2008	–	720,768	75,148	63,181	859,097
At 1 January 2009	–	720,768	75,148	63,181	859,097
Exchange adjustments	–	450	114	99	663
Additions					
– through acquisition of subsidiaries <i>(note 25(a))</i>	–	21,842	1,261	–	23,103
– others	156,958	50,114	13,992	42,989	264,053
Disposals	–	(2,125)	(13)	(4,802)	(6,940)
Reclassification	–	47,399	1,624	(49,023)	–
At 31 December 2009	156,958	838,448	92,126	52,444	1,139,976
<b>Accumulated depreciation:</b>					
At 1 January 2008	–	368,438	40,930	–	409,368
Exchange adjustments	–	13	(121)	–	(108)
Charge for the year	–	92,395	9,217	–	101,612
Written back on disposals	–	(14,592)	(288)	–	(14,880)
At 31 December 2008	–	446,254	49,738	–	495,992
At 1 January 2009	–	446,254	49,738	–	495,992
Exchange adjustments	–	406	155	–	561
Charge for the year	–	94,079	9,947	–	104,026
Written back on disposals	–	(2,281)	(13)	–	(2,294)
At 31 December 2009	–	538,458	59,827	–	598,285
<b>Net book value:</b>					
At 31 December 2009	156,958	299,990	32,299	52,444	541,691
At 31 December 2008	–	274,514	25,410	63,181	363,105

**The Company**

	<b>Other assets</b>
	<i>\$'000</i>
<b>Cost:</b>	
At 1 January 2008	38,882
Disposals	<u>(219)</u>
At 31 December 2008	<u>38,663</u>
At 1 January 2009 and 31 December 2009	<u>38,663</u>
<b>Accumulated depreciation:</b>	
At 1 January 2008	34,239
Charge for the year	3,164
Written back on disposals	<u>(219)</u>
At 31 December 2008	<u>37,184</u>
At 1 January 2009	37,184
Charge for the year	<u>1,479</u>
At 31 December 2009	<u>38,663</u>
<b>Net book value:</b>	
At 31 December 2009	<u>–</u>
At 31 December 2008	<u>1,479</u>

*Notes:*

- (a) Land and building held for own use is held under medium-term lease in Hong Kong.
- (b) In December 2009, the Group acquired certain properties from Neostar Investment Limited (a wholly-owned subsidiary of CITIC Pacific Limited) with the intention to hold them as owner-occupied properties. A portion of the acquired properties is currently under operating leases and notices have been served to the tenants to vacate the property within 6 months in accordance with the notice period for the termination of the lease stipulated in the respective tenancy agreements, except for one tenant, Dah Chong Hong Holdings Limited (a subsidiary of CITIC Pacific Limited), who will vacate the property in May 2011 in accordance with the lease agreement.

The above mentioned leases do not include any contingent rentals and the total future minimum lease payments receivable in respect of these leases are as follows:

	<b>2009</b>	<b>2008</b>
	<i>\$'000</i>	<i>\$'000</i>
Within 1 year	2,560	–
After 1 year but within 5 years	<u>375</u>	–
	<u>2,935</u>	<u>–</u>

- (c) Other assets included electronic data processing equipment, furniture and fixtures, motor vehicles and office equipment.

## 14 INTANGIBLE ASSETS

## The Group

	Customer relationships \$'000	Customer contracts \$'000	Trade names/ trademarks \$'000	IRU of tele- communications capacity \$'000	Total \$'000
<b>Cost:</b>					
At 1 January 2008	19,871	8,690	-	626	29,187
Additions through acquisition of subsidiaries (note 25(b))	17,200	-	560	-	17,760
At 31 December 2008	37,071	8,690	560	626	46,947
At 1 January 2009	37,071	8,690	560	626	46,947
Exchange adjustments	451	-	-	-	451
Additions through acquisition of subsidiaries (note 25(a))	22,270	-	4,600	-	26,870
At 31 December 2009	59,792	8,690	5,160	626	74,268
<b>Accumulated amortisation:</b>					
At 1 January 2008	104	362	-	4	470
Charge for the year	3,057	8,328	140	103	11,628
At 31 December 2008	3,161	8,690	140	107	12,098
At 1 January 2009	3,161	8,690	140	107	12,098
Exchange adjustments	27	-	-	-	27
Charge for the year	6,197	-	611	103	6,911
At 31 December 2009	9,385	8,690	751	210	19,036
<b>Net book value:</b>					
At 31 December 2009	50,407	-	4,409	416	55,232
At 31 December 2008	33,910	-	420	519	34,849

## 15 GOODWILL

## The Group

	2009 \$'000	2008 \$'000
<b>Cost and carrying amount:</b>		
At 1 January	214,269	9,455
Exchange adjustments	989	–
Additions through acquisition of subsidiaries and an associate ( <i>note 25</i> )	<u>62,161</u>	<u>204,814</u>
At 31 December	<u><u>277,419</u></u>	<u><u>214,269</u></u>

**Impairment tests for cash-generating units containing goodwill**

Goodwill is allocated to the Group's cash-generating units (CGU) identified according to the country of operation and business segment as follows:

	2009 \$'000	2008 \$'000
Telecommunications services	<u><u>277,419</u></u>	<u><u>214,269</u></u>

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a three to five-year period.

Key assumptions used for value-in-use calculations:

	2009 %	2008 %
– Growth rate	5	6
– Discount rate	<u><u>10</u></u>	<u><u>9</u></u>

The average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant segment.

## 16 INTERESTS IN SUBSIDIARIES

## The Company

	2009 \$'000	2008 \$'000
Unlisted shares, at cost	4,071	4,071
Amounts due from subsidiaries ( <i>note 19</i> )	<u>1,113,719</u>	<u>963,655</u>
Amounts due to subsidiaries ( <i>note 21</i> )	<u>1,117,790</u> <u>(167,694)</u>	<u>967,726</u> <u>(189,599)</u>
	<u><u>950,096</u></u>	<u><u>778,127</u></u>

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

At 31 December 2009, the Company had direct or indirect interests in the following principal subsidiaries, all of which are private companies, particulars of which are set out below:

Name of company	Place of incorporation/ operation	Principal activity	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 <sup>1</sup>	–	75%	HK\$100,000
CITIC Concept 1616 Limited	Hong Kong	Provision of systems integration services	–	100%	HK\$2
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 and other telecommunications 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 Telecom 1616 Limited	Hong Kong	Provision of licensed telecommunications services in Hong Kong	100%	–	HK\$2
CITIC Telecom 1616 (UK) Limited (Formerly China Motion (UK) Limited)	United Kingdom	Provision of telecommunications services	–	100%	£2
CITIC TeleSoft 1616 Limited	Hong Kong	Provision of systems integration and maintenance services	–	100%	HK\$2
ComNet Communications (Singapore) Pte. Ltd. (Formerly Macquarie Telecom Pte. Ltd.)	Republic of Singapore	Provision of telecommunications services	–	100%	SG\$19,233,002

Name of company	Place of incorporation/ operation	Principal activity	Percentage of equity attributable to the Company		*Issued and fully paid-up capital
			Direct	Indirect	
ComNet Investment Limited (Formerly Hen Fai Engineering Networks Company Limited)	Hong Kong	Property investment	-	100%	HK\$2
ComNet (Japan) K.K. (Formerly China Motion (Japan) Limited)	Japan	Provision of telecommunications services	-	100%	JPY10,000,000
ComNet Telecom (Singapore) Pte. Ltd. (Formerly China Motion (Singapore) Pte. Ltd.)	Republic of Singapore	Provision of telecommunications services	-	100%	SG\$100,000
ComNet Telecom (Canada) Ltd. (Formerly ChinaMotion NetCom (Canada) Ltd.)	Canada	Provision of telecommunications services	-	100%	1 common share without par value <sup>A</sup>
ComNet Telecom International Limited (Formerly Communication Network International Limited), (Formerly ChinaMotion NetCom (Asia) Limited)	Hong Kong	Provision of telecommunications services	-	100%	HK\$2
ComNet Telecom (HK) Limited (Formerly CM Tel (HK) Limited)	Hong Kong	Provision of telecommunications services	-	100%	HK\$2
ComNet (USA) LLC (Formerly CM Tel (USA) LLC)	United States of America	Provision of telecommunications services	-	100%	N/A**
CPCNet Hong Kong Limited	Hong Kong	Provision of telecommunications services	-	100%	HK\$394,866,986
CPCNet Japan Limited	Japan	Provision of telecommunications services	-	100%	JPY10,000,000
CPCNet Singapore Private Limited	Republic of Singapore	Provision of telecommunications services	-	100%	SG\$2
Crown Yield (HK) Limited	Hong Kong	Provision of leasing services	-	100%	HK\$2



Name of company	Place of incorporation/ operation	Principal activity	Percentage of equity attributable to the Company		*Issued and fully paid-up capital
			Direct	Indirect	
Data Communication Services Limited	Hong Kong	Equipment holding	100%	–	HK\$1,000 HK\$38,000,000 <sup>#</sup>
Grand Pacific Networks Private Limited	Republic of Singapore	Provision of telecommunications services	–	100%	SG\$1
Nebular Telecom Japan K.K.	Japan	Provision of telecommunications services	–	100%	JPY10,000,000
廣東智沛思資訊科技有限公司	People's Republic of China	Provision of telecommunications services	–	100%	N/A <sup>@</sup>

*Notes:*

\* Represented ordinary shares, unless otherwise stated.

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

<sup>^</sup> Common share – the rights of which are set out in the Articles of ComNet Telecom (Canada) Ltd.

