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If you have sold or transferred all your shares in CITIC 1616 Holdings Limited, you should at once hand this circular 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 transfer was effected for transmission to the purchaser(s) or the transferee(s).

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CITIC 1616 Holdings Limited

中信1616集團有限公司

(incorporated in Hong Kong with limited liability)

(Stock Code: 01883)

MAJOR TRANSACTION

ACQUISITION OF CHINAMOTION NETCOM LIMITED

30 September 2008

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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 100% of the issued share capital of CMN and the Net Payables by the Company from CMN Holdings as contemplated under the Sale and Purchase Agreement;
“Announcement”	the announcement made by the Company dated 29 August 2008 in relation to the Acquisition;
“associate”, “substantial shareholder(s)”	each has the meaning ascribed to it in the Listing Rules;
“Board”	the board of Directors;
“CITIC Pacific”	CITIC Pacific Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange;
“CMN”	ChinaMotion NetCom Limited, a company incorporated in the British Virgin Islands with limited liability;
“CMN Group”	CMN and its subsidiaries;
“CMN Holdings”	ChinaMotion NetCom Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of CMT;
“CMT”	China Motion Telecom International Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange;
“CMT Group”	CMT and its subsidiaries, excluding the CMN Group itself;
“Company”	CITIC 1616 Holdings Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange;
“Completion”	completion of the Sale and Purchase Agreement;

DEFINITIONS

“Completion Ex-Cash Net Current Assets”	an amount in HK\$ equal to the net current assets of the CMN Group as at Completion (excluding the Net Payables and cash);
“Consideration”	the consideration for the Acquisition and includes the Deferred Consideration;
“Deferred Consideration”	HK\$26 million;
“Deferred Transfer”	as referred to in the paragraph headed “The Sale and Purchase Agreement – Other Terms” in the section “Letter from the Board”;
“Deposit”	HK\$26 million;
“Directors”	the directors of the Company;
“Enlarged Group”	the Group and the CMN Group;
“Group”	the Company and its subsidiaries (as defined under the Listing Rules);
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Latest Practicable Date”	25 September 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information herein;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Net Payables”	the net amount which shall stand due owing from CMN Group to CMT Group as at Completion;
“PRC”	the People’s Republic of China;
“Sale and Purchase Agreement”	the sale and purchase agreement dated 29 August 2008 and entered into among CMN Holdings, the Company and CMT;

DEFINITIONS

“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Share(s)”	ordinary share(s) of HK\$0.10 each in the issued share capital of the Company;
“Shareholders”	holders of the Share(s);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited; and
“%”	per cent.

LETTER FROM THE BOARD



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:

Shi Cuiming (*Chairman*)

Xin Yue Jiang

Yuen Kee Tong

Chan Tin Wai, David

Non-executive Directors:

Chau Chi Yin

Kwok Man Leung

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

Hong Kong, 30 September 2008

To the Shareholders

Dear Sir or Madam,

**MAJOR TRANSACTION
ACQUISITION OF CHINAMOTION NETCOM LIMITED**

INTRODUCTION

On 29 August 2008, the Company entered into the Sale and Purchase Agreement with CMN Holdings (a wholly-owned subsidiary of CMT) and CMT, whereby the Company agreed to acquire from CMN Holdings their entire interest in CMN and the Net Payables for an aggregate cash consideration of HK\$260 million (subject to adjustment).

The Acquisition constitutes a major transaction for the Company and is subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

LETTER FROM THE BOARD

This circular provides you with, among other things, (i) further information on the Acquisition; (ii) financial information of CMN; and (iii) financial information of the Enlarged Group.

THE SALE AND PURCHASE AGREEMENT

Date

29 August 2008

Parties

- (1) Vendor: CMN Holdings (a wholly-owned subsidiary of CMT)
- (2) Purchaser: the Company
- (3) Guarantor: CMT

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, CMN Holdings, CMT and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

Subject

100% of the entire issued share capital of CMN and the Net Payables.

The Net Payables represent the total amount of all the indebtedness (whether or not then due or payable) owed by members of the CMN Group to members of the CMT Group as at Completion netting those (whether or not then due or payable) owed by members of the CMT Group to members of the CMN Group as at Completion. According to the unaudited management accounts of the CMN Group as at 31 March 2008, the amount of Net Payables was approximately HK\$46.5 million.

Consideration

The Consideration is HK\$260 million (subject to adjustment), was determined after arm's length negotiation with reference to approximately 10 times of the unaudited profit after tax but excluding management fee of CMN for the year ended 31 March 2008.

LETTER FROM THE BOARD

The Consideration shall be paid as follows:

- (1) upon the signing of the Sale and Purchase Agreement, the Deposit (being HK\$26 million);
- (2) upon Completion, the balance of the Consideration (i.e. the portion other than the Deposit and the Deferred Consideration); and
- (3) upon the Deferred Transfer, the Deferred Consideration.

The Consideration of HK\$260 million shall be adjusted as set out below provided that such adjustment amount shall exceed HK\$100,000 (in which case the entire amount but not the excess shall be adjusted):

- (i) if the Completion Ex-Cash Net Current Assets is less than zero, then the Consideration shall be adjusted by deducting therefrom an amount of such shortfall;
- (ii) if the cash and bank balances of the CMN Group as at Completion are less than HK\$1,000,000, then the Consideration shall be adjusted by deducting therefrom an amount of such shortfall; and
- (iii) if the cash and bank balances of the CMN Group as at Completion are more than HK\$1,000,000, then the Consideration shall be adjusted by adding the excess amount thereto.

According to the unaudited management accounts of the CMN Group as at 31 July 2008, the net current liabilities of the CMN Group (excluding the amount due from or to the CMT Group and cash and cash balances) amounted to approximately HK\$38.0 million and the cash and bank balances of the CMN Group was approximately HK\$14.1 million.

The Consideration shall all be funded by the internal resources of the Company.

Conditions

The Acquisition is conditional upon:

- (i) CMT having obtained all necessary consents and approvals as required under the Listing Rules for the Acquisition; and
- (ii) the Company having obtained all necessary consents and approvals as required under the Listing Rules for the Acquisition,

by 31 December 2008.

LETTER FROM THE BOARD

Completion

Completion will take place on a date to be appointed by CMN Holdings and the Company, being a date no later than the tenth business day following the later of (i) satisfaction of all the conditions set out above, and (ii) the delivery of the audited consolidated accounts of the CMN Group for the 3 years ended 31 March 2008 pursuant to the Sale and Purchase Agreement, which is currently intended to be no later than 30 September 2008, or at such other time as the parties to the Sale and Purchase Agreement may agree.

Other terms

CMN Holdings and CMT undertake with the Company that for a period of two years immediately following Completion, they will not compete with the existing business carried on by the CMN Group.

In the event that any of CMN Holdings and CMT receives a third party offer to acquire any of their existing remaining telecommunication business during a period of 3 years after Completion, they shall first offer to sell such business to the Company at a same price as offered to CMN Holdings and/or CMT by such prospective purchaser.

If approval from the relevant governmental authorities in the United States of America in respect of change in control of CM Tel (USA) LLC, a member of CMN Group, as a result of the Acquisition is not available before the date of Completion, Completion will proceed save that the transfer of 51% interest in CM Tel (USA) LLC will be deferred pending such approval. The Deferred Consideration shall be held on escrow, and will be released to CMN Holdings upon completion of the Deferred Transfer.

INFORMATION ON CMN GROUP

CMN Group offers wholesale and retail international direct dial (IDD) services and 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.

As at 31 March 2008, the unaudited consolidated total asset of CMN was approximately HK\$189 million.

For the financial years ended 31 March 2007 and 2008, the unaudited consolidated net profit before/after taxation and extraordinary items of CMN were approximately HK\$21.5 million and HK\$17.7 million respectively.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Directors believe that the Acquisition enables the Group to further develop its wholesale international direct dial (IDD) business, and there are areas of potential synergy such as cost saving arising from sharing of network resources and manpower resources, and opportunities to develop new services and areas.

In view of the above potential benefits and synergies, the Directors (including the non-executive Directors) consider that the terms and conditions of the Acquisition are fair and reasonable and on normal commercial terms, and are in the interests of the Shareholders as a whole.

FINANCIAL EFFECTS OF THE ACQUISITION ON THE GROUP

Following Completion and assuming there is no Deferred Transfer, the Group would hold 100% share interest in CMN and the results, assets and liabilities of CMN would be fully consolidated into the financial statements of the Group.

Assets and liabilities

Based on the unaudited pro forma statement of assets and liabilities of the Enlarged Group as set out in Appendix IV to this circular, the Group had unaudited total assets and total liabilities of approximately HK\$2,016.7 million and HK\$640.1 million respectively as at 30 June 2008. Upon Completion and assuming there is no Deferred Transfer, the Enlarged Group would have unaudited pro forma total assets and total liabilities of approximately HK\$2,111.1 million and HK\$734.5 million respectively.

Earnings

The Directors believe that the Acquisition will bring synergy to the business of the Group and CMN, and that the Acquisition will have a positive impact on the earnings of the Group in the long-term future.

INFORMATION ON THE GROUP AND THE CMT GROUP

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 Hubbing Services, SMS Hubbing Services, Mobile VAS and VPN Services. Its independent hub connects with 57 countries or regions with 304 clients, mainly telecoms operators. The Group's wholly-owned operating subsidiary is the major virtual private network (VPN) service provider in Asia, serving multinational corporations in China. The number of VPN service sites is approximately 3,000.

LETTER FROM THE BOARD

The CMT Group is principally engaged in international telecommunications services, mobile communications services and distribution and retail chain, and property investment and holding.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Board believes that the Acquisition will bring synergy to the business of the Enlarged Group including the integration of the Group's existing network resources with CMN Group's established global service network covering across countries and areas, thus providing a stronger platform for the long-term development of the wholesale international direct dial (IDD) business of the Enlarged Group. Following Completion, the Enlarged Group may also have cost saving arising from sharing of network and manpower resources.

LISTING RULES IMPLICATIONS

As the applicable percentage ratios for the Acquisition are more than 25% but less than 100%, the Acquisition constitutes a major transaction for the Company and is subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

As at the date of the Announcement, Ease Action Investments Corp. and Richtone Enterprises Inc., each being a wholly owned subsidiary of CITIC Pacific, hold 941,692,000 Shares and 98,066,283 Shares respectively. Together, they hold approximately 53% of the entire issued share capital of the Company. Since none of the Shareholders is required to abstain from voting on the Acquisition, written approval of Ease Action Investments Corp. and Richtone Enterprises Inc. has been obtained for the purpose of approving the Acquisition in lieu of an approval from the Shareholders at a shareholders' meeting pursuant to Rule 14.44 of the Listing Rules.

The Directors consider that the terms of the transaction are fair and reasonable, and that the transaction is on normal and commercial terms and in the best interests of the Company and its Shareholders as a whole.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

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

By Order of the Board of Directors
CITIC 1616 Holdings Limited
Shi Cuiming
Chairman

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP FOR THE THREE FINANCIAL YEARS ENDED 31 DECEMBER 2005, 31 DECEMBER 2006 AND 31 DECEMBER 2007 AND FOR THE SIX MONTHS ENDED 30 JUNE 2007 AND 30 JUNE 2008

The table set out below is the summary of the financial information of the Group for the three years ended 31 December 2005, 31 December 2006 and 31 December 2007, and for the six months ended 30 June 2007 and 30 June 2008, as extracted from the accountants' report as set out in Appendix I to the prospectus of the Company dated 22 March 2007, the annual report of the Company for the year ended 31 December 2007 and the interim report of the Company for the six months ended 30 June 2008.

(i) Consolidated income statements

	Year ended 31 December			Six months ended	
	2005	2006	2007	2007	2008
	(audited) HK\$'000	(audited) HK\$'000	(audited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000
Turnover	980,046	1,364,209	1,486,071	692,247	1,128,068
Other revenue	295	2,146	62,418	47,155	10,820
Other net gain/(loss)	(931)	(211)	56	(44)	255
	<u>979,410</u>	<u>1,366,144</u>	<u>1,548,545</u>	<u>739,358</u>	<u>1,139,143</u>
Network, operations and support expenses	(688,113)	(944,860)	(988,333)	(458,162)	(753,927)
Depreciation and amortisation	(67,551)	(72,449)	(78,823)	(38,780)	(56,494)
Staff costs	(51,437)	(67,380)	(103,327)	(52,757)	(86,201)
Other operating expenses	<u>(60,142)</u>	<u>(61,552)</u>	<u>(71,685)</u>	<u>(32,278)</u>	<u>(61,653)</u>
Profit from operations and before taxation	112,167	219,903	306,377	157,381	180,868
Income tax	<u>(18,130)</u>	<u>(38,095)</u>	<u>(43,678)</u>	<u>(21,365)</u>	<u>(29,758)</u>
Profit for the year/period from continuing operations	94,037	181,808	262,699	136,016	151,110
Discontinued operations					
Profit for the year/period from discontinued operations	<u>3,744</u>	<u>19,710</u>	<u>-</u>	<u>-</u>	<u>-</u>
Profit for the year/period	<u>97,781</u>	<u>201,518</u>	<u>262,699</u>	<u>136,016</u>	<u>151,110</u>
Attributable to:					
Equity holders of the Company	97,806	201,518	262,699	136,016	151,110
Minority interests	<u>(25)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>97,781</u>	<u>201,518</u>	<u>262,699</u>	<u>136,016</u>	<u>151,110</u>

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

	Year ended 31 December			Six months ended	
	2005	2006	2007	30 June	
	(audited)	(audited)	(audited)	2007	2008
	HK\$'000	HK\$'000	HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000
Dividends payable to equity holders of the Company attributable to the year/period:					
Interim dividend declared during the year/period	–	495,000	18,800	18,800	39,555
Final dividend proposed after the balance sheet date	–	–	61,310	–	–
	<u>–</u>	<u>495,000</u>	<u>80,110</u>	<u>18,800</u>	<u>39,555</u>
Basic and diluted earnings per share					
From continuing and discontinued operations (HK cents)	<u>5.8</u>	<u>11.9</u>	<u>14.3</u>	<u>7.6</u>	<u>7.6</u>
From continuing operations (HK cents)	<u>5.6</u>	<u>10.7</u>	<u>14.3</u>	<u>7.6</u>	<u>7.6</u>
From discontinued operations (HK cents)	<u>0.2</u>	<u>1.2</u>	<u>–</u>	<u>–</u>	<u>–</u>

APPENDIX I	FINANCIAL INFORMATION ON THE GROUP
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(ii) Consolidated balance sheets

	31 December 2005 (audited) <i>HK\$'000</i>	31 December 2006 (audited) <i>HK\$'000</i>	2007 (audited) <i>HK\$'000</i>	30 June 2008 (unaudited) <i>HK\$'000</i>
Non-current assets				
Property, plant and equipment	320,409	278,073	326,489	327,360
Non-current other receivables	26,910	37,891	34,772	32,348
Deferred tax assets	5,288	7,478	42,096	34,538
Intangible assets	–	–	28,717	23,079
Goodwill	–	–	9,455	9,455
	352,607	323,442	441,529	426,780
	352,607	323,442	441,529	426,780
Current assets				
Trade and other receivables	331,872	459,701	594,243	713,882
Amount due from ultimate holding company	253,240	–	–	–
Current tax recoverable	16,284	277	1,043	747
Cash and cash equivalents	31,884	43,432	780,621	875,307
	633,280	503,410	1,375,907	1,589,936
	633,280	503,410	1,375,907	1,589,936
Non-current assets and the assets of disposal group classified as held for sale	144,091	–	–	–
	777,371	503,410	1,375,907	1,589,936
	777,371	503,410	1,375,907	1,589,936
Current liabilities				
Trade and other payables	284,668	373,061	472,416	572,162
Amount due to ultimate holding company	–	2,237	–	–
Current tax payable	10,391	41,187	22,045	37,614
	295,059	416,485	494,461	609,776
	295,059	416,485	494,461	609,776
Liabilities directly associated with the assets of disposal group classified as held for sale	129,783	–	–	–
	424,842	416,485	494,461	609,776
	424,842	416,485	494,461	609,776
Net current assets	352,529	86,925	881,446	980,160
	352,529	86,925	881,446	980,160
Total assets less current liabilities	705,136	410,367	1,322,975	1,406,940
	705,136	410,367	1,322,975	1,406,940

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

	2005 (audited) HK\$'000	31 December 2006 (audited) HK\$'000	2007 (audited) HK\$'000	30 June 2008 (unaudited) HK\$'000
Non-current liabilities				
Deferred tax liabilities	38,737	37,450	35,125	30,348
	<u>38,737</u>	<u>37,450</u>	<u>35,125</u>	<u>30,348</u>
NET ASSETS	<u>666,399</u>	<u>372,917</u>	<u>1,287,850</u>	<u>1,376,592</u>
CAPITAL AND RESERVES				
Share capital	2,001	1	197,807	197,773
Reserves	664,398	372,916	1,090,043	1,178,819
Total equity attributable to equity holders of the Company	666,399	372,917	1,287,850	1,376,592
Minority interests	–	–	–	–
TOTAL EQUITY	<u>666,399</u>	<u>372,917</u>	<u>1,287,850</u>	<u>1,376,592</u>

2. EXTRACT FROM THE ANNUAL REPORT OF THE COMPANY FOR THE YEAR ENDED 31 DECEMBER 2007

The following is an extract of the latest published audited consolidated financial statements of the Group for the year ended 31 December 2007 together with the notes therein, from the 2007 annual report of the Company.