<sup>\*\*</sup> Capital contribution for ComNet (USA) LLC amounted to US\$10,000.

<sup>#</sup> Non-voting deferred shares – the rights, privileges and restrictions of which are set out in the Articles of Association of Data Communication Services Limited.

<sup>@</sup> Capital contribution for 廣東智沛思資訊科技有限公司 amounted to \$25,000,000.

## 17 INTEREST IN AN ASSOCIATE

## The Group

	2009 \$'000	2008 \$'000
Share of net assets	–	5,163

Summary of financial information on associate at 31 December 2008:

	Assets \$'000	Liabilities \$'000	Equity \$'000	Revenue \$'000	Profit/(loss) \$'000
100 per cent	55,057	44,519	10,538	38,363	(1,927)
Group's effective interest	26,978	21,815	5,163	18,798	(944)

In May 2009, the Group acquired the remaining 51% equity interest in ComNet (USA) LLC. The transaction resulted in ComNet (USA) LLC ceasing to be an associate and becoming a subsidiary of the Group effective from May 2009.

## 18 DEFERRED TAXATION

## (a) Deferred tax assets and liabilities recognised

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

## The Group

	Intangible assets arising from business combination \$'000	Depreciation allowances in excess of the related depreciation \$'000	Tax losses \$'000	Total \$'000
At 1 January 2008	4,916	45,232	(57,119)	(6,971)
Exchange adjustments	–	(4)	–	(4)
Through acquisition of subsidiaries ( <i>note 25(b)</i> )	2,930	906	–	3,836
(Credited)/charged to profit or loss	(2,182)	(7)	11,621	9,432
At 31 December 2008	5,664	46,127	(45,498)	6,293
At 1 January 2009	5,664	46,127	(45,498)	6,293
Exchange adjustments	72	8	–	80
Through acquisition of subsidiaries ( <i>note 25(a)</i> )	6,708	–	–	6,708
(Credited)/charged to profit or loss	(1,261)	(787)	12,972	10,924
At 31 December 2009	11,183	45,348	(32,526)	24,005

	2009 \$'000	2008 \$'000
Represented by:		
Deferred tax assets	(14,284)	(29,907)
Deferred tax liabilities	<u>38,289</u>	<u>36,200</u>
	<u>24,005</u>	<u>6,293</u>

**The Company**

	<b>Depreciation allowances in excess of the related depreciation/ (depreciation in excess of the related depreciation allowances) \$'000</b>	<b>Tax losses \$'000</b>	<b>Total \$'000</b>
At 1 January 2008	154	(3,925)	(3,771)
(Credited)/charged to profit or loss	<u>(478)</u>	<u>909</u>	<u>431</u>
At 31 December 2008	<u>(324)</u>	<u>(3,016)</u>	<u>(3,340)</u>
At 1 January 2009	(324)	(3,016)	(3,340)
(Credited)/charged to profit or loss	<u>(199)</u>	<u>1,234</u>	<u>1,035</u>
At 31 December 2009	<u>(523)</u>	<u>(1,782)</u>	<u>(2,305)</u>

**(b) Deferred tax assets not recognised**

In accordance with the accounting policy set out in note 1(n), the Group has not recognised deferred tax assets in respect of the cumulative tax losses of \$140,694,000 (2008: \$58,166,000) 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. \$100,304,000 (2008: \$30,922,000) of the tax losses do not expire under the current tax legislation, and \$40,390,000 (2008: \$27,244,000) of the tax losses will expire after 5 to 20 years.

## 19 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Trade debtors	817,848	779,622	–	–
Less: allowance for doubtful debts	(25,203)	(35,481)	–	–
	<u>792,645</u>	<u>744,141</u>	<u>–</u>	<u>–</u>
Amounts due from subsidiaries (note 16)	–	–	1,113,719	963,655
Amount due from an associate	–	23,256	–	–
Other receivables	100,133	127,105	9,022	9,112
	<u>892,778</u>	<u>894,502</u>	<u>1,122,741</u>	<u>972,767</u>
Represented by:				
Non-current portion	21,481	29,716	–	–
Current portion	871,297	864,786	1,122,741	972,767
	<u>892,778</u>	<u>894,502</u>	<u>1,122,741</u>	<u>972,767</u>

All of the current trade and other receivables are expected to be recovered or recognised as expense within one year except for utility and rental deposits at 31 December 2009 of the Group and the Company amounted to \$22,107,000 (2008: \$22,297,000) and \$4,249,000 (2008: \$6,571,000) respectively which will not be recovered within a year.

Included in other receivables is a net deferred expenditure of \$19,695,000 (2008: \$23,400,000) for the exchange of dissimilar assets. Under an agreement with an independent third party, the Group agreed to provide outsourcing services for the period from 2002 to 2010 in exchange for the right to use the capacity of 3 STM-1 channels for the period from 2002 to 2018.

- (a) Included in trade and other receivables are trade debtors (before allowance for doubtful debts) with the following ageing analysis as of the balance sheet date:

	The Group		The Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Within 1 year	675,631	739,035	–	–
Over 1 year	142,217	40,587	–	–
	<u>817,848</u>	<u>779,622</u>	<u>–</u>	<u>–</u>

Trade debtors are due within 7 to 180 days from the date of billing. Further details on the Group's credit policy are set out in note 24(a).

- (b) **Impairment of trade debtors**

Impairment losses in respect of trade debtors are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors directly (see note 1(i)(i)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	The Group		The Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
At 1 January	35,481	6,178	-	-
Exchange adjustments	31	-	-	-
Through acquisition of subsidiaries	9,795	15,725	-	-
Impairment loss recognised	754	13,769	-	-
Impairment loss written back	(6,712)	(191)	-	-
Uncollectible amounts written off	(14,146)	-	-	-
At 31 December	<u>25,203</u>	<u>35,481</u>	<u>-</u>	<u>-</u>

At 31 December 2009, the Group's trade debtors of \$69,737,000 (2008: \$78,539,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of \$25,203,000 (2008: \$35,481,000) were recognised by the Group. The Group does not hold any collateral over these balances.

(c) **Trade debtors that are not impaired**

The ageing analysis of trade debtors that are neither individually nor collectively considered to be impaired are as follows:

	The Group		The Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Within 1 year	628,217	684,527	-	-
Over 1 year	<u>119,894</u>	<u>16,556</u>	<u>-</u>	<u>-</u>
	<u>748,111</u>	<u>701,083</u>	<u>-</u>	<u>-</u>

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

## 20 CASH AND CASH EQUIVALENTS

## (a) Cash and cash equivalents comprise

	The Group		The Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Cash at bank and in hand	185,725	110,990	20,499	4,416
Deposits with banks	<u>500,465</u>	<u>683,998</u>	<u>434,782</u>	<u>487,173</u>
Cash and bank deposits	686,190	794,988	<u>455,281</u>	<u>491,589</u>
Less: pledged deposits*	<u>(1,793)</u>	<u>-</u>		
Cash and cash equivalents	<u>684,397</u>	<u>794,988</u>		

\* As at 31 December 2009, certain bank deposits were pledged to secure general banking facilities provided to the Group.

## (b) Reconciliation of profit before taxation to cash generated from operations:

	2009 \$'000	2008 \$'000
Profit before taxation	446,959	397,875
Adjustments for:		
– Depreciation and amortisation	110,937	113,240
– Loss on disposal of property, plant and equipment	95	2,322
– Share of loss of an associate	1,323	944
– Finance costs	-	26
– Interest income	(5,455)	(20,799)
– Equity-settled share-based payment expenses	4,872	-
– Foreign exchange gain	<u>(4,602)</u>	<u>-</u>
Changes in working capital:	554,129	493,608
Decrease/(increase) in trade and other receivables	70,054	(205,875)
(Decrease)/increase in trade and other payables	(156,974)	153,703
Decrease/(increase) in amount due from an associate	73	(3,730)
(Decrease)/increase in amount due to an associate	<u>(3,237)</u>	<u>3,865</u>
Cash generated from operations	<u>464,045</u>	<u>441,571</u>

## 21 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Trade creditors	531,778	600,544	–	2,016
Other payables and accruals	144,895	127,095	22,351	35,531
Amounts due to subsidiaries ( <i>note 16</i> )	–	–	167,694	189,599
Amount due to an associate	–	19,318	–	–
	<u>676,673</u>	<u>746,957</u>	<u>190,045</u>	<u>227,146</u>

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

Included in trade and other payables are trade creditors with the following ageing analysis as of the balance sheet date:

	The Group		The Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Within 1 year	385,045	504,383	–	–
Over 1 year	146,733	96,161	–	2,016
	<u>531,778</u>	<u>600,544</u>	<u>–</u>	<u>2,016</u>

## 22 CAPITAL, RESERVES AND DIVIDENDS

## (a) Dividends

## (i) Dividends payable to equity holders of the Company attributable to the year

	2009	2008
	\$'000	\$'000
Interim dividend declared and paid of 2.4 cents per share (2008: 2.0 cents per share)	47,466	39,555
Final dividend proposed after the balance sheet date of 7.1 cents per share (2008: 6.4 cents per share)	<u>140,419</u>	<u>126,574</u>
	<u>187,885</u>	<u>166,129</u>

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

- (ii) Dividends payable to equity holders of the Company attributable to the previous financial year, approved and paid during the year

	2009 \$'000	2008 \$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 6.4 cents per share (2008: 3.1 cents per share)	<u>126,574</u>	<u>61,310</u>

(b) Share capital

	Note	2009		2008	
		No. of shares	Amount \$'000	No. of shares	Amount \$'000
<i>Authorised:</i>					
Ordinary shares of \$0.10 each		<u>5,000,000,000</u>	<u>500,000</u>	<u>5,000,000,000</u>	<u>500,000</u>
<i>Issued and fully paid:</i>					
At 1 January	(i)	1,977,731,283	197,773	1,978,066,283	197,807
Repurchase of shares	(ii)	<u>—</u>	<u>—</u>	<u>(335,000)</u>	<u>(34)</u>
At 31 December	(i)	<u>1,977,731,283</u>	<u>197,773</u>	<u>1,977,731,283</u>	<u>197,773</u>

*Notes:*

- (i) Holders of ordinary shares are entitled to receive dividends as declared from time to time and every member shall have 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.
- (ii) During the year ended 31 December 2008, the Company repurchased a total of 335,000 of its own shares on The Stock Exchange of Hong Kong Limited ("SEHK"), all of which have been cancelled, as follows:

Month/Year	Number of shares repurchased	Total purchase price \$	Purchase price per share	
			Highest \$	Lowest \$
January 2008	160,000	249,600	1.60	1.52
February 2008	175,000	293,900	1.70	1.66

(c) Share premium and capital redemption reserve

The application of the share premium account and the capital redemption reserve is governed by Sections 48B and 49H respectively of the Hong Kong Companies Ordinance.