Consolidated income statement

For the year ended 31 December 2007

(Expressed in Hong Kong dollars)

	<i>Note</i>	2007 \$'000	2006 \$'000
Turnover	4	1,486,071	1,364,209
Other revenue	5	62,418	2,146
Other net gain/(loss)	6	56	(211)
		<hr/>	<hr/>
Network, operations and support expenses	7(c)	1,548,545	1,366,144
Depreciation and amortisation	7(c)	(988,333)	(944,860)
Staff costs	7(b)	(78,823)	(72,449)
Other operating expenses		(103,327)	(67,380)
		<hr/>	<hr/>
Profit from operations and before taxation	7	306,377	219,903
Income tax	8(a)	(43,678)	(38,095)
		<hr/>	<hr/>
Profit for the year from continuing operations		262,699	181,808
Discontinued operations			
Profit for the year from discontinued operations	11	–	19,710
		<hr/>	<hr/>
Profit for the year		<u>262,699</u>	<u>201,518</u>
Attributable to:			
Equity holders of the Company		<u>262,699</u>	<u>201,518</u>
Dividends payable to equity holders of the Company attributable to the year:			
Interim dividend declared during the year	12	18,800	495,000
Final dividend proposed after the balance sheet date		61,310	–
		<hr/>	<hr/>
		<u>80,110</u>	<u>495,000</u>
Basic and diluted earnings per share	13		
From continuing and discontinued operations (HK cents)		<u>14.3</u>	<u>11.9</u>
From continuing operations (HK cents)		<u>14.3</u>	<u>10.7</u>
From discontinued operations (HK cents)		<u>–</u>	<u>1.2</u>

APPENDIX I	FINANCIAL INFORMATION ON THE GROUP
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Consolidated balance sheet

At 31 December 2007

(Expressed in Hong Kong dollars)

	<i>Note</i>	2007 \$'000	2006 \$'000
Non-current assets			
Property, plant and equipment	15	326,489	278,073
Intangible assets	16	28,717	–
Goodwill	17	9,455	–
Non-current other receivables	20	34,772	37,891
Deferred tax assets	19(a)	42,096	7,478
		441,529	323,442
Current assets			
Trade and other receivables	20	594,243	459,701
Current tax recoverable	8(b)	1,043	277
Cash and cash equivalents	21	780,621	43,432
		1,375,907	503,410
Current liabilities			
Trade and other payables	22	472,416	375,298
Current tax payable	8(b)	22,045	41,187
		494,461	416,485
Net current assets		881,446	86,925
Total assets less current liabilities		1,322,975	410,367
Non-current liabilities			
Deferred tax liabilities	19(a)	35,125	37,450
		35,125	37,450
NET ASSETS		1,287,850	372,917
CAPITAL AND RESERVES			
Share capital	23	197,807	1
Reserves	23(a)	1,090,043	372,916
TOTAL EQUITY		1,287,850	372,917

APPENDIX I	FINANCIAL INFORMATION ON THE GROUP
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Balance sheet

At 31 December 2007

(Expressed in Hong Kong dollars)

	<i>Note</i>	2007 \$'000	2006 \$'000
Non-current assets			
Property, plant and equipment	15	4,643	10,365
Investments in subsidiaries	18	4,071	1
Deferred tax assets	19(a)	3,771	4,617
		12,485	14,983
		12,485	14,983
Current assets			
Trade and other receivables	20	10,557	9,535
Amounts due from subsidiaries	18	610,828	407,086
Cash and cash equivalents	21	648,361	14,068
		1,269,746	430,689
		1,269,746	430,689
Current liabilities			
Trade and other payables	22	25,425	27,273
Amounts due to subsidiaries	18	107,068	320,403
		132,493	347,676
		132,493	347,676
Net current assets		1,137,253	83,013
NET ASSETS		1,149,738	97,996
CAPITAL AND RESERVES			
Share capital	23 23(a)	197,807	1
Reserves		951,931	97,995
		951,931	97,995
TOTAL EQUITY		1,149,738	97,996

Statement of changes in equity*For the year ended 31 December 2007**(Expressed in Hong Kong dollars)***The Group**

Attributable to equity holders of the Company

	Attributable to equity holders of the Company						Total
	Share capital (Note 23(a)) \$'000	Share premium (Note 23(b)) \$'000	Capital reserve \$'000	Capital redemption reserve (Note 23(b)) \$'000	Exchange reserve \$'000	Retained profits \$'000	
At 1 January 2006	2,001	-	-	-	-	664,398	666,399
Profit for the year	-	-	-	-	-	201,518	201,518
Repurchase of shares	(2,000)	-	-	2,000	-	-	-
Dividends approved and paid during the year	-	-	-	-	-	(495,000)	(495,000)
At 31 December 2006	<u>1</u>	<u>-</u>	<u>-</u>	<u>2,000</u>	<u>-</u>	<u>370,916</u>	<u>372,917</u>

Attributable to equity holders of the Company

	Attributable to equity holders of the Company						Total
	Share capital Note \$'000	Share premium (Note 23(b)) \$'000	Capital reserve \$'000	Capital redemption reserve (Note 23(b)) \$'000	Exchange reserve \$'000	Retained profits \$'000	
At 1 January 2007	1	-	-	2,000	-	370,916	372,917
Translation difference of financial statements of overseas subsidiaries	-	-	-	-	(7)	-	(7)
Profit for the year	-	-	-	-	-	262,699	262,699
Capitalisation issue	23(a)(iii) 169,199	-	-	-	-	(169,199)	-
Shares issued under the placing and public offer	23(a)(iv) 18,800	466,240	-	-	-	-	485,040
Shares issued for acquisition of subsidiaries	23(a)(v) 9,807	187,307	-	-	-	-	197,114
Issuing expenses	23(a)(iv) -	(24,030)	-	-	-	-	(24,030)
Equity-settled share-based transactions	29 -	-	12,917	-	-	-	12,917
Dividends approved and paid during the year	-	-	-	-	-	(18,800)	(18,800)
At 31 December 2007	<u>197,807</u>	<u>629,517</u>	<u>12,917</u>	<u>2,000</u>	<u>(7)</u>	<u>445,616</u>	<u>1,287,850</u>

The Company

	Share capital (Note 23(a)) \$'000	Share premium (Note 23(b)) \$'000	Capital reserve \$'000	Capital redemption reserve (Note 23(b)) \$'000	Retained profits \$'000	Total \$'000
At 1 January 2006	2,001	-	-	-	118,155	120,156
Profit for the year	-	-	-	-	472,840	472,840
Repurchase of shares	(2,000)	-	-	2,000	-	-
Dividends approved and paid during the year	-	-	-	-	(495,000)	(495,000)
At 31 December 2006	<u>1</u>	<u>-</u>	<u>-</u>	<u>2,000</u>	<u>95,995</u>	<u>97,996</u>

	Share capital Note \$'000	Share premium (Note 23(b)) \$'000	Capital reserve \$'000	Capital redemption reserve (Note 23(b)) \$'000	Retained profits \$'000	Total \$'000
At 1 January 2007	1	-	-	2,000	95,995	97,996
Profit for the year	-	-	-	-	343,604	343,604
Capitalisation issue	23(a)(iii) 169,199	-	-	-	(169,199)	-
Shares issued under the placing and public offer	23(a)(iv) 18,800	466,240	-	-	-	485,040
Shares issued for acquisition of subsidiaries	23(a)(v) 9,807	187,307	55,897	-	-	253,011
Issuing expenses	23(a)(iv) -	(24,030)	-	-	-	(24,030)
Equity-settled share-based transactions	29 -	-	12,917	-	-	12,917
Dividends approved and paid during the year	-	-	-	-	(18,800)	(18,800)
At 31 December 2007	<u>197,807</u>	<u>629,517</u>	<u>68,814</u>	<u>2,000</u>	<u>251,600</u>	<u>1,149,738</u>

Consolidated cash flow statement*For the year ended 31 December 2007**(Expressed in Hong Kong dollars)*

	<i>Note</i>	2007 \$'000	2006 \$'000
Operating activities			
Profit before taxation			
– from continuing operations		306,377	219,903
– from discontinued operations		–	19,710
		<u>306,377</u>	<u>239,613</u>
Adjustments for:			
– Surplus on revaluation of investment property	6	–	(23,000)
– Depreciation and amortisation	7(c)	78,823	72,449
– Loss on disposal of other property, plant and equipment	6	6	37
– Equity-settled share-based payment expenses		12,917	–
– Finance costs	7(a)	–	5,499
– Interest income	5	(62,418)	(2,163)
		<u>335,705</u>	<u>292,435</u>
Operating profit before changes in working capital		335,705	292,435
Increase in trade and other receivables		(52,822)	(138,655)
Increase in trade and other payables		43,619	91,724
		<u>326,502</u>	<u>245,504</u>
Cash generated from operations		326,502	245,504
Hong Kong Profits Tax refunded		249	16,076
Hong Kong Profits Tax paid		(64,592)	(10,845)
Overseas tax paid		(24)	–
		<u>262,135</u>	<u>250,735</u>
Net cash generated from operating activities		----- 262,135	----- 250,735
Investing activities			
Interest received		61,259	2,163
Payment for purchase of property, plant and equipment		(56,302)	(33,315)
Proceeds from sales of property, plant and equipment		110	16
Net cash inflow from acquisition of subsidiaries	26	28,414	–
Net inflow from disposal of discontinued operations	27	–	160,318
		<u>33,481</u>	<u>129,182</u>
Net cash generated from investing activities		----- 33,481	----- 129,182

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

	<i>Note</i>	2007 \$'000	2006 \$'000
Financing activities			
Interest paid		–	(5,499)
Loan repayment to ultimate holding company		–	(125,540)
(Decrease)/increase in amount due to ultimate holding company		(637)	255,465
Proceeds from issuance of shares under the placing and public offer		485,040	–
Issuing expenses		(24,030)	–
Dividends paid to equity holders of the Company		(18,800)	(495,000)
		<u> </u>	<u> </u>
Net cash generated from/(used in) financing activities		<u>441,573</u>	<u>(370,574)</u>
Net increase in cash and cash equivalents		737,189	9,343
Cash and cash equivalents at 1 January	21	<u>43,432</u>	<u>34,089</u>
Cash and cash equivalents at 31 December	21	<u><u>780,621</u></u>	<u><u>43,432</u></u>

Notes to the financial statements

(Expressed in Hong Kong dollars)

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. 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. Information on any changes in accounting policies, if any, 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 are shown in note 2.

(b) Basis of preparation

The consolidated financial statements for the year ended 31 December 2007 comprise the Company and its subsidiaries (together referred to as the “Group”).

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

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

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 31.

(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)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 1(s)).

(d) Goodwill

Goodwill represents the excess of the cost of a business combination 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 is allocated to cash-generating units and is tested annually for impairment (see note 1(i)(ii)).

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 is recognised immediately in profit or loss.

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

(e) Investment property

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

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

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

(f) Other property, plant and equipment

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

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 lives as follows:

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

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

(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 other than indefinite) 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 is charged to profit or loss on a straight-line basis over the assets' estimated useful lives unless such lives are indefinite. 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 right of use ("IRU") of telecommunication capacity	10 years
Customer relationship	8 years
Customer contract	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

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

(ii) Operating lease charges

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

(i) Impairment of assets*(i) Impairment of trade and other receivables*

Current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. 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 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 and bills receivable 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 (other than investment property), intangible assets, investments in subsidiaries and goodwill may be impaired or, an impairment loss previously recognised no longer exists or may have decreased.

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

- Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated 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 period in which the reversals are recognised.

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

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On the vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the ultimate holding company and 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 directly to equity, in which case they are recognised in equity.

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

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

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

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 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

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

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

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

(ii) Fees from the 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 transactions*

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

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

(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.

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 foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. 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 recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(r) Borrowing costs

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

(s) Discontinued operations

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

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

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

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

(t) 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.

(u) 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 subsidiary, 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 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.

(v) Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services (business segment), or in providing products or services within a particular economic environment (geographic segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and inter-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

(w) 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.

(x) 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 a number of new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, *Financial instruments: Disclosures* and the amendment to HKAS 1, *Presentation of financial statements: Capital disclosures*, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, *Financial instruments: Disclosure and presentation*. These disclosures are provided throughout these financial statements, in particular in note 25.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital. These new disclosures are set out in note 23.

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 35).

3 SEGMENT REPORTING

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

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4 TURNOVER

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

Turnover recognised during the year may be analysed as follows:

	2007 \$'000	2006 \$'000
Continuing operations:		
Fees from the provision of voice hubbing services	1,162,444	1,141,656
Fees from the provision of short message services	186,820	117,092
Fees from the provision of other telecommunications services	136,807	105,461
	1,486,071	1,364,209
Discontinued operations:		
Gross rental income from discontinued operations (<i>note 11</i>)	–	2,845
	1,486,071	1,367,054
	1,486,071	1,367,054

Direct outgoings in relation to the gross rental income from investment property for 2006 were \$436,000.

5 OTHER REVENUE

	2007 \$'000	2006 \$'000
Continuing operations:		
Bank interest income	61,860	1,309
Other interest income	558	837
	62,418	2,146
Discontinued operations:		
Interest income (<i>note 11</i>)	–	17
	–	17
Total interest income on financial assets not at fair value through profit and loss	62,418	2,163

6 OTHER NET GAIN/(LOSS)

	2007 \$'000	2006 \$'000
Continuing operations:		
Net loss on disposal of other property, plant and equipment	(6)	(37)
Net foreign exchange gain/(loss)	62	(174)
	56	(211)
Discontinued operations:		
Surplus on revaluation of investment property (<i>note 11</i>)	–	23,000
	–	23,000
	56	22,789

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7 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2007	2006
	\$'000	\$'000
(a) Finance costs:		
Discontinued operations:		
Interest on loan from ultimate holding company (<i>note 11</i>)	–	5,499
	<u>–</u>	<u>5,499</u>
Total interest expense on financial liabilities not at fair value through profit and loss	<u>–</u>	<u>5,499</u>
(b) Staff costs:		
Continuing operations:		
Salaries, wages and other benefits	100,791	65,483
Contribution to defined contribution retirement plan	2,536	1,897
	<u>103,327</u>	<u>67,380</u>
Discontinued operations (<i>note 11</i>):		
Salaries, wages and other benefits	–	293
Contribution to defined contribution retirement plan	–	14
	<u>–</u>	<u>307</u>
	<u>103,327</u>	<u>67,687</u>
(c) Other items:		
Continuing operations:		
Network, operations and support expenses, including:	988,333	944,860
– carrier costs	919,936	864,653
– operating leases – international leased circuits	52,787	46,130
– other telecommunications service costs	15,610	34,077
Depreciation	78,353	72,449
Amorisation	470	–
Impairment losses on trade and other receivables	596	3,879
Auditors' remuneration	1,615	410
Operating lease charges in respect of		
– land and buildings	22,581	9,131
	<u>22,581</u>	<u>9,131</u>

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8 INCOME TAX

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

Continuing operations:

	2007	2006
	<i>\$'000</i>	<i>\$'000</i>
Current tax – Hong Kong Profits Tax		
Provision for the year	42,763	39,807
Under-provision in respect of prior years	13	–
	42,776	39,807
Current tax – Overseas		
Provision for the year	1,525	1,765
	1,525	1,765
Deferred tax		
Origination and reversal of temporary differences	(623)	(3,477)
	43,678	38,095

The provision for Hong Kong Profits Tax for 2007 is calculated at 17.5% (2006: 17.5%) of the estimated assessable profits for the year.

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

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

	2007	2006
	<i>\$'000</i>	<i>\$'000</i>
Profit before taxation	306,377	239,613
Notional tax on profit before taxation at 17.5% (2006: 17.5%)	53,616	41,932
Tax effect of different tax rate	622	706
Tax effect of non-taxable income and non-deductible expenses	(9,752)	(6,113)
Tax effect of unused tax losses not recognised	–	672
Under provision in prior years	13	–
Others	(821)	898
Actual tax expense	43,678	38,095

Discontinued operations:

No provision for Hong Kong Profits Tax was made for the discontinued operations in 2006 as the companies comprising the discontinued operations either have no assessable profit or have unrelieved tax losses carried forward which are not likely to be crystallised in the future.

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(b) Income tax in the balance sheet represents:

	The Group		The Company	
	2007	2006	2007	2006
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Continuing operations:				
Hong Kong Profits Tax				
Provision for the year	42,763	39,807	-	-
Provisional Profits Tax paid	<u>(32,147)</u>	<u>(4,991)</u>	<u>-</u>	<u>-</u>
	10,616	34,816	-	-
Balance recoverable relating to prior years	<u>(6)</u>	<u>(2,639)</u>	<u>-</u>	<u>-</u>
	<u>10,610</u>	<u>32,177</u>	<u>-</u>	<u>-</u>
Overseas Tax				
Through acquisition of subsidiaries	158	-	-	-
Provision for the year	1,501	1,765	-	-
Balance payable relating to prior years	<u>8,733</u>	<u>6,968</u>	<u>-</u>	<u>-</u>
	<u>10,392</u>	<u>8,733</u>	<u>-</u>	<u>-</u>
	<u>21,002</u>	<u>40,910</u>	<u>-</u>	<u>-</u>
Representing:				
- current tax recoverable	(1,043)	(277)	-	-
- current tax payable	<u>22,045</u>	<u>41,187</u>	<u>-</u>	<u>-</u>
	<u>21,002</u>	<u>40,910</u>	<u>-</u>	<u>-</u>

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FINANCIAL INFORMATION ON THE GROUP
9 DIRECTORS' REMUNERATION

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

	Year ended 31 December 2007						
	Directors' fees	Basic salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Sub-total	Share-based payments	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<i>Executive directors</i>							
Shi Cuiming	120	2,998	2,800	11	5,929	2,001	7,930
Yuen Kee Tong	120	2,972	2,520	135	5,747	1,725	7,472
Li Bin	109	3,309	2,240	12	5,670	1,480	7,150
Chan Tin Wai David	120	1,976	1,960	12	4,068	1,273	5,341
<i>Non-executive directors</i>							
Lee Chung Hing	120	-	-	-	120	-	120
Kwok Man Leung	120	-	-	-	120	-	120
<i>Independent non-executive directors</i>							
Yang Xianzu	240	-	-	-	240	207	447
Liu Li Qing	240	-	-	-	240	207	447
Kwong Che Keung Gordon	240	-	-	-	240	207	447
Total	1,429	11,255	9,520	170	22,374	7,100	29,474
Year ended 31 December 2006							
	Directors' fees	Basic salaries, allowances and benefits in kind	Discretionary bonuses	Retirement schemes contributions	Sub-total	Share-based payments	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<i>Executive director</i>							
Chan Kwong Choi Peter	-	211	3,000	1	3,212	-	3,212
<i>Non-executive directors</i>							
Lee Chung Hing	-	-	-	-	-	-	-
Frances Yung Ming Fong	-	-	-	-	-	-	-
Kwok Man Leung	-	-	-	-	-	-	-
Total	-	211	3,000	1	3,212	-	3,212

A number of the Company's directors were granted share options of CITIC Pacific Limited, its ultimate holding company. Details of the share options plan are set out in note 29.

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

During the year ended 31 December 2007, 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.

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10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2006: one) are directors whose emoluments are disclosed in note 9. The aggregate of the emoluments in respect of the other individual (2006: four) are as follows:

	2007	2006
	\$'000	\$'000
Salaries and other emoluments	2,614	6,709
Discretionary bonuses	–	1,525
Share-based payments	559	–
Retirement scheme contributions	12	43
	3,185	8,277
	3,185	8,277

The emoluments of the one (2006: four) individuals with the highest emoluments are within the following bands:

	2007	2006
\$		
1,500,001 – 2,000,000	–	2
2,000,001 – 2,500,000	–	2
2,500,001 – 3,000,000	–	–
3,000,001 – 3,500,000	1	–
	1	–
	1	–

During the year ended 31 December 2006 and 2007, no emoluments were paid by the Company to any of the five highest paid individuals as an inducement to join or upon joining the Company or as compensation for loss of office.

11 DISCONTINUED OPERATIONS

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

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

	<i>Note</i>	\$'000
Turnover – rental income	4	2,845
Other revenue	5	17
Other net gain	6	23,000
Staff costs	7(b)	(307)
Other operating expenses		(346)
Profit from operations		25,209
Finance costs	7(a)	(5,499)
Profit before taxation	7	19,710
Income tax	8(a)	–
Profit for the year		19,710

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12 DIVIDENDS

Dividends attributable to the year

	2007	2006
	<i>\$'000</i>	<i>\$'000</i>
Interim dividend declared and paid of 1 cent per share (2006: \$495,000 per share)	18,800	495,000
Final dividend proposed after the balance sheet date of 3.1 cents per share (2006: nil)	61,310	–
	80,110	495,000

13 EARNINGS PER SHARE

(a) Basic earnings per share

(i) From continuing and discontinued operations

The basic earnings per share from continuing and discontinued operations for the year ended 31 December 2007 is calculated based on the profit attributable to the equity holders of the Company of \$262,699,000 (2006: \$201,518,000) and the weighted average number of shares in issue during the year ended 31 December 2007 of 1,836,644,000 shares (2006: 1,692,000,000 shares), calculated as follows:

Weighted average number of ordinary shares

	Number of shares	
	2007	2006
	<i>'000</i>	<i>'000</i>
Issued ordinary shares at 1 January [#]	1,692,000	1,692,000
Effect of shares issued pursuant to the placing and public offering	140,614	–
Effect of shares issued for acquisition of subsidiaries	4,030	–
Weighted average number of ordinary shares at 31 December	1,836,644	1,692,000

[#] Issued share capital at 1 January 2006 and 2007 represented shares of the Company in issue after the reorganisation (see note 23(a)), as if the shares had been outstanding since 1 January 2006.

(ii) From continuing operations

The basic earnings per share from continuing operations for the year ended 31 December 2007 is calculated based on the profit for the year from continuing operations of \$262,699,000 (2006: \$181,808,000) and the weighted average number of shares in issue during the year ended 31 December 2007 of 1,836,644,000 shares (2006: 1,692,000,000 shares) as if the shares in issue after the reorganisation (see note 23(a)) had been outstanding since 1 January 2006).

(iii) From discontinued operations

The basic earnings per share from discontinued operations for the year ended 31 December 2007 is calculated based on the profit for the year from discontinued operations of \$nil (2006: \$19,710,000) and the weighted average number of shares in issue during the year ended 31 December 2007 of 1,836,644,000 shares (2006: 1,692,000,000 shares), as if the shares in issue after reorganisation (see note 23(a)) had been outstanding since 1 January 2006).

(b) Diluted earnings per share

The diluted earnings per share for the year ended 31 December 2007 is the same as the basic earnings per share as the potential ordinary shares outstanding during the year ended 31 December 2007 were anti-dilutive. There were no dilutive potential ordinary shares during the year ended 31 December 2006 presented and, therefore, diluted earnings per share are not presented for the year ended 31 December 2006.

14 RELATED PARTY TRANSACTIONS

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

Name of party	Relationship
CITIC Pacific Limited	Ultimate holding company
CITIC Pacific Communications Limited ("CPC")	Intermediate holding company
CPCNet Hong Kong Limited ("CPCNet")	Previously a fellow subsidiary and currently a subsidiary
CPCNet Macau Limited ("CPCNet Macau")	Previously a 55% associate of CITIC Pacific Limited and subsequently became a 85% fellow subsidiary in 2006. In April 2007, it was disposed to a third party by CITIC Pacific Limited
Companhia de Telecomunicacoes de Macau S.A.R.L. ("CTM")	A 20% associate of CITIC Pacific Limited
Goldon Investment Limited	A 40% associate of CITIC Pacific Limited
HKIX Hong Kong Limited	A minority shareholder of Asia Pacific Internet Exchange Limited
Silver Linkage Investments Inc. ("Silver Linkage")	Previously a fellow subsidiary and currently a subsidiary
Smooth Tone Enterprises Inc. ("Smooth Tone")	A fellow subsidiary

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

(a) Recurring transactions

	<i>Note</i>	2007	2006
		<i>\$'000</i>	<i>\$'000</i>
Telecommunications services and related income from:			
– CTM		5,532	4,826
– CPCNet Macau		–	1,349
– CPCNet		1,053	927
– CPC		13	14
		<u> </u>	<u> </u>
Telecommunications service expenses to CTM		<u>2,943</u>	<u>3,130</u>
Circuits operating lease charges payable to CTM		<u>–</u>	<u>827</u>
Professional fee/management fee payable to CITIC Pacific Limited	<i>(i)</i>	<u>1,600</u>	<u>16,421</u>
Interest on other loans from CITIC Pacific Limited (<i>notes 7(a) and 11</i>)		<u>–</u>	<u>5,499</u>
Operating leases charges and building management fee payable to Goldon Investment Limited	<i>(ii)</i>	<u>23,905</u>	<u>12,029</u>
Management fee paid to a wholly-owned subsidiary of the HKIX Hong Kong Limited		<u>1,000</u>	<u>1,000</u>

Notes:

- (i) Professional fee/management fees were paid/payable to the ultimate holding company for the provision of administrative services.
- (ii) Goldon Investment Limited, leases a property in Hong Kong to the Group under an operating lease. The amount represents the leases charges and building management fees paid to Goldon Investment Limited.
- (iii) 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 management fees paid by the Group were reimbursement of costs incurred by the related party, 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.

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(b) Non-recurring transactions

	2007	2006
	\$'000	\$'000
A wholly owned subsidiary of CITIC Pacific Limited		
– Acquisition of Silver Linkage Group (<i>note 26</i>)	197,114	–
– Disposal of Crown Gain Group (<i>note 27</i>)	–	162,051
	–	162,051

(c) Amount due to ultimate holding company

	2007	2006
	\$'000	\$'000
The Group and the Company		
CITIC Pacific Limited (<i>note 22</i>)	1,600	2,237
	1,600	2,237

In 2007, the balance represented the professional fee payable to CITIC Pacific Limited for the provision of administrative expenses (see note 14 (a)(i)).

In 2006, the Group participated in a cash management arrangement at the direction and discretion of CITIC Pacific Limited. Whereby the companies transferred cash to and receive cash from certain related parties periodically. These cash flows were related to the provision of the Group's telecommunication services and did not stem from transactions or other events that enter into the determination of the Group's net income. For purposes of the consolidated cash flow statement, management concluded that the cash inflows and outflows under this related party financing arrangement should be presented under "cash flows from financing activities" because the predominant source of the related cash flows is the result of CITIC Pacific Limited's cash management with the objective to provide each entity within the related party group, including the Company, the necessary cash resources on an as-needed basis. The advances of the Group's excess cash were non-interest bearing and represent in substance cash financing transactions within the related party group at the discretion of CITIC Pacific Limited.