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



**(d) Capital reserve**

The capital reserve comprises the fair value of the actual or estimated number of unexercised share options granted to employees of the Company under the Company's share option plan, recognised in accordance with the accounting policy adopted for share-based payments in note 1(m)(ii).

**(e) Exchange reserve**

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 1(q).

**(f) Distributability of reserves**

At 31 December 2009, the aggregate amount of reserves available for distribution to equity holders of the Company was \$494,003,000 (2008: \$350,415,000). After the balance sheet date, the directors proposed a final dividend of 7.1 cents per ordinary share (2008: 6.4 cents per ordinary share), amounting to \$140,419,000 (2008: \$126,574,000). This dividend has not been recognised as a liability at the balance sheet date.

**(g) Profit attributable to equity holders of the company**

The consolidated profit attributable to equity holders of the Company includes a loss of \$729,000 for the year ended 31 December 2009 (profit attributable to equity holders of 2008: \$17,771,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's profit for the year:

	2009 \$'000	2008 \$'000
Amount of consolidated (loss)/profit attributable to equity holders dealt with in the Company's financial statements	(729)	17,771
Interim dividends from subsidiaries attributable to the profit of the year approved and paid during the year	318,150	180,000
Company's profit for the year	<u>317,421</u>	<u>197,771</u>

**(h) Capital management**

The Group's primary objective on capital management is to safeguard the Group's ability to continue as a going concern, while at the same time continues to provide returns for shareholders.

The Group regularly reviews its capital structure to maintain a balance between the enhancement of shareholders' returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. Adjustments are made to the capital structure as necessary in response to changes in economic conditions.

The capital structure of the Group consists of its total equity attributable to equity holders of the Company, comprising share capital and reserves as disclosed in the financial statements. At 31 December 2009 and 2008, the Group did not have any external borrowings.

Neither the Company nor any of its subsidiaries are subject to any externally imposed capital requirements.

## 23 COMMITMENTS

## (a) Capital commitments

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

	2009 \$'000	2008 \$'000
Contracted for	<u>28,706</u>	<u>4,030</u>
Authorised but not contracted for	<u>9,766</u>	<u>13,651</u>

The Company had no capital commitments at 31 December 2009 and 2008.

## (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 are payable as follows:

*Land and buildings***The Group**

	2009 \$'000	2008 \$'000
Within 1 year	39,760	32,487
After 1 year but within 5 years	<u>34,925</u>	<u>11,297</u>
	<u>74,685</u>	<u>43,784</u>

*Leased circuits***The Group**

	2009 \$'000	2008 \$'000
Within 1 year	34,711	30,153
After 1 year but within 5 years	34,691	39,564
After 5 years	<u>-</u>	<u>4,274</u>
	<u>69,402</u>	<u>73,991</u>

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

**The Group**

	2009 \$'000	2008 \$'000
Within 1 year	5,637	30,352
After 1 year but within 5 years	11	–
	<u>5,648</u>	<u>30,352</u>

**24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES**

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

**(a) Credit risk**

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

In respect of trade debtors, credit evaluations are performed on all customers requiring credit over a certain amount. These evaluation focus on the customer's past history of making payments when due and current ability to pay, and taking into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. 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's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. A significant portion of the Group's telecommunications services are provided to customers in the PRC. At 31 December 2009 and 2008, the balance due from these PRC customers amounted to \$279,733,000 and \$317,539,000 respectively. The credit risk exposure to these PRC customers and the remaining trade debtors 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.

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

	2009 %	2008 %
Due from the Group's largest customer	10	18
Due from the Group's five largest customers	<u>44</u>	<u>49</u>

**(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 of directors 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.

The contractual maturities at the balance sheet date of the Group's and the Company's financial liabilities which are required to be repaid within one year or on demand amounted to \$715,069,000 (2008: \$783,123,000) and \$190,045,000 (2008: \$227,146,000) respectively.

**(c) Interest rate risk**

The Group is exposed to cashflow interest rate risks as the Group has significant cash and bank deposits which are interest-earning. The management monitors interest rate exposures and will consider hedging significant interest rate risk should the need arise. The Group's interest rate profile as monitored by management is set out in (i) below.

*(i) Interest rate profile*

The following table details the interest rate profile of the Group's and the Company's interest-earning financial assets at the balance sheet date:

	The Group				The Company			
	2009		2008		2009		2008	
	Effective interest rate	One year or less	Effective interest rate	One year or less	Effective interest rate	One year or less	Effective interest rate	One year or less
	%	\$'000	%	\$'000	%	\$'000	%	\$'000
Cash and bank deposits	0.19	<u>686,190</u>	1.54	<u>794,988</u>	0.27	<u>455,281</u>	2.06	<u>491,589</u>

*(ii) Sensitivity analysis*

At 31 December 2009, it is estimated that interest rates will not decrease and a general increase of 100 basis points in interest rates, with all other variables held constant, would have increased the Group's profit for the year and retained profits by approximately \$6,862,000. At 31 December 2008, it was estimated that interest rates would not increase and a general decrease of 100 basis points in interest rates, with all other variables held constant, would decrease the Group's profit for the year and retained profits by approximately \$7,950,000. Other components of consolidated equity would not be affected (2008: \$Nil) by the changes in interest rates.

The sensitivity analysis above indicates the Group's exposure to cash flow interest rate risk arising from cash and bank deposits held by the Group at the balance sheet date. The impact on the Group's profit for the year (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest income of such a change in interest rates. The analysis is performed on the same basis for 2008.

**(d) Current risk***(i) The Group's functional and reporting currency is the Hong Kong dollar ("HKD")*

The major operating companies of the Group have certain transactions in United States dollars and the telecommunications services provided to these companies' PRC customers represent a significant portion of their turnover. The operating currency of these PRC customers is mainly Renminbi ("RMB"). RMB is not freely convertible into foreign currencies.

The Group's other assets, liabilities and transactions are mainly denominated either in Hong Kong dollars or United States dollars. It is assumed that the pegged rate between Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollars against other currencies.

*(ii) Exposure to currency risk*

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars, translated using spot rates at the year-end date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

**The Group**

*Exposure to foreign currencies (expressed in Hong Kong dollars)*

	<b>2009</b>		
	<b>United States dollars '000</b>	<b>RMB '000</b>	<b>Euros '000</b>
Trade and other receivables	982,717	17	6,508
Cash and bank deposits	511,041	29	16,975
Trade and other payables	(622,885)	(176)	(16,926)
Overall net exposure	<u>870,873</u>	<u>(130)</u>	<u>6,557</u>
	<b>2008</b>		
	<b>United States dollars '000</b>	<b>RMB '000</b>	<b>Euros '000</b>
Trade and other receivables	686,992	4,519	3,640
Cash and cash equivalents	569,511	116	60,185
Trade and other payables	(537,234)	-	(14,246)
Overall net exposure	<u>719,269</u>	<u>4,635</u>	<u>49,579</u>

**The Company**

*Exposure to foreign currencies (expressed in Hong Kong dollars)*

	2009 United States dollars '000	2008 United States dollars '000
Trade and other receivables	–	1,310
Cash and cash equivalents	399,071	387,925
Trade and other payables	–	(12,597)
	<u>          </u>	<u>          </u>
Overall net exposure	<u>399,071</u>	<u>376,638</u>

*(iii) Sensitivity analysis*

The following table indicates the instantaneous change in the Group's profit for the year and retained profits in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies. Other components of consolidated equity would not be affected (2008: \$Nil) by the changes in the foreign exchange rates.

**The Group**

	2009		2008	
	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit for the year and retained profits \$'000	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit for the year and retained profits \$'000
RMB	<u>5%</u>	<u>(5)</u>	<u>3%</u>	<u>117</u>
Euros	<u>5%</u>	<u>414</u>	<u>(12%)</u>	<u>(6,160)</u>

Results of the analysis as presented in the above table represented an aggregation of the instantaneous effects on each of the Group's entities' profit for the year and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the balance sheet date for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currency of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2008.

(e) **Fair values**

No disclosure of fair value is required as all of the Group's financial assets and liabilities are carried at amounts not materially different from their fair values at 31 December 2009 and 2008.