(d) Trade receivables/(trade payables)

	2007	2006
	\$'000	\$'000
Amount due from/(to) CTM included in		
– Trade receivables	3,848	1,359
– Trade payables	(1,796)	(873)
	2,052	486
Trade receivables due from:		
– CPCNet	–	263
– CPCNet Macau	–	1,524
	–	1,524

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

(e) Key management personnel remuneration

Remuneration for key management personnel, 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, is as follows:

	2007 \$'000	2006 \$'000
Short-term employee benefits	27,550	20,836
Equity-settled share-based payment expenses	7,562	–
Post-employment benefits	262	128
	<u>35,374</u>	<u>20,964</u>

15 PROPERTY, PLANT AND EQUIPMENT**The Group**

	Tele- communications equipment \$'000	Other assets \$'000	Construction in progress \$'000	Continuing operations \$'000	Discontinued operations – investment property \$'000	Total assets \$'000
Cost/valuation:						
At 1 January 2006	502,904	47,070	29,221	579,195	141,000	720,195
Additions	–	1,809	28,357	30,166	–	30,166
Disposals						
– through disposal of subsidiaries	–	–	–	–	(164,000)	(164,000)
– others	–	(133)	–	(133)	–	(133)
Reclassification	38,991	2,132	(41,123)	–	–	–
Fair value adjustment (note 6 and note 11)	–	–	–	–	23,000	23,000
	<u>541,895</u>	<u>50,878</u>	<u>16,455</u>	<u>609,228</u>	<u>–</u>	<u>609,228</u>
At 31 December 2006	541,895	50,878	16,455	609,228	–	609,228
Representing:						
Cost	541,895	50,878	16,455	609,228	–	609,228
Valuation – 2006	–	–	–	–	–	–
	<u>541,895</u>	<u>50,878</u>	<u>16,455</u>	<u>609,228</u>	<u>–</u>	<u>609,228</u>

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	Tele- communications equipment \$'000	Other assets \$'000	Construction in progress \$'000	Continuing operations \$'000	Discontinued operations – investment property \$'000	Total assets \$'000
Cost/valuation:						
At 1 January 2007	541,895	50,878	16,455	609,228	–	609,228
Additions						
– through acquisition of subsidiaries (<i>note 26</i>)	59,818	4,707	–	64,525	–	64,525
– others	9,084	4,366	48,910	62,360	–	62,360
Disposals	–	(256)	–	(256)	–	(256)
Reclassification	37,239	6,005	(43,244)	–	–	–
At 31 December 2007	648,036	65,700	22,121	735,857	–	735,857
Representing:						
Cost	648,036	65,700	22,121	735,857	–	735,857
Valuation – 2007	–	–	–	–	–	–
	<u>648,036</u>	<u>65,700</u>	<u>22,121</u>	<u>735,857</u>	<u>–</u>	<u>735,857</u>
Accumulated depreciation:						
At 1 January 2006	236,351	22,435	–	258,786	–	258,786
Charge for the year	62,352	10,097	–	72,449	–	72,449
Written back on disposals	–	(80)	–	(80)	–	(80)
At 31 December 2006	298,703	32,452	–	331,155	–	331,155
At 1 January 2007	298,703	32,452	–	331,155	–	331,155
Charge for the year	69,735	8,618	–	78,353	–	78,353
Written back on disposals	–	(140)	–	(140)	–	(140)
At 31 December 2007	368,438	40,930	–	409,368	–	409,368
Net book value:						
At 31 December 2007	<u>279,598</u>	<u>24,770</u>	<u>22,121</u>	<u>326,489</u>	<u>–</u>	<u>326,489</u>
At 31 December 2006	<u>243,192</u>	<u>18,426</u>	<u>16,455</u>	<u>278,073</u>	<u>–</u>	<u>278,073</u>

The Company

	Other assets \$'000
Cost:	
At 1 January 2006	39,188
Disposals	<u>(120)</u>
At 31 December 2006	----- 39,068
At 1 January 2007	39,068
Disposals	<u>(186)</u>
At 31 December 2007	----- 38,882
Accumulated depreciation:	
At 1 January 2006	20,559
Charge for the year	8,222
Written back on disposals	<u>(78)</u>
At 31 December 2006	----- ----- 28,703
At 1 January 2007	28,703
Charge for the year	5,664
Written back on disposals	<u>(128)</u>
At 31 December 2007	----- ----- 34,239
Net book value:	
At 31 December 2007	<u><u>4,643</u></u>
At 31 December 2006	<u><u>10,365</u></u>

Notes:

- (i) The investment property of the Group, Honest Motor Building, No. 9-11 Leighton Road, Causeway Bay, Hong Kong, was revaluated at 31 December 2005 by an independent firm of surveyors, Knight Frank, who have among their staff Fellows of the Hong Kong Institute of Surveyors, on an open market value basis.
- (ii) The investment property is held under long-term lease in Hong Kong.
- (iii) Other assets included electronic data processing equipment, furniture and fixtures, motor vehicles and office equipment.

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16 INTANGIBLE ASSETS

The Group

	Customer relationship \$'000	Customer contract \$'000	IRU of tele- communication capacity \$'000	Total \$'000
Cost:				
At 1 January and 31 December 2006	–	–	–	–
Additions through acquisition of subsidiaries (<i>note 26</i>)	19,871	8,690	626	29,187
At 31 December 2007	19,871	8,690	626	29,187
Accumulated amortisation:				
At 1 January and 31 December 2006	–	–	–	–
Charge for the year	104	362	4	470
At 31 December 2007	104	362	4	470
Net book value:				
At 31 December 2007	19,767	8,328	622	28,717
At 31 December 2006	–	–	–	–

17 GOODWILL

\$'000

Cost and carrying amount:

At 1 January and 31 December 2006	–
Additions through acquisition of subsidiaries (<i>note 26</i>)	9,455
At 31 December 2007	9,455

Impairment test 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:

	\$'000
Telecommunications, internet and related value added services	9,455

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 five-year period. The discount rates used are pre-tax and reflect specific risks relating to the relevant segment. No cashflow has been projected beyond that period.

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18 INTERESTS IN SUBSIDIARIES

	2007 \$'000	2006 \$'000
Unlisted shares, at cost	4,071	1
Amounts due from subsidiaries	610,828	407,086
Amounts due to subsidiaries	614,899 (107,068)	407,087 (320,403)
	507,831	86,684

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

At 31 December 2007, the Company had direct or indirect interests in the following subsidiaries, all of which are private companies, particulars of which are set out below:

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

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Name of company	Place of incorporation/ operation	Principal activities	Percentage of equity attributable to the Company		Issued and fully paid-up capital*
			Direct	Indirect	
CITIC TeleSoft 1616 Limited	Hong Kong	Provision of systems integration services	–	100%	HK\$2
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	Singapore	Provision of telecommunications services	–	100%	S\$2
Crown Yield (HK) Limited	Hong Kong	Provision of leasing services	–	100%	HK\$2
Data Communication Services Limited	Hong Kong	Equipment holding	100%	–	HK\$1,000 HK\$38,000,000 [#]
Delight Way Holdings Inc.	British Virgin Islands	Investment holding	–	100%	US\$1
Fasini Corp.	British Virgin Islands	Dormant	–	100%	US\$1
Global Link Information Services Limited	Hong Kong	Dormant	–	100%	HK\$3,000,000
Grand Aim Technologies Limited	British Virgin Islands	Investment holding	–	100%	US\$1
Grand Formosa Holdings Inc.	British Virgin Islands	Investment holding	–	100%	US\$1
Grand Pacific Networks Private Limited	Singapore	Dormant	–	100%	S\$1
Hen Fai Engineering Networks Company Limited	Hong Kong	Dormant	–	100%	HK\$2
Joy Trend Holdings Inc.	British Virgin Islands	Investment holding	–	100%	US\$1
Logic Way Holdings Inc.	British Virgin Islands	Investment holding	100%	–	US\$1
Pacific Choice International Limited	British Virgin Islands	Investment holding	100%	–	US\$1
Pacific Networks Corp.	United States of America	Dormant	–	100%	US\$0.01 [@]

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Name of company	Place of incorporation/ operation	Principal activities	Percentage of equity attributable to the Company		Issued and fully paid-up capital*
			Direct	Indirect	
Pacific Networks Limited	United Kingdom	Dormant	–	100%	£1
Smart Legend Co. Ltd.	British Virgin Islands	Investment holding	–	100%	US\$1
Silver Linkage Investments Inc.	British Virgin Islands	Investment holding	100%	–	US\$1
Vision Network Limited	Hong Kong	Dormant	–	100%	HK\$2,250,000
Unique Star Holdings Inc.	British Virgin Islands	Investment holding	–	100%	US\$1
World Navigation (BVI) Ltd.	British Virgin Islands	Dormant	100%	–	US\$1

Notes:

* Represented ordinary shares, unless otherwise stated.

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

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

@ Common stock – the rights of which are set out in the Bylaws of Pacific Networks Corp.

19 DEFERRED TAXATION

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

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

The Group

	Depreciation allowances in excess of the related depreciation \$'000	Tax losses \$'000	Total \$'000
At 1 January 2006	41,302	(7,853)	33,449
Credited to consolidated income statement	<u>(2,707)</u>	<u>(770)</u>	<u>(3,477)</u>
At 31 December 2006	<u>38,595</u>	<u>(8,623)</u>	<u>29,972</u>
At 1 January 2007	38,595	(8,623)	29,972
Through acquisition of subsidiaries	14,928	(51,255)	(36,327)
Exchange adjustments	7	–	7
(Credited)/charged to consolidated income statement	<u>(3,382)</u>	<u>2,759</u>	<u>(623)</u>
At 31 December 2007	<u>50,148</u>	<u>(57,119)</u>	<u>(6,971)</u>
Represented by:		2007 \$'000	2006 \$'000
Deferred tax assets		(42,096)	(7,478)
Deferred tax liabilities		<u>35,125</u>	<u>37,450</u>
		<u>(6,971)</u>	<u>29,972</u>

The Company

	Depreciation allowances in excess of the related depreciation \$'000	Tax losses \$'000	Total \$'000
At 1 January 2006	2,453	(3,941)	(1,488)
Credited to income statement	<u>(1,367)</u>	<u>(1,762)</u>	<u>(3,129)</u>
At 31 December 2006	<u>1,086</u>	<u>(5,703)</u>	<u>(4,617)</u>
At 1 January 2007	1,086	(5,703)	(4,617)
(Credited)/charged to income Statement	<u>(932)</u>	<u>1,778</u>	<u>846</u>
At 31 December 2007	<u>154</u>	<u>(3,925)</u>	<u>(3,771)</u>

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(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 \$3,436,000 (2006: \$nil) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under the current tax legislation.

20 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Trade debtors	546,681	429,946	-	-
Less: allowance for doubtful debts	(6,178)	(6,312)	-	-
	540,503	423,634	-	-
Other receivables	88,512	73,958	10,557	9,535
	629,015	497,592	10,557	9,535
Represented by:				
Non-current portion	34,772	37,891	-	-
Current portion	594,243	459,701	10,557	9,535
	629,015	497,592	10,557	9,535

All of the current trade and other receivables are expected to be recovered within one year except for utility and rental deposits at 31 December 2007 of the Group and the Company amounted to \$14,600,000 (2006: \$12,270,000) and \$6,311,000 (2006: \$6,132,000) respectively will not be recovered within a year.

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

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

The remaining net balance of \$26,130,000 (2006: \$27,300,000) of the deferred revenue and deferred expenditure is included in other receivables.

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

	The Group		The Company	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Within 1 year	520,325	411,488	-	-
Over 1 year	20,178	12,146	-	-
	540,503	423,634	-	-

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 25(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 movements in the allowance for doubtful debts during the year, including both specific and collective loss components, are as follows:

	The Group		The Company	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
At 1 January	6,312	2,599	–	–
Through acquisition of subsidiaries	2,409	–	–	–
Impairment loss recognised	596	3,879	–	–
Impairment loss written back	(592)	(166)	–	–
Uncollectible amounts written off	(2,547)	–	–	–
	<u>6,178</u>	<u>6,312</u>	<u>–</u>	<u>–</u>
At 31 December	<u>6,178</u>	<u>6,312</u>	<u>–</u>	<u>–</u>

At 31 December 2007, the Group's and the Company's trade debtors of \$35,742,000 (2006: \$13,473,000) and \$Nil (2006: \$Nil) respectively 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 \$6,178,000 (2006: \$6,312,000) and \$Nil (2006: \$Nil) were recognised by the Group and the Company respectively. 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	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Within 1 year	495,396	408,763	–	–
Over 1 year	15,543	7,710	–	–
	<u>510,939</u>	<u>416,473</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.

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21 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2007	2006	2007	2006
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Cash at bank and in hand	54,440	43,375	11	14,011
Deposits with banks with maturity within 3 months	726,181	57	648,350	57
	<u>780,621</u>	<u>43,432</u>	<u>648,361</u>	<u>14,068</u>

22 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2007	2006	2007	2006
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Trade creditors	396,261	329,739	2,016	2,016
Other payables and accruals	74,555	43,322	21,809	23,020
Amount due to ultimate holding company (<i>note 14(c)</i>)	1,600	2,237	1,600	2,237
	<u>472,416</u>	<u>375,298</u>	<u>25,425</u>	<u>27,273</u>

All of the trade and other payables are expected to be recovered 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	
	2007	2006	2007	2006
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Within 1 year	349,021	279,451	–	40
Over 1 year	47,240	50,288	2,016	1,976
	<u>396,261</u>	<u>329,739</u>	<u>2,016</u>	<u>2,016</u>

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23 CAPITAL AND RESERVES

(a) Share capital

		2007		2006	
	<i>Note</i>	No. of shares	Amount \$'000	No. of shares	Amount \$'000
<i>Authorised:</i>					
Ordinary shares of \$0.1 (2006: \$1) each		5,000,000,000	500,000	1,000	1
Non-voting deferred shares of \$1 each	(i)	–	–	2,000,000	2,000
		5,000,000,000	500,000	2,001,000	2,001
<i>Issued and fully paid:</i>					
Ordinary shares of \$0.1 (2006: \$1) each		1,978,066,283	197,807	1,000	1
Non-voting deferred shares of \$1 each	(i)	–	–	–	–
		1,978,066,283	197,807	1,000	1
At 1 January		1,000	1	2,001,000	2,001
Repurchase of shares	(ii)	–	–	(2,000,000)	(2,000)
Bonus issue	(iii)	9,000	–	–	–
Capitalisation issue	(iii)	1,691,990,000	169,199	–	–
Shares issued under the placing and public offering	(iv)	188,000,000	18,800	–	–
Allotment	(v)	98,066,283	9,807	–	–
At 31 December		1,978,066,283	197,807	1,000	1

(i) Authorised and issued share capital

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

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

- (ii) On 2 August 2006, the Company repurchased 2,000,000 non-voting deferred shares of \$1 each for a total consideration of \$40 and the non-voting deferred shares were then cancelled. The purpose of the repurchase was to ensure that the Company had only one class of shares prior to listing of the Company's shares.
- (iii) On 16 March 2007, a series of restructuring activities were undertaken to prepare for the initial public offering of the Company's shares on the Stock Exchange of Hong Kong Limited ("Global Offering"). These are summarised as follows:
- the re-designation of all non-voting deferred shares to ordinary shares;
 - share-split of 1 share of \$1 each to 10 shares of \$0.10 each;
 - increase in authorised capital to \$500,000,000 by the creation of 4,979,990,000 new ordinary shares of \$0.10 each; and
 - allotment of 1,691,990,000 shares to the immediate holding company through the capitalisation of the Company's retained earnings in the amount of \$169,199,000.

Upon the completion of the above exercise, the total issued share capital of the Company was \$169,200,000, comprising 1,692,000,000 ordinary shares of \$0.10 each credited as fully paid.

- (iv) The Company's ordinary shares were successfully listed on the Main Board of the Stock Exchange of Hong Kong Limited on 3 April 2007. An aggregate of 188,000,000 ordinary shares of a nominal value of \$0.10 each were issued on 3 April 2007 at a price of \$2.58 per share. The net proceeds (after deduction of share issue expenses of \$24,030,000) to the Company arising from the issue of new ordinary shares amounted to \$461,010,000. The excess of the net proceeds over the nominal value of ordinary shares issued of \$18,800,000, amounting to \$442,210,000, has been credited to share premium. The application of the share premium account is governed by section 48B of the Hong Kong Companies Ordinance.
- (v) Pursuant to an agreement dated 12 November 2007, the Company agreed to acquire the entire issued share capital of Silver Linkage Investments Inc. and as consideration, the Company allotted 98,066,283 new shares to the vendor. At the completion date, 17 December 2007, the fair value of the Company's shares was \$2.01 per share.