25 **ACQUISITION OF SUBSIDIARIES AND AN ASSOCIATE**

- (a)
- (i) In May 2009, the Group acquired the remaining 51% equity interest in ComNet (USA) LLC ("CN USA") at a consideration of \$26,009,000. CN USA is engaged in providing wholesale and retail international direct dialing (IDD) services.
  - (ii) In July 2009, the Company entered into an agreement with Macquarie Telecom Group Limited to acquire the entire equity interest and shareholder's loan of its wholly-owned subsidiary, ComNet Communications (Singapore) Pte. Ltd. ("CN Singapore"). The total consideration paid for the acquisition amounted to \$62,526,000. CN Singapore is engaged in the provision of telecommunications services to corporate customers in Singapore.
  - (iii) The Group has completed another acquisition during the year. Since it is relatively immaterial to both the Group's financial position and results, both individually and in aggregate, details of this acquisition are not separately disclosed.
  - (iv) The acquired companies contributed an aggregate revenue of \$134,116,000 and aggregate net gain of \$4,081,000 to the Group's profit for the period since acquisition. The effect on the revenue and profit of the acquired entities as if the acquisition had occurred at the beginning of the period to the Group are \$215,937,000 and \$3,261,000 respectively.

These amounts have been calculated using the Group's accounting policies and by adjusting the results of the relevant subsidiaries to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had been applied from 1 January 2009 together with the consequential tax effects.

(v) The acquisitions had the following effect on the Group's assets and liabilities:

(a) Acquisition of CN USA:

	Acquiree's carrying amount before combination \$'000	Fair value adjustments \$'000	Fair value \$'000
Property, plant and equipment ( <i>note 13</i> )	9,697	–	9,697
Intangible assets ( <i>note 14</i> )	–	8,560	8,560
Trade and other receivables	52,049	–	52,049
Current tax recoverable ( <i>note 8(b)</i> )	3,003	–	3,003
Cash and cash equivalents	490	–	490
Trade and other payables	(62,366)	–	(62,366)
Deferred tax liabilities ( <i>note 18(a)</i> )	–	(3,595)	(3,595)
	<u>2,873</u>	<u>4,965</u>	
Net identifiable assets and liabilities			7,838
Share of net assets immediately prior to purchase			<u>(3,840)</u>
			3,998
Goodwill on acquisition ( <i>note (vi)</i> )			<u>22,011</u>
			<u>26,009</u>
<b>Satisfied by:</b>			
Cash paid			<u>26,009</u>
Cash and cash equivalents acquired			490
Cash consideration paid			<u>(26,009)</u>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiary			<u>(25,519)</u>



## (b) Acquisition of other companies:

	Acquiree's carrying amount before combination \$'000	Fair value adjustments \$'000	Fair value \$'000
Property, plant and equipment (note 13)	13,406	–	13,406
Intangible assets (note 14)	–	18,310	18,310
Trade and other receivables	12,916	–	12,916
Cash and bank deposits*	2,986	–	2,986
Trade and other payables	(12,312)	–	(12,312)
Deferred tax liabilities (note 18(a))	–	(3,113)	(3,113)
	<u>16,996</u>	<u>15,197</u>	
Net identifiable assets and liabilities			32,193
Goodwill on acquisition (note (vi))			<u>40,150</u>
			<u>72,343</u>
<b>Satisfied by:</b>			
Cash paid			<u>72,343</u>
Cash and cash equivalents acquired			1,208
Cash consideration paid			<u>(72,343)</u>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			<u>(71,135)</u>

\* Cash and cash equivalents for cash flow purposes excluded \$1,778,000 pledged deposits.

- (vi) Goodwill arose on the acquisitions because the cost of the combination included a control premium paid to acquire businesses. In addition, the consideration paid for the combination included the benefits of expected synergies to be achieved from integrating the subsidiaries into the Group's existing businesses, future market development and the acquired businesses' workforce.

- (b) In 2008, the Company entered into an agreement (the "Agreement") with, inter alia, ChinaMotion NetCom Holdings Limited ("CMN Holdings") to acquire the entire equity interest and shareholder's loan of ComNet International Holdings Limited and its subsidiaries ("ComNet Group"), apart from one subsidiary of CMN Holdings where only 49% equity interest was acquired. The total consideration paid for the acquisition amounted to \$191,832,000.

ComNet Group was engaged in providing wholesale and retail international direct (IDD) services. The fair value of net liabilities recognised at the acquisition date was \$12,982,000. The acquired companies contributed an aggregate revenue of \$118,349,000 and aggregate net gain of \$8,833,000 to the Group's profit for the year since acquisition. The effects on the revenue and profit of the acquired entities as if the acquisition had occurred at the beginning of 2008 to the Group were \$392,247,000 and \$20,691,000 respectively.

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

	<b>Acquiree's carrying amount before combination \$'000</b>	<b>Fair value adjustments \$'000</b>	<b>Fair value \$'000</b>
Property, plant and equipment ( <i>note 13</i> )	16,723	–	16,723
Intangible assets ( <i>note 14</i> )	–	17,760	17,760
Interest in associate*	3,481	2,626	6,107
Trade and other receivables	55,519	–	55,519
Cash and cash equivalents	10,538	–	10,538
Trade and other payables	(109,769)	–	(109,769)
Current tax payable ( <i>note 8(b)</i> )	(185)	–	(185)
Obligation under finance leases ( <i>note (ii)</i> )	(5,839)	–	(5,839)
Deferred tax liabilities ( <i>note 18(a)</i> )	(906)	(2,930)	(3,836)
	<u>(30,438)</u>	<u>17,456</u>	(12,982)
Goodwill on acquisition ( <i>notes (i) and 15</i> )			<u>204,814</u>
			<u>191,832</u>
<b>Satisfied by:</b>			
Cash paid			<u>191,832</u>
Cash and cash equivalents acquired			10,538
Cash consideration paid			<u>(191,832)</u>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			<u>(181,294)</u>

Notes:

- (i) Goodwill has arisen on the acquisition of the wholesale and retail international direct dial (IDD) business, which has established a global service network with coverage spanning across countries and areas including Hong Kong, Taiwan, Singapore, Japan, the United Kingdom, the United States of America and Canada.
- (ii) ComNet Group has wholly repaid the capital element of finance lease during the 2008.
- \* *The Group has only acquired 49% of the equity interest of a subsidiary of ChinaMotion NetCom Holdings Limited. Details of the acquired assets and liabilities of the company, namely ComNet (USA) LLC, were as follows:*

	<b>Acquiree's carrying amount before combination \$'000</b>	<b>Fair value adjustments \$'000</b>	<b>Fair value \$'000</b>
Property, plant and equipment	6,672	–	6,672
Intangible assets	–	9,240	9,240
Trade and other receivables	33,889	–	33,889
Cash and cash equivalents	2,029	–	2,029
Trade and other payables	(35,383)	–	(35,383)
Current tax payable	(101)	–	(101)
Deferred tax liabilities	–	(3,881)	(3,881)
	<u>7,106</u>	<u>5,359</u>	<u>12,465</u>
Net identifiable assets and liabilities			
	<u>7,106</u>	<u>5,359</u>	<u>12,465</u>
Share of net assets	<u>3,481</u>	<u>2,626</u>	<u>6,107</u>

## 26 EQUITY SHARE-BASED TRANSACTIONS

### (a) Share option scheme of an intermediate holding company

CITIC Pacific Limited, an intermediate 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’s shares.

The following options were granted under the Plan:

Date of grant	Number of share options granted	Exercise price per share	Exercise period
28 May 2002	11,550,000	\$18.20	From 28 May 2002 to 27 May 2007
1 November 2004	12,780,000	\$19.90	From 1 November 2004 to 31 October 2009
20 June 2006	15,930,000	\$22.10	From 20 June 2006 to 19 June 2011
16 October 2007	18,500,000	\$47.32	From 16 October 2007 to 15 October 2012
19 November 2009	13,890,000	\$22.00	From 19 November 2009 to 18 November 2014
14 January 2010	880,000	\$20.59	From 14 January 2010 to 13 January 2015

Mr. Kwok Man Leung and Ms. Stella Chan Chui Sheung, directors of the Company during the year, had options subsisting as at 31 December 2009. The options that remained to be exercised by the directors of the Company represented less than 1% of the issued share capital of CITIC Pacific Limited as at 31 December 2009.

**(b) Share option scheme of the company**

The Company has a share option plan (“CITIC 1616 Plan”) which was adopted on 17 May 2007 whereby the directors of the Company are authorised, at their discretion, to offer any person employed by the Company or any subsidiary and any person who is an officer or director (whether executive or non-executive) of the Company or any subsidiary options to subscribe for shares in the Company to recognise their contributions to the growth of the Company. The CITIC 1616 Plan is valid and effective for a period of ten years ending on 16 May 2017.

Since adoption of the CITIC 1616 Plan, the Company has granted two lots of share options on 23 May 2007 and 17 September 2009 respectively. On 23 May 2007, options to subscribe for a total of 18,720,000 shares (“the First Lot”) were granted to employees, directors and non-executive directors of the Company under the CITIC 1616 Plan. Each option gives the holder the right to subscribe for one ordinary share of \$0.10 each of the Company. These share options vested on 23 May 2007 and then will be exercisable until 22 May 2012. The exercise price is \$3.26 per share, being the closing price of the Company’s ordinary shares on the date of grant of the First Lot.

On 17 September 2009, options to subscribe for a total of 35,825,000 shares (“the Second Lot”) were granted to employees, directors and non-executive directors of the Company under the CITIC 1616 Plan. Each option gives the holder the right to subscribe for one ordinary share of \$0.10 each of the Company. The first 50% of the Second Lot is exercisable from 17 September 2010 to 16 September 2015 and the remaining 50% of the Second Lot is exercisable from 17 September 2011 to 16 September 2016. The exercise price is \$2.10 per share, being the closing price of the Company’s ordinary shares on the date of grant of the Second Lot.

No option was exercised during the years ended 31 December 2009 and 2008.

Details of the fair value of the share options and assumptions are set out in note 26(b)(iii).

- (i) The terms and conditions of the options granted under the CITIC 1616 Plan are as follows, whereby all options are settled by physical delivery of shares:

	Exercise price	Number of options	Vesting condition	Contractual life of options
Options granted to directors:				
- on 23 May 2007	\$3.26	10,290,000	Fully vested on date of grant	Expire at the close of business on 22 May 2012
- on 17 September 2009	\$2.10	3,150,000	Vesting from 17 September 2010	Expire at the close of business on 16 September 2015
- on 17 September 2009	\$2.10	3,150,000	Vesting from 17 September 2011	Expire at the close of business on 16 September 2016
Options granted to employees:				
- on 23 May 2007	\$3.26	8,430,000	Fully vested on date of grant	Expire at the close of business on 22 May 2012
- on 17 September 2009	\$2.10	14,762,500	Vesting from 17 September 2010	Expire at the close of business on 16 September 2015
- on 17 September 2009	\$2.10	14,762,500	Vesting from 17 September 2011	Expire at the close of business on 16 September 2016
Total share options		<u>54,545,000</u>		

- (ii) The number and weighted average exercise prices of share options are as follows:

	2009		2008	
	Average exercise price	Number of options '000	Average exercise price	Number of options '000
Outstanding at the beginning of the year	\$3.26	15,165	\$3.26	18,720
Granted during the year	\$2.10	35,825	-	-
Cancelled during the year	\$2.10	(115)	-	-
Lapsed during the year	\$3.26	<u>(300)</u>	\$3.26	<u>(3,555)</u>
Outstanding at the end of the year	\$2.44	<u>50,575</u>	\$3.26	<u>15,165</u>
Exercisable at the end of the year	\$3.26	<u>14,865</u>	\$3.26	<u>15,165</u>

No option was exercised, but options for 115,000 (2008: Nil) shares have been cancelled and options for 300,000 (2008: 3,555,000) shares have lapsed during the year ended 31 December 2009. The value of lapsed options in respect of the options granted on 23 May 2007 was \$207,000 (2008: \$2,453,000) and was released directly to retained earnings. No option was lapsed in respect of the options granted during the year ended 31 December 2009.

The options outstanding at 31 December 2009 had an average exercise price of \$2.44 (2008: \$3.26) and a remaining contractual life of 4.23 (2008: 3.39) years.

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

(a) The average fair value of an option on one CITIC 1616 share granted during the year ended 31 December 2009 measured as at the date of grant of 17 September 2009 was \$0.733 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 4.3 years;
- Expected volatility of CITIC 1616's share price at 50% per annum (based on historical movements of the Company's and its comparators' share prices);
- Expected annual dividend yield of 2.5%;
- Rate of eligible grantees leaving service assumed at 10% per annum;
- Early exercise assumption for option holders to exercise their options when the share price is at least 175% of the exercise price; and
- Risk-free interest rate of 1.55% 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 Binomial Model.

The total expense recognised in the Group's income statement for the year ended 31 December 2009 in respect of the grant of the aforesaid 35,825,000 options is \$4,872,000.

(b) All the options forfeited before expiry of the CITIC 1616 Plan will be treated as lapsed options which will not be added back to the number of shares available to be issued under the CITIC 1616 Plan.

27 **RETIREMENT BENEFITS SCHEME**

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees in Hong Kong under the jurisdiction of the Hong Kong Employment Ordinance. The assets of the MPF Scheme are held separately from those of the Group and administered by an independent trustee. Under the MPF Scheme, the Group and its employees are each required to make contributions to the Scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of \$20,000 (the "Cap"). The amounts in excess of the Cap are contributed to the MPF Scheme by both employers and employees as voluntary contributions. Mandatory contributions to the MPF Scheme are vested to the employees immediately. Any unvested balance from voluntary contributions is refunded to the Group.

Employees employed by the Group outside Hong Kong are covered by the appropriate local defined contribution schemes pursuant to the local labour rules and regulations.

## 28 ACCOUNTING ESTIMATES AND JUDGEMENTS

**Key resources 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 and amortisation*

Property, plant and equipment and intangible assets are depreciated and amortised 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 and amortisation expense for future periods is adjusted if there are significant changes from previous estimation.

*(b) Impairment*

Notes 15 and 24(a) contain information about the assumptions and risk factors relating to goodwill impairment and the fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

In considering the impairment losses that may be required for certain property, plant and equipment and goodwill of the Group, the 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 losses 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 losses 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.

(d) *Business acquisition*

For the business combinations undertaken by the Group, the Group allocates the costs of the acquired entities to the assets acquired and the liabilities assumed based on their estimated fair value on the date of acquisition. This process is commonly referred to as the purchase price allocation. As part of the purchase price allocation, the Group is required to determine the fair value of any identifiable intangible assets acquired. The determination of the fair value of the intangible assets acquired involves certain judgement and estimates. These judgements can include, but are not limited to, the cash flows that an asset is expected to generate in the future.

The fair values of the identifiable intangible assets were determined by the Group with inputs from the independent appraisers using mainly the income approach. Future cash flows are predominantly based on the historical pricing and expense levels, taking into consideration the relevant market size and growth factors. The resulting cash flows are then discounted at a rate approximating the Group's weighted average cost of capital.

A change in the amount allocated to identifiable intangible assets would have an offsetting effect on the amount of goodwill recognised from the acquisition and would change the amount of amortisation expense recognised related to those identifiable intangible assets.

**29 IMMEDIATE PARENT AND ULTIMATE CONTROLLING PARTY**

At 31 December 2009, the directors consider the immediate parent and the ultimate controlling party of the Group to be Ease Action Investments Corp., which is incorporated in the British Virgin Islands, and CITIC Group, which is a state-owned enterprise in the PRC, respectively. The ultimate controlling party produces financial statements available for public use.

**30 NON-ADJUSTING POST BALANCE SHEET EVENTS**

After the balance sheet date the directors proposed a final dividend. Further details are disclosed in note 22(a).

On 11 February 2010, the Company entered into an agreement with CITIC Pacific Limited, in relation to the acquisition of its 20% interest in CTM for a consideration of \$1,400,400,000 subject to the approval from the relevant parties including respective government bodies. The consideration shall be satisfied by the issue of shares of the Company amounting to \$933,400,000 and \$467,000,000 in cash.

**31 COMPARATIVE FIGURES**

As a result of the application of HKAS 1 (revised 2007), Presentation of financial statements and HKFRS 8, Operating segments, certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 2.

**32 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2009**

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 year ended 31 December 2009 and which have not been adopted in these financial statements.

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



In addition, the following developments are expected to result in amended disclosures in the financial statements, including restatement of comparative amounts in the first period of adoption:

	<b>Effective for accounting periods beginning on or after</b>
HKFR3 (Revised), <i>Business combinations</i>	1 July 2009
Amendments to HKAS 27, <i>Consolidated and separate financial statements</i>	1 July 2009
Improvements to HKFRSs 2009	1 July 2009 or 1 January 2010

**FINANCIAL INFORMATION RELATING TO CTM FOR THE THREE FINANCIAL YEARS ENDED 31 DECEMBER 2007, 2008 AND 2009**

The table set out below is extracted from the audited consolidated financial statements of CTM, which was prepared in accordance with International Financial Reporting Standards, for the three financial years ended 31 December 2007, 31 December 2008 and 31 December 2009. The consolidated financial statements of CTM were audited by KPMG in accordance with International Standards on Auditing for each of three financial years. KPMG expressed an unqualified opinion on the financial statements of CTM for each of three financial years.

**Income Statements**

*(Expressed in Macau Patacas)*

	Group			Company		
	Year ended 31 December			Year ended 31 December		
	2007	2008	2009	2007	2008	2009
	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000
<b>Turnover</b>	2,289,407	2,442,005	2,439,156	2,288,314	2,442,081	2,435,983
Other net income	17,528	489	1,628	18,156	40	940
Operating costs and expenses	(1,594,316)	(1,647,361)	(1,599,890)	(1,590,365)	(1,646,934)	(1,596,040)
<b>Profit from operations</b>	712,619	795,133	840,894	716,105	795,187	840,883
Interest income	17,927	6,535	125	18,063	6,687	216
Profit before taxation	730,546	801,668	841,019	734,168	801,874	841,099
Income tax	(77,634)	(94,872)	(99,644)	(77,678)	(96,225)	(99,608)
<b>Profit for the year</b>	<b>652,912</b>	<b>706,796</b>	<b>741,375</b>	<b>656,490</b>	<b>705,649</b>	<b>741,491</b>
<b>Profit attributable to:</b>						
– Equity shareholders of the Company	652,904	706,794	741,361	656,490	705,649	741,491
– Minority interests	8	2	14	–	–	–
<b>Profit for the year</b>	<b>652,912</b>	<b>706,796</b>	<b>741,375</b>	<b>656,490</b>	<b>705,649</b>	<b>741,491</b>