(b) Share premium and capital redemption reserves

The application of the share premium account and the capital redemption reserve is governed by Sections 48B and Sections 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 reserve of the Company.

(c) Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company includes loss of \$17,160,000 and profit of \$54,405,000 for the years ended 31 December 2006 and 2007 which have been dealt with in the financial statements of the Company respectively.

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

	2007 \$'000	2006 \$'000
Amount of consolidated profit attributable to equity holders dealt with in the Company's financial statements	54,405	(17,160)
Interim dividends from subsidiaries attributable to the profit of the year approved and paid during the year	<u>289,199</u>	<u>490,000</u>
Company's profit for the relevant period	<u><u>343,604</u></u>	<u><u>472,840</u></u>

(d) Distributability of reserves

At 31 December 2007, the aggregate amount of reserves available for distribution to equity holders of the Company was \$251,600,000 (2006: \$95,995,000). After the balance sheet date the directors proposed a final dividend of 3.1 cents per ordinary share (2006: Nil), amounting to \$61,310,000 (2006: Nil). This dividend has not been recognised as a liability at the balance sheet date.

(e) 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 shareholder's returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. Adjustments will be made to the capital structure in response to possible 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 2006 and 2007, the Group did not have any external borrowing.

After the listing on the Main Board of the Stock Exchange of Hong Kong Limited, the Group adopted a dividend policy of providing shareholders with regular dividends. In addition, the Group considers the cost of capital together with the risks associated with the capital, and will balance its overall capital structure through the cost effective financial instruments.

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

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24 COMMITMENTS AND CONTINGENCIES

(a) Capital commitments

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

	The Group		The Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Contracted for	<u>7,896</u>	<u>23,769</u>	<u>–</u>	<u>–</u>
Authorised but not contracted for	<u>9,158</u>	<u>17,440</u>	<u>–</u>	<u>–</u>

(b) Commitments under operating leases

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

Land and buildings

	2007 \$'000	2006 \$'000
Within 1 year	27,940	21,816
After 1 year but within 5 years	<u>27,809</u>	<u>40,508</u>
	<u>55,749</u>	<u>62,324</u>

International leased circuits

	2007 \$'000	2006 \$'000
Within 1 year	20,615	14,547
After 1 year but within 5 years	46,044	51,801
After 5 years	<u>11,177</u>	<u>19,068</u>
	<u>77,836</u>	<u>85,416</u>

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

	2007 \$'000	2006 \$'000
Within 1 year	16,880	10,353
After 1 year but within 5 years	<u>8,736</u>	<u>1,322</u>
	<u>25,616</u>	<u>11,675</u>

25 FINANCIAL INSTRUMENTS

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

(a) Credit risk

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

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

A significant portion of the Group's telecommunications services are provided to customers in the People's Republic of China (the "PRC"). As at 31 December 2006 and 2007, the balance due from these PRC customers amounted to \$196,666,000 and \$247,548,000 respectively. The credit risk exposure to these PRC customers and the remaining trade receivables balance has been monitored by the Group on an ongoing basis and the impairment loss on bad and doubtful debts have been within management's expectations.

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

	2007	2006
	%	%
Due from the Group's largest customer	25	20
Due from the Group's five largest customers	46	49

(b) Liquidity risk

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

(c) Interest rate risk

The Group is exposed to cashflow interest rate risks as the Group has significant cash and cash equivalents which are interest-bearing. 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			
	2007		2006		2007		2006	
	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 cash equivalents	4.01%	<u>780,621</u>	1.27%	<u>43,432</u>	4.19%	<u>648,361</u>	1.45%	<u>14,068</u>

(ii) Sensitivity analysis

At 31 December 2007, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's profit after tax and retained profits by approximately \$7,806,000 (2006: \$434,000). Other components of consolidated equity would not be affected (2006: \$Nil) by the changes in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for cash and cash equivalents in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

(d) Foreign currency risk*(i) The Group's functional and reporting currency is the Hong Kong dollar ("HK\$").*

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

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

(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.

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The Group

	2007		2006	
	United States dollars '000	RMB '000	United States dollars '000	RMB '000
Trade and other receivables	67,424	6,641	53,455	–
Cash and cash equivalents	49,924	24	4,124	1,126
Trade and other payables	(48,861)	(322)	(40,206)	–
Overall net exposure	<u>68,487</u>	<u>6,343</u>	<u>17,373</u>	<u>1,126</u>

The Company

	2007		2006	
	United States Dollars '000	RMB '000	United States Dollars '000	RMB '000
Trade and other receivables	92	–	–	–
Cash and cash equivalents	37,856	–	1,399	–
Trade and other payables	(206)	–	(206)	–
Overall net exposure	<u>37,742</u>	<u>–</u>	<u>1,193</u>	<u>–</u>

(iii) Sensitivity analysis

The following table indicates the approximate change in the Group's profit after tax (and retained profits) and other components of consolidated equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date.

The Group

	Increase in foreign exchange rates	2007	Effect on other components of equity \$'000	Increase in foreign exchange rates	2006	Effect on other components of equity \$'000
		Effect on profit after tax and retained profits \$'000			Effect on profit after tax and retained profits \$'000	
RMB	9%	587	–	7%	79	–

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the Group entities' exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual 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. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities' profit after tax and equity measured in the respective foreign currencies, translated into Hong Kong dollars at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis is performed on the same basis for 2006.

(e) Fair values

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

26 ACQUISITION OF SUBSIDIARIES

In 2007, the Group acquired the entire equity interest in Silver Linkage Investments Inc. and its subsidiaries ("Silver Linkage Group") at a total consideration of \$201,184,000. Silver Linkage Group is engaged in providing telecommunications, internet and related value added services. The fair values of net assets recognised at the acquisition date was \$191,729,000. The acquired companies contributed an aggregate revenue of \$16,198,000 and aggregate net gain of \$1,790,000 to the Group's profit for the period since acquisition. The effect on the revenue and profit of the acquired entity as if the acquisition had occurred at the beginning of the period to the Group are \$339,178,000 and \$26,813,000 respectively. The acquisition had the following effect on the Group's assets and liabilities.

	Acquiree's carrying amount before combination \$'000	Fair value adjustments \$'000	Fair Value \$'000
Property, plant and equipment (note 15)	70,206	(5,681)	64,525
Intangible assets (note 16)	626	28,561	29,187
Trade and other receivables	77,442	–	77,442
Cash and cash equivalents	32,484	–	32,484
Trade and other payables	(48,078)	–	(48,078)
Deferred tax liabilities	(151)	–	(151)
Deferred tax assets	40,482	(4,004)	36,478
Current tax payable	(158)	–	(158)
	<u>172,853</u>	<u>18,876</u>	191,729
Net identifiable assets and liabilities			
Goodwill on acquisition – (note (a) and 17)			<u>9,455</u>
			<u>201,184</u>

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Note:

- (a) Goodwill has arisen on the acquisition of Multi-Protocol Label Switching Virtual Private Network (MPLS VPN) for multinational corporations and business enterprises requiring seamless connection to Greater China and Asia.

\$'000

Satisfied by:

Cash paid	4,070
Shares issued	197,114

201,184

Cash and cash equivalents acquired	32,484
Cash consideration paid	(4,070)

Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	28,414
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27 DISPOSAL OF SUBSIDIARIES

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

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

\$'000

Net assets disposed

Property, plant and equipment	164,000
Trade and other receivables	731
Cash and cash equivalents	1,733
Trade and other payables	(4,413)

Total consideration	<u>162,051</u>
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Satisfied by

Cash	<u>162,051</u>
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Analysis of net inflow of cash and cash equivalents in respect of the disposal of subsidiaries

Cash and cash equivalents disposed	(1,733)
Cash consideration received	162,051

160,318

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28 ASSETS CLASSIFIED AS HELD FOR SALE

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

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

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

The cash flows of the discontinued operations from 1 January 2006 to the date of disposal on 1 June 2006 were as follows:

	\$'000
Net cash from operating activities	2,511
Net cash from investing activities	17
Net cash used in financing activities	<u>(3,000)</u>
Decrease in cash and cash equivalents	<u><u>(472)</u></u>

29 EQUITY SHARE-BASED TRANSACTIONS

(a) Share option scheme of the ultimate holding company

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

Since adoption of the Plan, CITIC Pacific Limited has granted four lots of share options on 28 May 2002, 1 November 2004, 20 June 2006 and 16 October 2007 respectively.

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

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

- (i) The number and weighted average exercise prices of share options granted to the executive (other than non-executive directors) in respect of his services rendered to the Group during 2006 are as follows:

	2007		2006	
	Weighted average exercise price	Number of options '000	Weighted average exercise price	Number of options '000
Outstanding at the beginning of the year	\$22.10	200	-	-
Exercised during the year	\$22.10	<u>200</u>	-	<u>-</u>
Granted during the year	-	<u>-</u>	\$22.10	<u>200</u>
Outstanding at the end of the year	-	<u>-</u>	\$22.10	<u>200</u>
Exercisable at the end of the year	-	<u>-</u>	\$22.10	<u>200</u>

- (ii) *Fair value of share options and assumptions*

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

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

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

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

(b) Share option scheme of the Company

The Company has a share option plan ("CITIC 1616 Plan") which was adopted on 17 May 2007 ("the effective date") 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.

On 23 May 2007, options to subscribe for a total of 18,720,000 shares 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 share options.

No option was exercised during the year ended 31 December 2007.

The grant-date fair value of options granted during the year ended 31 December 2007 was \$12,917,000. \$1 was payable by the grantee to the Company on acceptance of the offer of the option. The amount was recognised as share-based compensation expenses for the year ended 31 December 2007 for share options granted, with a corresponding increase in capital reserve.

Details of the fair value of the share options and assumptions are set out in note 29(b)(iii). No option was granted to employees on or before 31 December 2006.

- (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 conditions	Contractual life of options
Options granted to directors:				
– on 23 May 2007	\$3.26	10,290,000	Immediately	Expire at the close of business on 22 May 2012
Options granted to employees:				
– on 23 May 2007	\$3.26	8,430,000	Immediately	Expire at the close of business on 22 May 2012
		<hr/>		
Total share options		<u>18,720,000</u>		

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

	2007	Number of options '000
	Exercise price	
Outstanding at the beginning of the period	–	–
Granted during the period	\$3.26	<u>18,720</u>
Outstanding at the end of the period	\$3.26	<u><u>18,720</u></u>
Exercisable at the end of the period	\$3.26	<u><u>18,720</u></u>

No options was exercised, cancelled or lapsed during the year.

The options outstanding at 31 December 2007 had an exercise price of \$3.26 and a remaining contractual life of 4.39 years.

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

The fair value of an option on one CITIC 1616 share granted in the current year measured as at the date of grant of 23 May 2007 was \$0.69 based on the following assumptions using the Binomial Model:

- Taking into account the probability of early exercise behaviour, the average expected term of the grant was determined to be 3 years;
- Expected volatility of CITIC 1616's share price at 30% per annum (based on historical movements of the Company's and its comparators' share prices);
- Expected annual dividend yield of 1%;
- Rate of eligible grantees leaving service assumed at 20% 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 4.05% per annum (based on linearly interpolated yields of the Hong Kong Exchange Fund Notes as at the grant date).

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

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.

The total expense recognised in the Group's income statement for the year ended 31 December 2007 in respect of the grant of the aforesaid 18,720,000 options is \$12,917,000.

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

31 ACCOUNTING ESTIMATES AND JUDGEMENTS**Key sources of estimation uncertainty**

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

(a) Depreciation

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

(b) Impairments

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

Impairment 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.

32 IMMEDIATE PARENT AND ULTIMATE CONTROLLING PARTY

At 31 December 2007, 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 Pacific Limited, which is a company listed and incorporated in Hong Kong. The ultimate controlling party produces financial statements available for public use.

33 NON-ADJUSTING POST BALANCE SHEET EVENTS

- (i) On 27 February 2008, the Financial Secretary of the Hong Kong SAR Government announced his annual Budget which proposes a cut in the profits tax rate from 17.5% to 16.5% with effect from the fiscal year 2008-09 and a one-off reduction of 75% of the tax payable for the year 2007-08 assessment subject to a ceiling of HK\$25,000. In accordance with the Group's accounting policy set out in note 1(n), no adjustments have been made to these financial statements as a result of this announcement.

The directors estimate that these proposed changes will result in the opening balances of the Group and the Company as at 1 January 2008 being remeasured as follows:

- (a) current tax payable of the Group and the Company will decrease by HK\$106,000 and HK\$ Nil respectively; and
- (b) the Group's deferred tax liabilities and deferred tax assets will decrease by HK\$1,998,000 and HK\$ 2,405,000 respectively and the Company's deferred tax assets will decrease by HK\$215,000.

These opening balance adjustments to current and deferred tax balances at 1 January 2008 will be recognised as an increase in the Group's income tax expenses of HK\$ 301,000 and increase in the Company's income tax expense of HK\$ 215,000. It is impracticable to further estimate the impact of future financial statements of the change in tax rate.

- (ii) After the balance sheet date the directors proposed a final dividend. Further details are disclosed in note 12.

34 COMPARATIVE INFORMATION

As a result of adopting HKFRS 7, "Financial instruments: Disclosures" and the amendments to HKAS 1, "Presentation of financial statements: Capital disclosures", certain comparative figures have been adjusted to conform with changes in disclosures in the current year and to show separately comparative amounts in respect of items disclosed for the first time in 2007. Further details of these developments are disclosed in note 2.

35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2007

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 2007 and which have not been adopted in these financial statements.

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

		Effective for annual periods beginning on or after
HKFRS 8	Operating segments	1 January 2009
HKAS 23 (revised)	Borrowing costs	1 January 2009

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

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3. EXTRACT FROM THE INTERIM REPORT OF THE COMPANY FOR THE SIX MONTHS ENDED 30 JUNE 2008

The following is an extract of the latest published unaudited consolidated financial statements of the Group for the six months ended 30 June 2008 together with the notes therein, from the 2008 interim report of the Company.