**Balance Sheets***(Expressed in Macau Patacas)*

	Group			Company		
	31 December			31 December		
	2007	2008	2009	2007	2008	2009
	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000
<b>Non-current assets</b>						
Property, plant and equipment	931,290	913,284	864,278	931,558	913,577	864,316
Intangible assets	32,673	22,867	9,337	32,673	22,867	9,337
Long term receivables	1,054	804	750	1,054	804	750
Investments in subsidiaries	-	-	-	10	10	10
Net defined benefit retirement assets	15,655	-	-	15,655	-	-
Deferred tax assets	1,016	4,541	4,536	1,016	4,541	4,536
	<u>981,688</u>	<u>941,496</u>	<u>878,901</u>	<u>981,966</u>	<u>941,799</u>	<u>878,949</u>
<b>Current assets</b>						
Inventories	59,908	53,209	42,955	59,908	53,209	42,955
Trade and other receivables	253,288	235,831	274,283	262,783	246,431	285,420
Loan to subsidiary	-	-	-	5,557	5,291	5,782
Cash and cash equivalents	479,802	517,078	587,818	475,316	512,883	582,718
	<u>792,998</u>	<u>806,118</u>	<u>905,056</u>	<u>803,564</u>	<u>817,814</u>	<u>916,875</u>
<b>Current liabilities</b>						
Trade and other payables	471,767	432,106	458,310	483,495	444,689	470,541
Current taxation	93,902	102,618	106,138	92,517	102,680	106,200
	<u>565,669</u>	<u>534,724</u>	<u>564,448</u>	<u>576,012</u>	<u>547,369</u>	<u>576,741</u>
<b>Net current assets</b>	<u>227,329</u>	<u>271,394</u>	<u>340,608</u>	<u>227,552</u>	<u>270,445</u>	<u>340,134</u>

**Balance Sheets***(Expressed in Macau Patacas)*

	Group			Company		
	31 December			31 December		
	2007	2008	2009	2007	2008	2009
	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000
<b>Non-current liabilities</b>						
Net defined benefit retirement obligations	–	25,798	32,642	–	25,798	32,642
<b>NET ASSETS</b>	<u>1,209,017</u>	<u>1,187,092</u>	<u>1,186,867</u>	<u>1,209,518</u>	<u>1,186,446</u>	<u>1,186,441</u>
<b>Capital and reserves</b>						
Share capital	150,000	150,000	150,000	150,000	150,000	150,000
Reserves	<u>1,058,929</u>	<u>1,037,002</u>	<u>1,036,867</u>	<u>1,059,518</u>	<u>1,036,446</u>	<u>1,036,441</u>
<b>Total equity attributable to equity shareholders of the Company</b>	<u>1,208,929</u>	<u>1,187,002</u>	<u>1,186,867</u>	<u>1,209,518</u>	<u>1,186,446</u>	<u>1,186,441</u>
Minority interests	<u>88</u>	<u>90</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
<b>TOTAL EQUITY</b>	<u><u>1,209,017</u></u>	<u><u>1,187,092</u></u>	<u><u>1,186,867</u></u>	<u><u>1,209,518</u></u>	<u><u>1,186,446</u></u>	<u><u>1,186,441</u></u>

The Directors confirm that to the best of their knowledge and after making reasonable enquiries, the Directors are not aware of any material adverse change in the business, financial or prospects of CTM since 31 December 2009 up to the Latest Practicable Date.

#### SUMMARY OF THE BUSINESS TREND OF CTM FOR THE FINANCIAL YEARS 2007 TO 2009

##### Business Trend of CTM from the year 2007 to the year 2008

###### *Turnover*

The turnover for the year ended 31 December 2008 increased 7% to MOP 2,442 million, an increase of MOP 153 million over the prior year. The most significant increase in turnover came from the licensed businesses of Internet and Mobile services, which grew by 19% and 13% in the year respectively. Leased Circuits business also reflected strong growth by 34% over the year. However, the turnover of Business Solution declined by 31% owing to the slowdown of local economic development.

*Operating cost*

Despite strong competitive and inflationary pressure from labour; energy and property costs, CTM managed to contain its operating expenditure to an increase of 3% in 2008.

*Profit after tax*

The profit after tax for 2008 was MOP 707 million, an increase of 8% from last year.

**Significant services***Fixed Line Telephone*

During the year ended 31 December 2008, a total of 18,566 (2007: 22,395) applications for new direct exchange lines were received. The gross number of installations during 2008 was 17,695 (2007: 21,283), comprising 11,714 direct exchange lines and 5,981 external removals. The net lines decreased by 2,093 (2007: increased by 1,348) after a reduction of 19,788 cessations (2007: 19,935). The total system size at the end of 2008 was 175,920 (2007: 178,013) lines.

Total outgoing international telephone minutes originated in Macau for 2008 were 140 million, representing an increase of 4% compared to 2007. Total incoming international telephone minutes terminated in Macau for 2008 were 186 million, an increase of 8% compared to 2007.

*Mobile Telephone*

The number of Mobile customers, including prepaid customers, increased from 356,775 as at 31 December 2007 to 440,220 as at 31 December 2008, representing an increase of 23%.

*Internet*

The number of Internet subscribers including Netcards increased from 121,297 as at 31 December 2007 to 128,510 as at 31 December 2008, representing an increase of 6%.

*Capital expenditure*

CTM continued to progress with its “Digital Macau” capital investment program. CTM has invested MOP 266 million as capital expenditure during 2008, some reduction from last year as the development of Mobile Postpaid Billing System had already been completed in 2007. The most significant projects in 2008 included the development of WCDMA 3G Mobile Network, expansion of Fixed and International networks and Broadband Internet Network.

**Business Trend of CTM from the year 2008 to the year 2009***Turnover*

The revenue for the year ended 31 December 2009 was in line with the preceding year at MOP 2,439 million. The fixed international voice revenue dropped substantially by 19% during the year owing to the intense competition through mobile substitution and economic downturn. The decrease was compensated by the growth in mobile services, leased circuits and business solution services to the corporate customers.

*Profit after tax*

Given the adverse economic environment, CTM managed to reduce its operating expenditure by 3% with savings in all areas of expenditure. As a result, the profit for 2009 was MOP 741 million, reflecting an increase of 5% over last year.

**Significant services***Fixed line telephone*

During the year ended 31 December 2009, a total of 16,405 (2008: 18,566) applications for new direct exchange lines were received. The gross number of installations during the year was 15,714 (2008: 17,695), comprising 9,639 direct exchange lines and 6,075 external removals. The net lines decreased by 4,560 (2008: 2,093) after a cessation of 20,274 (2008: 19,788). The total system size at the end of the year was 171,360 (2008: 175,920) lines.

Total outgoing international telephone minutes originating in Macau for 2009 were 128 million, representing a decrease of 9% compared to 2008. Total incoming international telephone minutes terminated in Macau for 2009 were 170 million, also a decrease of 9% compared to 2008.

*Mobile Telephone*

The number of Mobile customers, including prepaid customers, increased from 440,220 as at 31 December 2008 to 523,141 as at 31 December 2009, representing an increase of 19%.

*Internet*

The number of Internet subscribers including Netcards increased from 124,434 as at 31 December 2008 to 127,996 as at 31 December 2009, representing an increase of 3%.

*Capital expenditure*

CTM invested MOP 230 million as capital expenditure during 2009, a reduction of MOP 36 million comparing with last year (MOP 266 million) mainly due to lower demand caused by the economic downturn. CTM's most significant projects during 2009, included the expansion of the WCDMA 3G Mobile Network, the expansion of the Broadband Internet Network and International Backhaul Capacity for Broadband Internet bandwidth, and the expansion of the Local Network.

**1.    UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP**

*The following is an illustrative and unaudited pro forma statement of assets and liabilities of CITIC 1616 Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) which has been prepared on the basis of the notes set out below for the purpose of illustrating the effects of the proposed acquisition of a 20% interest in Companhia de Telecomunicacoes de Macau, S.A.R.L. (the “Acquisition”), as if it had taken place on 31 December 2009.*

This unaudited pro forma statement of assets and liabilities of the Group is prepared based on the audited consolidated balance sheet of the Group at 31 December 2009 as set out in Appendix I to this circular and the audited consolidated balance sheet of *Companhia de Telecomunicacoes de Macau, S.A.R.L.* (“CTM”) at 31 December 2009 as set out in Appendix II to this circular, after making certain unaudited pro forma adjustments as set out in notes below. A narrative description of the unaudited pro forma adjustments of the Acquisition that are (i) directly attributable to the transactions concerned and not relating to future events or decisions; and (ii) factually supportable, is summarised in the notes below.

This unaudited pro forma statement of assets and liabilities of the Group is prepared by the Directors based on a number of assumptions, estimates, uncertainties and currently available information. As a result of these assumptions, estimates, uncertainties, the accompanying unaudited pro forma statement of assets and liabilities of the Group does not purport to describe the actual financial position of the Group that would have been attained had the Acquisition been completed on 31 December 2009 or any future date. Further, the accompanying unaudited pro forma statement of assets and liabilities of the Group does not purport to predict the Group’s future financial position.

This unaudited pro forma statement of assets and liabilities of the Group should be read in conjunction with the financial information of the Group as set out in Appendix I to this circular, the financial information of CTM as set out in Appendix II to this circular and other financial information included in elsewhere of this circular.

**APPENDIX III PRO FORMA FINANCIAL INFORMATION ON THE GROUP**

	Audited statement of assets and liabilities of the Group at 31 December 2009 <i>(Note 1)</i> <i>HK\$'000</i>	Pro forma adjustments <i>(Note 2)</i> <i>HK\$'000</i>	Unaudited pro forma statement of assets and liabilities of the Group (after Acquisition) <i>(Note 3)</i> <i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment	541,691		541,691
Intangible assets	55,232		55,232
Goodwill	277,419		277,419
Interest in an associate	–	1,400,400	1,400,400
Non-current other receivables	21,481		21,481
Deferred tax assets	14,284		14,284
	<u>910,107</u>		<u>2,310,507</u>
<b>Current assets</b>			
Trade and other receivables	871,297		871,297
Current tax recoverable	2,704		2,704
Cash and bank deposits	686,190	(467,000)	219,190
	<u>1,560,191</u>		<u>1,093,191</u>
<b>Current liabilities</b>			
Trade and other payables	676,673		676,673
Current tax payable	38,396		38,396
	<u>715,069</u>		<u>715,069</u>
<b>Net current assets</b>	<u>845,122</u>		<u>378,122</u>
<b>Total assets less current liabilities</b>	<u>1,755,229</u>		<u>2,688,629</u>
<b>Non-current liabilities</b>			
Deferred tax liabilities	38,289		38,289
	<u>38,289</u>		<u>38,289</u>
<b>NET ASSETS</b>	<u>1,716,940</u>		<u>2,650,340</u>



**Notes to the unaudited pro forma statement of assets and liabilities**

1. The balances of assets and liabilities of the Group are extracted from the audited consolidated balance sheet of the Group at 31 December 2009 as set out in Appendix I to this circular.
2. The adjustments represent the acquisition by the Group of the 20% equity interest in CTM for a consideration of HK\$1,400,400,000, settled by the Company as to HK\$467,000,000 by cash, and HK\$933,400,000 by issue of 405,826,087 Consideration Shares to the vendor (or its nominees), when assuming the fair value of each Consideration Share is HK\$2.30 at Completion.

The issue of new shares will increase the Company's share capital by approximately HK\$40,582,609 and share premium by approximately HK\$892,817,391.

3. Upon completion of the Acquisition, CTM will be accounted for as an associate of the Group. The Group will apply the equity method to account for the acquisition of CTM as an associate as the Directors of the Company consider that the Group will have significant influence, but not control or joint control, over CTM's management, including participation in the financial and operating policy decisions after the completion of the Acquisition.

On the date of acquisition of an associate, fair values should be attributed to the associate's identifiable assets, liabilities and contingent liabilities. Any difference between the investor's share of the fair values of the acquired net assets and the purchase price is goodwill or excess of the Group's share of net identifiable assets over the cost of acquisition and should be included in the carrying amount of the investment in the associate and not shown separately.

For the purpose of preparing the unaudited pro forma financial information of the Group, the carrying amount of the consolidated net assets of CTM at 31 December 2009 are assumed to be approximate to the fair values of the assets, liabilities and contingent liabilities of CTM on completion of the Acquisition. As a result, interest in CTM is initially recorded at cost (i.e. HK\$1,400,400,000) in the unaudited pro forma financial information of the Group.

Since the actual fair values of the assets, liabilities and contingent liabilities of CTM and the fair value of the Company Shares on completion of the Acquisition may be different at the date of completion of the Acquisition, the goodwill may be different from the estimated amount shown in this unaudited pro forma financial information of the Group.

4. No adjustment has been made to reflect any trading results or other transactions of the Group and CTM entered into subsequent to 31 December 2009.

2. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE GROUP

*The following is the text of a report received from KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.*



8th Floor  
Prince's Building  
10 Chater Road  
Central  
Hong Kong

19 April 2010

The Board of Directors  
CITIC 1616 Holdings Limited  
8/F, CITIC Tower  
1 Tim Mei Avenue  
Central  
Hong Kong

Dear Sirs

**CITIC 1616 Holdings Limited (the "Company")**

We report on the unaudited pro forma financial information ("the Pro Forma Financial Information") of the Company and its subsidiaries ("the Group") set out on pages 93 to 95 in Appendix III of the circular dated 19 April 2010 ("the Circular"), which has been prepared by the directors of the Company solely for illustrative purposes to provide information about how the proposed acquisition of the 20% equity interest in Companhia de Telecomunicacoes de Macau, S.A.R.L. might have affected the financial information presented. The basis of preparation of the unaudited Pro Forma Financial Information is set out on page 93 of the Circular.

**Responsibilities**

It is the responsibility solely of the directors of the Company to prepare the unaudited Pro Forma Financial Information in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

### **Basis of opinion**

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited Pro Forma Financial Information with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2009 or any future date.

### **Opinion**

In our opinion:

- (a) the unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 4.29(1) of the Listing Rules.

Yours faithfully,  
**KPMG**  
*Certified Public Accountants*  
*Hong Kong*

### 3. INDEBTEDNESS

#### Statement of indebtedness

##### *Borrowings and banking facilities*

At the close of business on 28 February 2010, being the latest practicable date for this statement of indebtedness prior to the date of this circular, the Group had no outstanding borrowings.

At the close of business on 28 February 2010, the Group had banking facilities amounting to HK\$133.3 million, of which HK\$3.3 million facilities utilisation was subject to pledged deposits.

Of the total banking facilities, approximately HK\$3.0 million was utilised as guarantees for the Group's purchase from telecoms operators, performance to customers and rental deposit.

At the close of business on 28 February 2010, the Group pledged HK\$1.8 million of fixed deposits to secure its banking facilities. The Group had not created any other security over its assets and had not provided any corporate guarantee.

##### *Contingent liabilities*

At the close of business on 28 February 2010, the Group did not have any contingent liability.

##### *Disclaimer*

Save as disclosed above, as at the close of business on 28 February 2010, the Group did not have any loan capital issued and outstanding, and authorised or otherwise created but unissued or agreed to be issued, bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans or hire purchase commitments, guarantees or other contingent liabilities.

### 4. WORKING CAPITAL

The Directors are of the opinion that taking into account the Group's internal resources, available banking and other borrowing facilities, the Group will have sufficient working capital for its present requirements that is, for at least the next 12 months from the date of this circular.

**RESPONSIBILITY STATEMENT**

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable inquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in this circular misleading.

**SHARE CAPITAL OF THE COMPANY**

Information about the authorised and issued share capital of the Company are as follows:

<i>Authorised:</i>	<i>HK\$</i>
5,000,000,000 ordinary shares of HK\$0.10 each as at the Latest Practicable Date	<u>500,000,000.00</u>
<i>Issued and fully paid:</i>	
1,977,731,283 ordinary shares of HK\$0.10 each as at the Latest Practicable Date	<u>197,773,128.30</u>
<i>To be issued as fully paid on Completion:</i>	
405,826,087 ordinary shares of HK\$0.10 each	<u>40,582,608.70</u>

All the Shares rank pari passu in all aspects, including all rights as to dividend, voting and interests in the share capital of the Company.

## DISCLOSURE OF INTERESTS

## Interests of Directors and chief executive

- (i) As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company or any of their respective associates in any shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules were as follows:

(a) *Interest in Shares*

Name of Director	Number of Shares	Percentage of issued share capital (%)
	Personal interests	
Yuen Kee Tong	500,000	0.0253
David Chan Tin Wai	2,000	0.0001

(b) *Interest in share options granted by the Company*

Name of Director	Underlying shares pursuant to share options	Percentage of issued share capital (%)	Exercise price per Share (HK\$)	Date of grant	Exercisable period
Xin Yue Jiang	900,000	0.0455	2.10	17.9.2009	17.9.2010- 16.9.2015
	900,000	0.0455	2.10	17.9.2009	17.9.2011- 16.9.2016
Yuen Kee Tong	2,500,000	0.1264	3.26	23.5.2007	23.5.2007- 22.5.2012
	800,000	0.0405	2.10	17.9.2009	17.9.2010- 16.9.2015
	800,000	0.0405	2.10	17.9.2009	17.9.2011- 16.9.2016

Name of Director	Underlying shares pursuant to share options	Percentage of issued share capital (%)	Exercise price per Share (HK\$)	Date of grant	Exercisable period
David Chan Tin Wai	1,845,000	0.0933	3.26	23.5.2007	23.5.2007-22.5.2012
	700,000	0.0354	2.10	17.9.2009	17.9.2010-16.9.2015
	700,000	0.0354	2.10	17.9.2009	17.9.2011-16.9.2016
Kwok Man Leung	150,000	0.0076	2.10	17.9.2009	17.9.2010-16.9.2015
	150,000	0.0076	2.10	17.9.2009	17.9.2011-16.9.2016
Yang Xianzu	300,000	0.0152	3.26	23.5.2007	23.5.2007-22.5.2012
	150,000	0.0076	2.10	17.9.2009	17.9.2010-16.9.2015
	150,000	0.0076	2.10	17.9.2009	17.9.2011-16.9.2016
Liu Li Qing	300,000	0.0152	3.26	23.5.2007	23.5.2007-22.5.2012
	150,000	0.0076	2.10	17.9.2009	17.9.2010-16.9.2015
	150,000	0.0076	2.10	17.9.2009	17.9.2011-16.9.2016
Gordon Kwong Che Keung	300,000	0.0152	3.26	23.5.2007	23.5.2007-22.5.2012
	150,000	0.0076	2.10	17.9.2009	17.9.2010-16.9.2015
	150,000	0.0076	2.10	17.9.2009	17.9.2011-16.9.2016

(c) *Interest in shares of CITIC Pacific*

Name of Director	Number of shares			Percentage of issued share capital (%)
	Personal interests	Corporate interests	Total	
Yuen Kee Tong	1,033,000	–	1,033,000	0.0283
David Chan Tin Wai	40,000	–	40,000	0.0011
Yang Xianzu	20,000	–	20,000	0.0005
Gordon Kwong Che Keung	20,000	50,000	70,000	0.0019

(d) *Interest in share options granted by CITIC Pacific*

Name of Director	Underlying shares pursuant to share options	Percentage of issued share capital (%)	Exercise price per share (HK\$)	Date of grant	Exercisable period
Kwok Man Leung	600,000	0.0164	47.32	16.10.2007	16.10.2007-15.10.2012
	500,000	0.0137	22.00	19.11.2009	19.11.2009-18.11.2014
Fei Yiping	300,000	0.0082	22.00	19.11.2009	19.11.2009-18.11.2014

(e) *Interest in shares of DCH Holdings*

Name of Director	Number of shares		Percentage of issued share capital (%)
	Personal interests		
Yuen Kee Tong	20,000		0.0011
David Chan Tin Wai	5,279		0.0003



*(f) Interest in shares of China CITIC Bank Corporation Limited*

Name of Director	Class of shares	Number of shares	
		Family interests	Percentage of issued share capital (%)
David Chan Tin Wai	H shares	3,000	0.00002

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules.