Consolidated income statement

For the six months ended 30 June 2008

(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2008	2007
	<i>Note</i>	<i>(Unaudited)</i> \$'000	<i>(Unaudited)</i> \$'000
Turnover	3	1,128,068	692,247
Other revenue	4	10,820	47,155
Other net gain/(loss)	5	255	(44)
		1,139,143	739,358
Network, operations and support expenses	6(b)	(753,927)	(458,162)
Depreciation and amortisation		(56,494)	(38,780)
Staff costs	6(a)	(86,201)	(52,757)
Other operating expenses		(61,653)	(32,278)
Profit from operations and before taxation	6	180,868	157,381
Income tax	7	(29,758)	(21,365)
Profit attributable to the equity holders of the Company for the period		151,110	136,016
Dividends payable to equity holders of the Company attributable to the interim period:			
Interim dividend declared after the balance sheet date	8	39,555	18,800
Basic and diluted earnings per share (HK cents)	9	7.6	7.6

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Consolidated balance sheet

At 30 June 2008

(Expressed in Hong Kong dollars)

		30 June 2008 (Unaudited) \$'000	31 December 2007 (Audited) \$'000
Non-current assets			
Property, plant and equipment	10	327,360	326,489
Intangible assets		23,079	28,717
Goodwill		9,455	9,455
Non-current other receivables	11	32,348	34,772
Deferred tax assets		34,538	42,096
		426,780	441,529
		426,780	441,529
Current assets			
Trade and other receivables	11	713,882	594,243
Current tax recoverable		747	1,043
Cash and cash equivalents	12	875,307	780,621
		1,589,936	1,375,907
		1,589,936	1,375,907
Current liabilities			
Trade and other payables	13	572,162	472,416
Current tax payable		37,614	22,045
		609,776	494,461
		609,776	494,461
Net current assets		980,160	881,446
		980,160	881,446
Total assets less current liabilities		1,406,940	1,322,975
Non-current liabilities			
Deferred tax liabilities		30,348	35,125
		30,348	35,125
NET ASSETS		1,376,592	1,287,850
CAPITAL AND RESERVES			
Share capital	14	197,773	197,807
Reserves		1,178,819	1,090,043
		1,178,819	1,090,043
TOTAL EQUITY		1,376,592	1,287,850

Consolidated statement of changes in equity

For the six months ended 30 June 2008

(Expressed in Hong Kong dollars)

	Attributable to equity holders of the Company							Total
	Share capital	Share premium	Capital reserve (Note 14(g))	Capital redemption reserve (Note 14(f))	Exchange reserve	Retained profits		
Note	(Unaudited) \$'000	(Unaudited) \$'000	(Unaudited) \$'000	(Unaudited) \$'000	(Unaudited) \$'000	(Unaudited) \$'000	(Unaudited) \$'000	
At 1 January 2007	1	-	-	2,000	-	370,916	372,917	
Profit for the period	-	-	-	-	-	136,016	136,016	
Capitalisation issue	14(b)	169,199	-	-	-	(169,199)	-	
Shares issued under the placing and public offer	14(c)	18,800	466,240	-	-	-	485,040	
Issuing expenses	14(c)	-	(24,030)	-	-	-	(24,030)	
Equity-settled share-based transactions	14(g)	-	-	12,917	-	-	12,917	
At 30 June 2007		<u>188,000</u>	<u>442,210</u>	<u>12,917</u>	<u>2,000</u>	<u>-</u>	<u>337,733</u>	<u>982,860</u>
At 1 July 2007		188,000	442,210	12,917	2,000	-	337,733	982,860
Translation difference of financial statements of subsidiaries outside Hong Kong		-	-	-	-	(7)	-	(7)
Profit for the period		-	-	-	-	-	126,683	126,683
Shares issued for acquisition of subsidiaries	14(d)	9,807	187,307	-	-	-	-	197,114
Dividends approved and paid during the period	8	-	-	-	-	-	(18,800)	(18,800)
At 31 December 2007		<u>197,807</u>	<u>629,517</u>	<u>12,917</u>	<u>2,000</u>	<u>(7)</u>	<u>445,616</u>	<u>1,287,850</u>

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Attributable to equity holders of the Company

Note	Attributable to equity holders of the Company						Total
	Share capital	Share premium	Capital reserve (Note 14(g))	Capital redemption reserve (Note 14(f))	Exchange reserve	Retained profits	
	(Unaudited) \$'000	(Unaudited) \$'000	(Unaudited) \$'000	(Unaudited) \$'000	(Unaudited) \$'000	(Unaudited) \$'000	(Unaudited) \$'000
At 1 January 2008	197,807	629,517	12,917	2,000	(7)	445,616	1,287,850
Dividends approved in respect of previous year	8	-	-	-	-	(61,310)	(61,310)
Purchase of own shares	14 (e)						
- par value paid	(34)	-	-	-	-	-	(34)
- premium paid	-	-	-	-	-	(510)	(510)
- transfer between reserves	-	-	-	34	-	(34)	-
Translation difference of financial statements of subsidiaries outside Hong Kong					(514)	-	(514)
Release upon lapse of share options	14 (g)	-	(1,687)	-	-	1,687	-
Profit for the period		-	-	-	-	151,110	151,110
At 30 June 2008	<u>197,773</u>	<u>629,517</u>	<u>11,230</u>	<u>2,034</u>	<u>(521)</u>	<u>536,559</u>	<u>1,376,592</u>

Consolidated cash flow statement*For the six months ended 30 June 2008**(Expressed in Hong Kong dollars)*

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	\$'000	\$'000
Operating activities		
Profit before taxation	180,868	157,381
Adjustments for:		
– Depreciation and amortisation	56,494	38,780
– (Profit)/loss on disposal of property, plant and equipment	(132)	6
– Equity-settled share-based payment expenses	–	12,917
– Interest income	(10,820)	(47,155)
	<u>226,410</u>	<u>161,929</u>
Operating profit before changes in working capital	226,410	161,929
Increase in trade and other receivables	(115,847)	(43,002)
Increase/(decrease) in trade and other payables	93,535	(3,065)
	<u>204,098</u>	<u>115,862</u>
Cash generated from operations	204,098	115,862
Tax paid		
Hong Kong Profits Tax paid	(10,718)	(6,375)
Overseas tax paid	(394)	–
	<u>192,986</u>	<u>109,487</u>
Net cash generated from operating activities	192,986	109,487
Investing activities		
Interest received	9,452	46,903
Payment for the purchase of property, plant and equipment	(43,798)	(28,932)
Proceeds from disposal of property, plant and equipment	135	110
	<u>(34,211)</u>	<u>18,081</u>
Net cash (used in)/generated from investing activities	(34,211)	18,081

	Six months ended 30 June	
	2008 (Unaudited) \$'000	2007 (Unaudited) \$'000
Financing activities		
Decrease in amount due to ultimate holding company	(1,600)	(2,237)
Payment for repurchase of shares	(544)	–
Proceeds from issuance of shares under the placing and public offer	–	485,040
Issuing expenses	–	(24,030)
Dividends paid to equity holders of the Company	(61,310)	–
	<hr/>	<hr/>
Net cash (used in)/generated from financing activities	<u>(63,454)</u>	<u>458,773</u>
Net increase in cash and cash equivalents	95,321	586,341
Cash and cash equivalents at 1 January	780,621	43,432
Effect of foreign exchange rate changes	<hr/> (635) <hr/>	<hr/> – <hr/>
Cash and cash equivalents at 30 June	<u><u>875,307</u></u>	<u><u>629,773</u></u>

Notes on the unaudited interim financial report

(Expressed in Hong Kong dollars)

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issuance on 31 July 2008.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2007 annual financial statements.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2007 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The interim financial report is unaudited, but has been reviewed by the Audit Committee of the Company and by the auditors, KPMG, in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”, issued by the HKICPA.

The financial information relating to the financial year ended 31 December 2007 that is included in the interim financial report as being previously reported information does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2007 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 11 March 2008.

2 SEGMENT REPORTING

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

3 TURNOVER

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

Turnover recognised during the period may be analysed as follows:

	Six months ended 30 June	
	2008	2007
	(Unaudited) \$'000	(Unaudited) \$'000
Fees from the provision of voice hubbing services	731,038	554,167
Fees from the provision of short message services	116,930	84,664
Fees from the provision of other telecommunications services	280,100	53,416
	<u>1,128,068</u>	<u>692,247</u>

4 OTHER REVENUE

	Six months ended 30 June	
	2008	2007
	(Unaudited) \$'000	(Unaudited) \$'000
Bank interest income	10,561	46,869
Other interest income	259	286
	<u>10,820</u>	<u>47,155</u>
Total interest income on financial assets not at fair value through profit or loss	<u>10,820</u>	<u>47,155</u>

5 OTHER NET GAIN/(LOSS)

	Six months ended 30 June	
	2008	2007
	(Unaudited) \$'000	(Unaudited) \$'000
Net profit/(loss) on disposal of property, plant and equipment	132	(6)
Net foreign exchange gain/(loss)	123	(38)
	<u>255</u>	<u>(44)</u>

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6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	\$'000	\$'000
(a) Staff costs:		
Salaries, wages and other benefits	83,845	38,690
Contributions to defined contribution retirement plans	2,356	1,150
Equity-settled share-based payment expenses	–	12,917
	<u>86,201</u>	<u>52,757</u>
(b) Other items:		
Network, operations and support expenses, including:	753,927	458,162
– carrier costs	613,279	428,202
– operating leases – international leased circuits	48,566	22,394
– other telecommunications service costs	92,082	7,566
Depreciation	50,856	38,780
Amortisation	5,638	–
Operating lease charges in respect of land and buildings	17,692	11,456
	<u>17,692</u>	<u>11,456</u>

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

Income tax in the consolidated income statement represents:

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	\$'000	\$'000
Current tax – Hong Kong Profits Tax		
Provision for the period	25,684	20,793
Overprovision in respect of prior years	–	(24)
	<u>25,684</u>	<u>20,769</u>
Current tax – Overseas		
Provision for the period	1,304	706
	<u>1,304</u>	<u>706</u>
Deferred tax		
Origination and reversal of temporary differences	2,363	(110)
Effect of decrease in tax rate on deferred tax balances at 1 January	407	–
	<u>2,770</u>	<u>(110)</u>
	<u>29,758</u>	<u>21,365</u>

APPENDIX I FINANCIAL INFORMATION ON THE GROUP

The provision for Hong Kong Profits Tax for the six months ended 30 June 2008 is calculated at 16.5% (2007: 17.5%) of the estimated assessable profits for the period.

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

8 DIVIDENDS

(a) Dividends payable to equity holders of the Company attributable to the interim period:

	2008 (Unaudited) \$'000	2007 (Unaudited) \$'000
Interim dividend declared after the interim period, of 2 cents per share (2007: 1 cent per share)	<u>39,555</u>	<u>18,800</u>

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

(b) Dividends payable to equity holders of the Company attributable to the previous financial year, approved and paid during the interim period:

	Six months ended 30 June	
	2008 (Unaudited) \$'000	2007 (Unaudited) \$'000
Final dividend in respect of the previous financial year, approved and paid during the interim period, of 3.1 cents per share (year ended 31 December 2006: Nil)	<u>61,310</u>	<u>–</u>

9 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to the equity holders of the Company for the six months ended 30 June 2008 of \$151,110,000 (six months ended 30 June 2007: \$136,016,000) and the weighted average number of 1,977,780,000 shares (2007: 1,784,442,000 shares) in issue during the six months ended 30 June 2008, calculated as follows:

Weighted average number of ordinary shares

	Number of shares	
	2008 '000	2007 '000
Issued ordinary shares at 1 January [#]	1,978,066	1,692,000
Effect of shares repurchased	(286)	–
Effect of shares issued pursuant to the placing and public offering	<u>–</u>	<u>92,442</u>
Weighted average number of ordinary shares	<u>1,977,780</u>	<u>1,784,442</u>

[#] Issued share capital at 1 January 2007 represented shares of the Company in issue after the reorganisation (see note 14(b)), as if the shares had been outstanding since 1 January 2007.

APPENDIX I	FINANCIAL INFORMATION ON THE GROUP
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(b) Diluted earnings per share

The diluted earnings per share for the six months ended 30 June 2008 and 2007 are not presented as the potential ordinary shares in respect of outstanding share options were anti-dilutive.

10 PROPERTY, PLANT AND EQUIPMENT

Acquisitions and disposals

During the six months ended 30 June 2008, the Group acquired items of property, plant and equipment with a cost of \$51,609,000 (six months ended 30 June 2007: \$36,508,000). Items of property, plant and equipment with a net book value of \$3,000 were disposed of during the six months ended 30 June 2008 (six months ended 30 June 2007: \$116,000), resulting in a profit/(loss) on disposal of \$132,000 and \$(6,000) for the six months ended 30 June 2008 and 2007 respectively.

11 TRADE AND OTHER RECEIVABLES

	30 June 2008	31 December 2007
	(Unaudited)	(Audited)
	\$'000	\$'000
Trade debtors, net of allowance for doubtful debts	660,638	540,503
Other receivables	85,592	88,512
	<u>746,230</u>	<u>629,015</u>
Represented by:		
Non-current portion	32,348	34,772
Current portion	713,882	594,243
	<u>746,230</u>	<u>629,015</u>

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

	30 June 2008	31 December 2007
	(Unaudited)	(Audited)
	\$'000	\$'000
Within 1 year	643,616	520,325
Over 1 year	17,022	20,178
	<u>660,638</u>	<u>540,503</u>

Credit evaluations are performed on all customers requiring credit over a certain amount. These debtors 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.

APPENDIX I	FINANCIAL INFORMATION ON THE GROUP
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12 CASH AND CASH EQUIVALENTS

	30 June 2008	31 December 2007
	(Unaudited)	(Audited)
	\$'000	\$'000
Cash at bank and in hand	87,906	54,440
Deposits with banks with maturity within 3 months	787,401	726,181
	<u>875,307</u>	<u>780,621</u>
	<u>875,307</u>	<u>780,621</u>

13 TRADE AND OTHER PAYABLES

	30 June 2008	31 December 2007
	(Unaudited)	(Audited)
	\$'000	\$'000
Trade creditors	483,370	396,261
Other payables and accruals	88,792	74,555
Amount due to ultimate holding company	–	1,600
	<u>572,162</u>	<u>472,416</u>
	<u>572,162</u>	<u>472,416</u>

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

	30 June 2008	31 December 2007
	(Unaudited)	(Audited)
	\$'000	\$'000
Within 1 year	418,686	349,021
Over 1 year	64,684	47,240
	<u>483,370</u>	<u>396,261</u>
	<u>483,370</u>	<u>396,261</u>

APPENDIX I FINANCIAL INFORMATION ON THE GROUP

14 CAPITAL AND RESERVES

Share capital

		30 June 2008		31 December 2007	
	Note	No. of shares	Amount \$'000	No. of shares	Amount \$'000
<i>Authorised:</i>					
Ordinary shares of \$0.1 each	(a)	5,000,000,000	500,000	5,000,000,000	500,000
<i>Issued and fully paid:</i>					
Ordinary shares of \$0.1 each	(a)	1,977,731,283	197,773	1,978,066,283	197,807
At 1 January		1,978,066,283	197,807	1,000	1
Bonus issue	(b)	–	–	9,000	–
Capitalisation issue	(b)	–	–	1,691,990,000	169,199
Shares issued under the placing and public offering	(c)	–	–	188,000,000	18,800
Allotment	(d)	–	–	98,066,283	9,807
Repurchase of shares	(e)	(335,000)	(34)	–	–
At 30 June/31 December		1,977,731,283	197,773	1,978,066,283	197,807

Notes:

- (a) Holders of ordinary shares are entitled to receive dividends as declared from time to time and every member present in person shall have one vote on a show of hands or one vote per share on a poll at general meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.
- (b) On 16 March 2007, a series of restructuring activities were undertaken to prepare for the initial public offering of the Company's shares on The Stock Exchange of Hong Kong Limited ("the Stock Exchange"). These are summarised as follows:
- the re-designation of all non-voting deferred shares to ordinary shares;
 - share-split of 1 share of \$1 each to 10 shares of \$0.10 each;
 - increase in authorised capital to \$500,000,000 by the creation of 4,979,990,000 new ordinary shares of \$0.10 each; and
 - allotment of 1,691,990,000 shares to the immediate holding company through the capitalisation of the Company's retained profits in the amount of \$169,199,000.