- (ii) As at the Latest Practicable Date, Mr. Kwok Man Leung is an Executive Director of CITIC Pacific and Mr. Fei Yiping is the Group Financial Controller of CITIC Pacific. Apart from these, none of the Directors and the chief executive of the Company was a director or employee of a company which has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.
- (iii) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, any member of the Group since 31 December 2009, being the date to which the latest published audited accounts of the Company were made up.
- (iv) None of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

**SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had entered into any service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

**LITIGATION**

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group.

**COMPETING INTEREST**

As at the Latest Practicable Date, save as disclosed below, none of the Directors and their respective associates had any direct or indirect interest in a business which competes or is likely to compete with the business of the Group and would require disclosure under Rule 8.10 of the Listing Rules:

Mr. Kwok Man Leung, a non-executive director, is a director of CITIC Guoan Co., Ltd. ("**CITIC Guoan**"). CITIC Guoan's primary business is its 41.42% interest in CITIC Guoan Information Industry Co. Ltd. ("**Guoan Information**"), a company listed on the Shenzhen Stock Exchange. Guoan Information's major activities include investment and construction of cable television networks and satellite information networks for communications network infrastructure, the provision of value-added telecommunications services in communications services sector, network system integration, software development, development of salt lake resources, the development and manufacture of new materials, as well as the development and management of properties.

**QUALIFICATIONS**

The following is the qualification of the experts who have given their opinions or advices on the information contained in this circular:

<b>Name</b>	<b>Qualification</b>
Platinum Securities	a corporation licensed to carry out Type 1 (dealings in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
KPMG	Certified Public Accountants

As at the Latest Practicable Date, Platinum Securities and KPMG had no interest in the share capital of any member of the Group nor had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group, and Platinum Securities and KPMG had no interest, either directly or indirectly, in any assets which have been, since 31 December 2009, the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

Platinum Securities and KPMG have given and have not withdrawn their written consents to the issue of this circular with the inclusion of their respective letters/reports and references to their names in the form and context in which they appear. The letter of Platinum Securities is given as of the date of this circular for incorporation herein.

#### MATERIAL CONTRACTS

The following contracts (not being contract in the ordinary course of business) have been entered into by the members of the Group within the two years immediately preceding the issue of this circular and are material:

- (a) the sale and purchase agreement dated 29 August 2008 and entered into among ChinaMotion NetCom Holdings Limited (“**CMN Holdings**”), the Company and China Motion Telecom International Limited (“**CMT**”), pursuant to which the Company agreed to acquire from CMN Holdings the entire interest in ChinaMotion NetCom Limited (now known as ComNet International Holdings Limited) (“**CMN**”) and the net amount which shall stand due owing from CMN Group (i.e. CMN and its subsidiaries) to CMT Group (i.e. CMT and its subsidiaries, excluding the CMN Group itself) as at completion for an aggregate cash consideration of HK\$260 million (subject to adjustment);
- (b) the agreement for sale and purchase dated 4 November 2009 and as supplemented by a supplemental agreement for sale and purchase dated 4 November 2009, both entered into among ComNet Investment Limited (“**ComNet Investment**”), a wholly owned subsidiary of the Company, and Neostar Investment Limited (“**Neostar**”), a wholly owned subsidiary of CITIC Pacific, pursuant to which ComNet Investment agreed to acquire from Neostar portions of ground, 1st, 2nd and 3rd floors, the whole of 5th, 16th, 17th, 18th, 23rd, 25th and 26th floors, portion of the roof and ancillary areas of Broadway Centre, 93 Kwai Fuk Road, Kwai Chung, New Territories, Hong Kong at a consideration of HK\$150,000,000; and
- (c) the Sale and Purchase Agreement.

#### MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2009, being the date to which the latest published audited accounts of the Company were made up.

#### GENERAL

- (i) The registered office of the Company is situated at 8th Floor, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong.
- (ii) The head office and principal place of business in Hong Kong is situated at 8th Floor, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong.

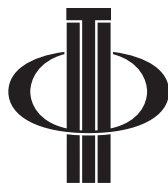
- (iii) The principal registrar and transfer office of the Company is situated at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (iv) The company secretary of the Company is Ms. Tso Mun Wai, *ACIS, MA*.
- (v) The qualified accountant of the Company is Dr. David Chan Tin Wai, *LLB (Hons), LLM, MACC, DBA, ACA, FCCA, FCPA, FTIHK, FCIS, FCS*.
- (vi) The English text of this circular shall prevail over the Chinese text thereof.

#### DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the registered office of the Company at 8th Floor, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong during normal business hours on any weekdays other than public holidays up to and including 5 May 2010:

- (i) the memorandum and new articles of association of the Company;
- (ii) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix (including the Sale and Purchase Agreement);
- (iii) the letter from the Independent Board Committee dated 19 April 2010, the text of which is set out in this circular;
- (iv) the letter from Platinum Securities (the Independent Financial Adviser) dated 19 April 2010, the text of which is set out in this circular;
- (v) the report from KPMG on the unaudited pro forma financial information of the Group, the text of which is set out in Appendix III to this circular;
- (vi) the written consents referred to in paragraph headed "Qualifications" of this appendix; and
- (vii) the annual reports of the Company for each of the financial year ended 31 December 2008 and 31 December 2009.

# NOTICE OF EXTRAORDINARY GENERAL MEETING



## CITIC 1616 HOLDINGS LIMITED

中信1616集團有限公司

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 01883)**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “EGM”) of CITIC 1616 Holdings Limited (the “Company”) will be held at Island Ballroom, Level 5, Island Shangri-La Hotel, Two Pacific Place, Supreme Court Road, Hong Kong on Wednesday, 5 May 2010 at 10:30 a.m. for the purpose of considering and, if thought fit, passing with or without modification the following resolution as ordinary resolution of the Company:

### ORDINARY RESOLUTION

**“THAT:**

- (a) the entry into of the Sale and Purchase Agreement (as defined in the circular to the shareholders of the Company dated 19 April 2010 (the “Circular”)), a copy of which has been produced to this meeting marked “A” and signed by the chairman of this meeting for identification purpose, and the transactions contemplated thereunder be and are hereby confirmed, approved, authorised and ratified;
- (b) the Directors of the Company be and are hereby authorised and granted a specific mandate to allot and issue 405,826,087 Consideration Shares (as defined in the Circular) to CITIC Pacific Limited (or its nominees) in settlement of part of the Consideration (as defined in the Circular) in accordance with the terms and conditions of the Sale and Purchase Agreement;
- (c) the allotment and issue of the Consideration Shares credited as fully paid at the issue price of HK\$2.30 per Consideration Share be and are hereby approved; and

## NOTICE OF EXTRAORDINARY GENERAL MEETING

- (d) any one director of the Company or any two directors of the Company, if the affixation of the common seal is necessary, be and is/are hereby authorised for and on behalf of the Company to execute (and, if necessary, affix the common seal of the Company to) any such documents, instruments and agreements and to do any such acts or things as may be deemed by him/them in his/their absolute discretion to be incidental to, ancillary to or in connection with the matters contemplated in the Sale and Purchase Agreement and the transactions contemplated thereunder.”

By Order of the Board  
**CITIC 1616 Holdings Limited**  
**Xin Yue Jiang**  
*Chairman*

Hong Kong, 19 April 2010

*Notes:*

- (i) A member who is the holder of two or more shares may appoint more than one proxy to attend in the same occasion. A proxy need not be a member of the Company.
- (ii) A form of proxy for use at the EGM is enclosed. Whether or not you intend to attend the EGM in person, you are urged to complete and return the form of proxy in accordance with the instructions printed thereon as soon as possible. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof if you so wish. In the event that you attend the EGM, your form of proxy will be deemed to have been revoked.
- (iii) To be valid, the form of proxy, together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power of attorney, must be deposited at the Company’s registered office and principal place of business at 8th Floor, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong, not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof.
- (iv) In the case of joint registered holders of any shares, any one of such joint registered holders may vote at the EGM, either in person or by proxy, in respect of such shares as if he/she/it were solely entitled thereto; but if more than one of such joint registered holders be present at the EGM, either in person or by proxy, the vote of that one of them so present, either in person or by proxy, whose name stands first on the register of members in respect of such shares shall be accepted to the exclusion of the votes of the other joint registered holder(s).