Upon the completion of the above exercise, the total issued capital of the Company was \$169,200,000, comprising 1,692,000,000 ordinary shares of \$0.10 each credited as fully paid.

- (c) The Company's ordinary shares were successfully listed on the Main Board of the Stock Exchange on 3 April 2007. An aggregate of 188,000,000 ordinary shares of a nominal value of \$0.10 each were issued on 3 April 2007 at a price of \$2.58 per share. The net proceeds (after deduction of share issue expenses of \$24,030,000) to the Company arising from the issue of new ordinary shares amounted to \$461,010,000. The excess of the net proceeds over the nominal value of ordinary shares issued of \$18,800,000, amounting to \$442,210,000, has been credited to share premium. The application of the share premium account is governed by section 48B of the Hong Kong Companies Ordinance.

- (d) Pursuant to an agreement dated 12 November 2007, the Company agreed to acquire the entire issued share capital of Silver Linkage Investments Inc. and as consideration, the Company allotted 98,066,283 new shares of \$0.10 each to the vendor. At the completion date, 17 December 2007, the fair value of the Company's shares was \$2.01 per share.
- (e) During the six months ended 30 June 2008, the Company repurchased a total of 335,000 of its own shares on the Stock Exchange, all of which have been cancelled, as follows:

Month/Year	Number of shares repurchased	Total purchase prices \$	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

- (f) Capital redemption reserve

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

- (g) Equity settled share-based transactions

On 23 May 2007, options to subscribe for a total of 18,720,000 shares were granted to employees, directors and non-executive directors of the Company under the Company's share option plan. A sum of \$1 was payable by the grantee to the Company on acceptance of the offer of the option. Each option gives the holder the right to subscribe for one ordinary share of \$0.10 each of the Company. These share options will vest on 23 May 2007 and then 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 share options.

No option was exercised during the six months ended 30 June 2008 and 2007.

The grant-date fair value of options granted during the six months ended 30 June 2007 was \$12,917,000. The amount was recognised as share-based compensation expenses in profit or loss during the six months ended 30 June 2007, with a corresponding increase in capital reserve. During the six months ended 30 June 2008, options for 2,445,000 shares lapsed. The fair value of lapsed options was \$1,687,000, and was released directly to retained profits.

15 CAPITAL COMMITMENTS

Capital commitments of the Group outstanding at 30 June 2008 not provided for in the financial report were as follows:

	30 June 2008 (Unaudited) \$'000	31 December 2007 (Audited) \$'000
Contracted for	22,910	7,896
Authorised but not contracted for	9,251	9,158

APPENDIX I FINANCIAL INFORMATION ON THE GROUP

16 RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in this report, the Group entered into the following material related party transactions:

	<i>Note</i>	Six months ended 30 June	
		2008 (Unaudited) \$'000	2007 (Unaudited) \$'000
Telecommunications services and related income from affiliated companies		<u>2,632</u>	<u>2,885</u>
Telecommunications service expenses to an affiliated company		<u>2,776</u>	<u>1,454</u>
Professional fee payable to ultimate holding company	(i)	<u>800</u>	<u>300</u>
Operating lease charges and building management fee payable to an affiliated company	(ii)	<u>11,952</u>	<u>11,952</u>
Management fee paid to a wholly-owned subsidiary of the minority shareholder		<u>500</u>	<u>500</u>

Notes:

- (i) Professional fee was paid/payable to the ultimate holding company for the provision of internal audit and company secretarial services.
- (ii) An affiliated company leases a property in Hong Kong to the Group under an operating lease. The amount represents the leases charges and building management fees paid to the affiliated company.

	30 June 2008 (Unaudited) \$'000	31 December 2007 (Audited) \$'000
Amount due to ultimate holding company	<u>–</u>	<u>1,600</u>
Amount due from/(to) an affiliated company included in		
– Trade debtors	6,041	3,848
– Trade creditors	<u>(3,769)</u>	<u>(1,796)</u>
	<u>2,272</u>	<u>2,052</u>

APPENDIX I	FINANCIAL INFORMATION ON THE GROUP
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Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors is as follows:

	Six months ended 30 June	
	2008	2007
	(Unaudited) \$'000	(Unaudited) \$'000
Short-term employee benefits	7,458	10,375
Equity-settled share-based payment expenses	–	9,508
Post-employment benefits	179	–
	<u>7,637</u>	<u>19,883</u>
	<u>7,637</u>	<u>19,883</u>

17 POST BALANCE SHEET EVENTS

After the balance sheet date, the directors proposed an interim dividend. Further details are disclosed in note 8.

18 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 30 JUNE 2008

Up to the date of issue of this interim financial report, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ended 30 June 2008.

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

Of these developments, the following development may result in new or amended disclosure in the interim financial report:

		Effective for accounting periods beginning on or after
HKFRS 8	Operating segments	1 January 2009
HKAS 23 (revised)	Borrowing costs	1 January 2009

The following is the text of a report on CMN received from Mazars CPA Limited, the reporting accountants, for the purpose of inclusion in this circular.



MAZARS CPA LIMITED
 馬賽會計師事務所有限公司
 34th Floor, The Lee Gardens,
 33 Hysan Avenue, Causeway Bay, Hong Kong
 香港銅鑼灣希慎道33號利園廣場34樓

Date: 30 September 2008

The Board of Directors
 CITIC 1616 Holdings Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of ChinaMotion NetCom Limited (the "Target") and its subsidiaries (collectively referred to as the "Target Group") for the inclusion in the circular of CITIC 1616 Holdings Limited (the "Company") dated 30 September 2008 (the "Circular") in connection with the proposed acquisition of the Target Group by a wholly-owned subsidiary of the Company. The Financial Information comprises the consolidated balance sheets of the Target Group as at 31 March 2006, 2007 and 2008, and the consolidated income statements, the consolidated statements of changes in equity and the consolidated cash flow statements of the Target Group for the years ended 31 March 2006, 2007 and 2008 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory notes.

The Target was incorporated in the British Virgin Islands with limited liability on 28 January 2000. The principal activity of the Target Group is the provision of long distance call services. The Target Group has adopted 31 March as its financial year end for financial reporting purposes throughout the Relevant Periods.

As at the date of this report, the Target has the following subsidiaries:

Name of subsidiary	Place of incorporation	Particulars of issued share capital	Percentage of effective equity interests held		Principal activities
			2008		
			<i>Directly</i>	<i>Indirectly</i>	
ChinaMotion NetCom (Asia) Limited	Hong Kong	2 ordinary shares of HK\$1 each		100%	Provision of long distance call services
ChinaMotion NetCom (Canada) Ltd.	Canada	1 common share	100%		Provision of long distance call services

Name of subsidiary	Place of incorporation	Particulars of issued share capital	Percentage of effective equity interests held 2008		Principal activities
			Directly	Indirectly	
China Motion (Japan) Limited	Japan	200 shares of Yen50,000 each	100%		Provision of long distance call services
China Motion (Singapore) Pte. Ltd.	Singapore	100,000 shares of S\$1 each	100%		Provision of long distance call services
China Motion (Taiwan) Limited	Taiwan	NT\$5,000,000	100%		Provision of long distance call services
China Motion (UK) Limited	United Kingdom	2 shares of £1 each	100%		Provision of long distance call services
CM Tel (Canada) Ltd.	Canada	100 common shares of C\$1 each	100%		Provision of long distance call services
CM Tel (USA) LLC	United States	US\$10,000	100%		Provision of long distance call services
ChinaMotion NetCom Holdings (HK) Limited	British Virgin Islands	1 ordinary share of US\$1 each	100%		Dormant
China Motion (Australia) Pty Limited	Australia	1 ordinary share of A\$1 each	100%		Dormant
China Motion Malaysia Sdn. Bhd.	Malaysia	500,000 ordinary shares of MYR1 each		100%	Dormant

The Financial Information of the Target Group has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong.

We have acted as auditors of the Target Group for the Relevant Periods.

The directors of the Target are responsible for preparing the Financial Information which gives a true and fair view in accordance with HKFRSs. In preparing the Financial Information of the Target which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable, and that the

reasons for any significant departure/non-applicable accounting standards are stated. It is our responsibility to form an independent opinion, on such information in respect of the Relevant Periods, and to report our opinion to you.

For the purpose of this report, we have examined the audited financial statements of the Target Group for the Relevant Periods in accordance with Auditing Guideline No. 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. No adjustments were considered necessary to restate the Financial Information.

In our opinion, the Financial Information of the Target Group, for the purpose of this report, gives a true and fair view of the results and cash flows of the Target Group for the Relevant Periods and of the state of affairs of the Target Group as at 31 March 2006, 2007 and 2008.

I. FINANCIAL INFORMATION

Consolidated Income Statements

The following is a summary of the consolidated income statements of the Target Group for the Relevant Periods, which has been prepared on the basis set out in Section II below, are as follows:

	<i>Note</i>	2006 <i>HK\$</i>	2007 <i>HK\$</i>	2008 <i>HK\$</i>
Turnover	2	651,383,230	444,605,547	444,473,454
Cost of sales		<u>(583,743,833)</u>	<u>(380,336,435)</u>	<u>(376,738,899)</u>
Gross profit		67,639,397	64,269,112	67,734,555
Other revenue	2	100,411	57,105	204,032
Other income	3	4,757,309	139,919,841	5,564,458
Selling expenses		(5,152,251)	(1,628,948)	(1,548,520)
Administrative expenses		(128,685,020)	(69,917,428)	(54,433,640)
Impairment loss on goodwill		–	(16,963,663)	–
Impairment loss on property, plant and equipment and other non-current assets		(63,621,088)	–	–
Finance costs	4	<u>(161,340)</u>	<u>(45,019)</u>	<u>(27,844)</u>
(Loss) Profit before taxation	4	(125,122,582)	115,691,000	17,493,041
Taxation	7	<u>2,048,000</u>	–	–
(Loss) Profit for the year		<u><u>(123,074,582)</u></u>	<u><u>115,691,000</u></u>	<u><u>17,493,041</u></u>

Consolidated Balance Sheets

The following is a summary of the consolidated balance sheets of the Target Group for the Relevant Periods, which has been prepared on the basis set out in Section II below, are as follows:

	<i>Note</i>	2006 <i>HK\$</i>	2007 <i>HK\$</i>	2008 <i>HK\$</i>
Non-current assets				
Goodwill	8	–	–	–
Property, plant and equipment	9	<u>22,304,431</u>	<u>7,908,313</u>	<u>16,031,945</u>
		<u>22,304,431</u>	<u>7,908,313</u>	<u>16,031,945</u>
Current assets				
Inventories		261,520	–	–
Trade and other receivables	10	171,613,093	116,012,819	157,222,018
Bank balances and cash		<u>24,378,345</u>	<u>7,183,977</u>	<u>25,150,951</u>
		<u>196,252,958</u>	<u>123,196,796</u>	<u>182,372,969</u>
Current liabilities				
Trade and other payables	11	403,924,978	203,376,735	247,528,820
Current portion of interest-bearing borrowings	12	1,941,018	148,164	4,332,331
Taxation		<u>434,332</u>	<u>–</u>	<u>–</u>
		<u>406,300,328</u>	<u>203,524,899</u>	<u>251,861,151</u>
Net current liabilities		<u>(210,047,370)</u>	<u>(80,328,103)</u>	<u>(69,488,182)</u>
Total assets less current liabilities		<u>(187,742,939)</u>	<u>(72,419,790)</u>	<u>(53,456,237)</u>
Non-current liabilities				
Obligations under finance leases	12	<u>206,099</u>	<u>42,335</u>	<u>–</u>
NET LIABILITIES		<u>(187,949,038)</u>	<u>(72,462,125)</u>	<u>(53,456,237)</u>
Capital and reserves				
Share capital	14	8	78	78
Exchange reserve		(681,528)	(885,685)	627,162
Accumulated losses		<u>(187,267,518)</u>	<u>(71,576,518)</u>	<u>(54,083,477)</u>
TOTAL EQUITY		<u>(187,949,038)</u>	<u>(72,462,125)</u>	<u>(53,456,237)</u>

Consolidated Statements of Changes in Equity

The movements in the consolidated statements of changes in equity of the Target Group for the Relevant Periods, which have been prepared on the basis set out in Section II below, are as follows:

	Share capital <i>HK\$</i>	Exchange reserve <i>HK\$</i>	Accumulated losses <i>HK\$</i>	Total <i>HK\$</i>
At 1 April 2005	8	–	(64,192,936)	(64,192,928)
Exchange differences arising on translation of foreign operations	–	(681,528)	–	(681,528)
Loss for the year	–	–	(123,074,582)	(123,074,582)
At 31 March 2006	<u>8</u>	<u>(681,528)</u>	<u>(187,267,518)</u>	<u>(187,949,038)</u>
At 1 April 2006	8	(681,528)	(187,267,518)	(187,949,038)
Issue of share capital	70	–	–	70
Exchange differences arising on translation of foreign operations	–	(204,157)	–	(204,157)
Profit for the year	–	–	115,691,000	115,691,000
At 31 March 2007	<u>78</u>	<u>(885,685)</u>	<u>(71,576,518)</u>	<u>(72,462,125)</u>
At 1 April 2007	78	(885,685)	(71,576,518)	(72,462,125)
Exchange differences arising on translation of foreign operations	–	1,512,847	–	1,512,847
Profit for the year	–	–	17,493,041	17,493,041
At 31 March 2008	<u>78</u>	<u>627,162</u>	<u>(54,083,477)</u>	<u>(53,456,237)</u>

Consolidated Cash Flow Statements

The consolidated cash flow statements of the Target Group for the Relevant Periods, which have been prepared on the basis set out in Section II below, are as follows:

	<i>Note</i>	2006 <i>HK\$</i>	2007 <i>HK\$</i>	2008 <i>HK\$</i>
OPERATING ACTIVITIES				
Cash generated from (used in) operations	15	30,329,289	(12,182,843)	26,946,436
Income tax paid		(724,811)	(434,332)	–
Interest received		100,411	57,105	204,032
Interest paid		–	(409)	(20,219)
Interest element of finance leases		(161,340)	(44,610)	(7,625)
Net cash from (used in) operating activities		<u>29,543,549</u>	<u>(12,605,089)</u>	<u>27,122,624</u>
INVESTING ACTIVITIES				
Proceeds from disposal of property, plant and equipment		21,598	137,816	1,243
Purchase of property, plant and equipment		(7,171,433)	(1,849,587)	(13,298,725)
Net cash outflow from the disposal of interest in subsidiaries	17	–	(1,530,675)	–
Net cash inflow from the acquisition of a subsidiary	16	–	609,715	–
Net cash used in investing activities		<u>(7,149,835)</u>	<u>(2,632,731)</u>	<u>(13,297,482)</u>
FINANCING ACTIVITIES				
Repayment of capital element of finance leases		(3,543,194)	(1,956,618)	(148,168)
(Repayment) Additions of bank borrowings		(24,772,945)	–	4,290,000
Decrease in pledged bank deposits		4,470,916	–	–
Proceeds from issue of share capital		–	70	–
Net cash (used in) from financing activities		<u>(23,845,223)</u>	<u>(1,956,548)</u>	<u>4,141,832</u>
Net (decrease) increase in cash and cash equivalents		(1,451,509)	(17,194,368)	17,966,974
Cash and cash equivalents at beginning of year		<u>25,829,854</u>	<u>24,378,345</u>	<u>7,183,977</u>
Cash and cash equivalents at end of year, represented by bank balances and cash		<u><u>24,378,345</u></u>	<u><u>7,183,977</u></u>	<u><u>25,150,951</u></u>

II. NOTES TO THE FINANCIAL INFORMATION

CORPORATE INFORMATION

ChinaMotion NetCom Limited is a limited liability company incorporated in the British Virgin Islands. Its registered office is located at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands. The immediate holding company of the Target is ChinaMotion NetCom Holdings Limited. In the opinion of the directors of the Target, the ultimate holding company of the Target is Marvel Bonus Holdings Limited, which is incorporated in the British Virgin Islands. The principal activity of the Target Group is the provision of long distance call services.

1. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong.

For the purpose of this report, the Target Group has adopted throughout the Relevant Periods all the HKFRS that are relevant to its operations and effective for accounting periods beginning on or after 1 April 2007. A summary of the principal accounting policies adopted by the Target Group is set out below.

The Financial Information has been prepared in conformity with the principles applicable to a going concern. The applicability of these principles is dependent upon continued availability of adequate finance or attaining profitable operations in the future in view of the excess of liabilities over assets. The intermediate holding company has undertaken to make available adequate funds to the Target Group as and when required to maintain the Target Group as a going concern.

Basis of measurement

The measurement basis used in the preparation of the Financial Information is historical cost.

Basis of consolidation

The Financial Information comprises the financial statements of the Target and its subsidiaries as at 31 March each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Target using consistent accounting policies.

All intra-group balance, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full. The results of subsidiaries are consolidated from the date on which the Target Group obtains control and continue to be consolidated until the date that such control ceased.

Subsidiaries

A subsidiary is an entity in which the Target has the power to govern the financial and operating policies so as to obtain benefits from its activities.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the Target Group's share of the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary. Goodwill on acquisition of business is recognised as a separate asset. Goodwill is carried at cost less accumulated impairment losses, which is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill is allocated to cash-generating units for the purpose of impairment test and determination of gain or loss on disposal. An impairment loss on goodwill is not reversed.

Any excess of the Target Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition of businesses at the date of acquisition, after reassessment, is recognised immediately in consolidated income statement.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repairs and maintenance are charged to the income statement during the year in which they are incurred.

The gain or loss arising from the retirement or disposal of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the assets and is recognised as an income or expense in the consolidated income statement.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment over their estimated useful lives from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method at the following rates per annum. Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis and depreciated separately.

Furniture and office equipment	20%
Telecommunications equipment	10% – 20%
Leasehold improvements	over the unexpired term of leases
Motor vehicle	30%

Construction in progress

Construction in progress is stated at cost less accumulated impairment losses. Cost includes all construction expenditure and other direct costs, including interest costs, attributable to such projects. Costs on completed construction works are transferred to the appropriate asset category. No depreciation is provided in respect of construction in progress until it is completed and available for use.

Financial instruments

Financial assets and financial liabilities are recognised when the Target Group becomes a party to the contractual provisions of the instruments and on a trade date basis. A financial asset is derecognised when the Target Group's contractual rights to future cash flows from the financial asset expire or when the Target Group transfers the contractual rights to future cash flows to a third party. A financial liability is derecognised only when the liability is extinguished.

Loans and receivables

Loans and receivables including trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method, except where receivables are interest-free loans and without any fixed repayment term or the effect of discounting would be insignificant. In such case, the receivables are stated at cost less impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the year to maturity. Gains and losses arising from derecognition, impairment or through the amortisation process are recognised in the consolidated income statement.

Impairment of financial assets

At each balance sheet date, the Target Group assesses whether there is objective evidence that financial assets, other than those at fair value through profit or loss, are impaired. The impairment loss of financial assets carried at amortised cost is measured as the difference between the assets' carrying amount and the present value of estimated future cash flow discounted at the financial asset's original effective interest rate.

Financial liabilities

The Target Group's financial liabilities include trade and other payables, bank loans and other borrowings and obligations under finance leases. All financial liabilities except for derivatives are recognised initially at their fair value and subsequently measured at amortised cost, using effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

Cash equivalents

Cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Target Group and when the revenue and costs, if applicable, can be measured reliably and on the following bases.

International communication services income is recognised in the period when services are rendered.

Revenue from the sale of telecommunications products is recognised on the transfer of ownership, which generally coincides with the time of delivery.

Commission income is recognised in accordance with the terms of agency agreements which is generally when the agency services are rendered.

Interest income is recognised as the interest accrues using the effective interest method to the net carrying amount of the financial asset.

Foreign currency translation

Items included in the financial statements of each of the Target Group's entities are measured using the currency of the primary economic environment in which the entity operates ("functional currency").

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

The results and financial position of all the Target Group entities that have a functional currency different from the presentation currency ("foreign operations") are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet date;
- Income and expenses for each income statement item are translated at average exchange rate;
- All resulting exchange differences arising from the above translation and exchange differences arising from a monetary item that forms part of the Target Group's net investment in a foreign operation are recognised as a separate component of equity and recognised in consolidated income statement on disposal of foreign operations.

Impairment loss of non-financial assets

At each balance sheet date, the Target Group reviews internal and external sources of information to determine whether the carrying amounts of its property, plant and equipment have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Target Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment loss is recognised as income immediately.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Target Group at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as finance lease obligation. Finance charges, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable under operating leases are charged to consolidated income statement on a straight-line basis over the term of the relevant lease.

Employee benefits*Defined contribution plans*

The obligations for contributions to defined contribution retirement scheme are recognised as an expense in the consolidated income statement as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the scheme are held separately from those of the Target Group in an independently administered fund.

Long service payment

The Target Group's net obligation in respect of long service payment is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value and after deducting the fair value of any related assets, including retirement scheme benefit.

Taxation

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the Financial Information. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss, it is not accounted for.

The deferred tax liabilities and assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

Related parties

A party is related to the Target Group if:

- (a) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Target Group; or has an interest in the Target Group that gives it significant influence over the Target Group; or has joint control over the Target Group;
- (b) the party is an associate of the Target Group;
- (c) the party is a joint venture in which the Target Group is a venturer;
- (d) the party is a member of the key management personnel of the Target Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of employees of the Target Group, or of any entity that is a related party of the Target Group.

Segment reporting

A segment is a distinguishable component of the Target Group that is engaged either in providing products or services (business segment), or in providing products or services with a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Target Group's internal financial reporting system, the Target Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of the Financial Information.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process. Inter-segment pricing are principally on a cost plus basis.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, bank balances and cash, interest-bearing borrowings, borrowings, tax balances, corporate and financing expenses.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are based on where the assets are located. Unallocated expenses consist of those that cannot be allocated on a reasonable basis to a geographical segment.

Critical accounting estimates and judgements

Estimates, assumptions concerning the future and judgements are made in the preparation of the Financial Information. They affect the application of the Target Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

Allowance for doubtful debts

The provisioning policy for doubtful debts of the Target Group is based on the evaluation by management of the collectability and ageing analysis of the accounts receivables. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including assessing the current creditworthiness and the past collection history of each customer. If the financial conditions of these customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance will be required. The carrying amount of receivables after allowance for doubtful debts amounted to HK\$111,707,136; HK\$25,018,036 and HK\$33,193,604 and as at 31 March 2006, 2007 and 2008 respectively.

Income taxes

The Target Group had estimated unused tax losses of HK\$124,298,224; HK\$16,386,560 and HK\$9,813,376 available for offset against future profits as at 31 March 2006, 2007 and 2008 respectively. No deferred tax assets has been recognised on the tax losses due to unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future taxable profits or taxable temporary differences will be available in the future. In cases where the actual future taxable profits generated are more or less than expected, a material reversal or recognition of deferred tax assets may arise.

Impairment of goodwill

The Target Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Target Group to make an estimate of the expected cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Useful lives and impairment of property, plant and equipment

The directors evaluated the residual value and useful lives of property, plant and equipment on an annual basis, through careful consideration with regards to expected usage, wear-and-tear and potential technical obsolescence to usage of the assets.

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the directors have to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

Future changes in HKFRS

At the date of authorisation of the Financial Information, the HKICPA has issued a number of new/revised HKFRS that are not yet effective for the Relevant Periods, which the Target Group has not early adopted. The directors anticipate that the adoption of these new HKFRS in the future periods will have no material impact on the result of the Target Group.

2. TURNOVER AND REVENUE

	2006 <i>HK\$</i>	2007 <i>HK\$</i>	2008 <i>HK\$</i>
International telecommunications services income	647,939,186	444,572,447	444,303,848
Sales of telecommunications products	3,373,260	–	157,556
Commission income	70,784	33,100	12,050
	<u>651,383,230</u>	<u>444,605,547</u>	<u>444,473,454</u>
Turnover	<u>651,383,230</u>	<u>444,605,547</u>	<u>444,473,454</u>
Interest income	100,411	57,105	204,032
	<u>100,411</u>	<u>57,105</u>	<u>204,032</u>
Other revenue	<u>100,411</u>	<u>57,105</u>	<u>204,032</u>
Revenue	<u><u>651,483,641</u></u>	<u><u>444,662,652</u></u>	<u><u>444,677,486</u></u>

3. OTHER INCOME

	2006 <i>HK\$</i>	2007 <i>HK\$</i>	2008 <i>HK\$</i>
Exchange gain	1,010,618	1,708,383	4,063,383
Write back of allowance for doubtful debts	–	19,840,993	605,231
Gain on disposal of interest in subsidiaries	–	114,131,787	–
Others	3,746,691	4,238,678	895,844
	<u>4,757,309</u>	<u>139,919,841</u>	<u>5,564,458</u>
Other income	<u><u>4,757,309</u></u>	<u><u>139,919,841</u></u>	<u><u>5,564,458</u></u>

4. (LOSS) PROFIT BEFORE TAXATION

This is stated after charging:

(a) Finance costs

	2006 <i>HK\$</i>	2007 <i>HK\$</i>	2008 <i>HK\$</i>
Interest on bank overdrafts and loan	–	409	20,219
Finance leases interest	161,340	44,610	7,625
	<u>161,340</u>	<u>45,019</u>	<u>27,844</u>
	<u><u>161,340</u></u>	<u><u>45,019</u></u>	<u><u>27,844</u></u>

(b) Other items

	2006 HK\$	2007 HK\$	2008 HK\$
Salaries, wages and other benefits	36,866,344	30,816,543	25,366,637
Contributions to defined contribution plans	515,091	456,956	1,077,741
	<u>37,381,435</u>	<u>31,273,499</u>	<u>26,444,378</u>
Auditors' remuneration			
Current year	407,438	559,452	733,290
Overprovision in prior year	(155,004)	–	–
	<u>252,434</u>	<u>559,452</u>	<u>733,290</u>
Cost of inventories	2,049,803	–	–
Depreciation	35,620,795	10,185,610	5,134,673
Loss on disposal of property, plant and equipment	377,252	234,758	74,145
Operating lease payments			
Premise	7,282,381	9,286,111	13,603,439
Telecommunication equipment	38,398,102	37,171,529	26,193,950
Allowance for doubtful debts	37,103,681	2,627,980	502,386
Provision of inventories write-down	105,768	–	–
	<u>105,768</u>	<u>–</u>	<u>–</u>

5. SEGMENT INFORMATION

The principal business activity of the Target Group is the provision of long distance call services.

Contribution to operating results and assets and liabilities by business segment have not been presented as the Target Group's results and assets and liabilities were resulted from business activities that subject to similar risks and return.

Secondary reporting format – Geographical segments

	Turnover HK\$	Segment results HK\$	Total assets HK\$	Capital expenditure HK\$
For the year ended 31 March 2006				
Hong Kong	299,169,152	(79,984,546)	163,971,214	3,925,433
Other Asia Pacific regions	120,717,522	(29,464,513)	27,264,315	2,250,000
North America and the United Kingdom	231,496,556	(15,512,183)	27,321,860	996,000
	<u>651,383,230</u>	<u>(124,961,242)</u>	<u>218,557,389</u>	<u>7,171,433</u>

	Turnover <i>HK\$</i>	Segment results <i>HK\$</i>	Total assets <i>HK\$</i>	Capital expenditure <i>HK\$</i>
For the year ended 31 March 2007				
Hong Kong	180,453,378	128,273,820	96,300,124	664,204
Other Asia Pacific regions	66,404,940	(17,940,321)	16,310,852	981,669
North America and the United Kingdom	<u>197,747,229</u>	<u>5,402,520</u>	<u>18,494,133</u>	<u>203,714</u>
	<u>444,605,547</u>	<u>115,736,019</u>	<u>131,105,109</u>	<u>1,849,587</u>
For the year ended 31 March 2008				
Hong Kong	125,509,558	10,246,283	149,960,984	10,219,212
Other Asia Pacific regions	67,997,506	(4,096,212)	16,504,269	443,140
North America and the United Kingdom	<u>250,966,390</u>	<u>11,370,814</u>	<u>31,939,661</u>	<u>2,636,373</u>
	<u>444,473,454</u>	<u>17,520,885</u>	<u>198,404,914</u>	<u>13,298,725</u>

6. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

Directors' emoluments disclosed are as follows:

	2006 <i>HK\$</i>	2007 <i>HK\$</i>	2008 <i>HK\$</i>
Directors' emoluments			
Fees	–	–	–
Other emoluments	<u>–</u>	<u>–</u>	<u>–</u>

Details of the five individuals whose emoluments were the highest in the Target Group for the Relevant Periods are as follows:

	2006 <i>HK\$</i>	2007 <i>HK\$</i>	2008 <i>HK\$</i>
Salaries, allowances and benefits in kinds	3,089,494	3,138,390	3,386,783
Discretionary bonus	–	50,479	120,200
Retirement scheme contributions	58,000	113,839	152,886
Inducement or compensation fees	<u>154,550</u>	<u>348,922</u>	<u>–</u>
	<u>3,302,044</u>	<u>3,651,630</u>	<u>3,659,869</u>

The emoluments were paid to individuals as follows:

	Number of individuals		
	2006	2007	2008
Nil to HK\$1,000,000	5	4	4
HK\$1,000,001 to HK\$1,500,000	–	1	1
	<u>5</u>	<u>5</u>	<u>5</u>

7. TAXATION

Hong Kong Profits Tax has not been provided as the Target Group incurred tax loss for the year ended 31 March 2006 and the Target Group's estimated assessable profits for the years ended 31 March 2007 and 2008 are wholly absorbed by unrelieved tax losses brought forward from previous years. The income tax provision in respect of operations in overseas is calculated at the applicable tax rates on the estimated assessable profits for the year based on existing legislation, interpretations and practices in respect thereof.

	2006	2007	2008
	HK\$	HK\$	HK\$
Deferred taxation			
Origination and reversal of temporary differences	(7,293,000)	–	–
Tax losses	5,245,000	–	–
Total tax credit for the year	<u>(2,048,000)</u>	<u>–</u>	<u>–</u>

Reconciliation of tax expense

The tax on the Target Group's results before taxation differs from the theoretical amount that would arise using the tax rate applicable to the results of the consolidated companies as follows:

	2006	2007	2008
	HK\$	HK\$	HK\$
(Loss) Profit before taxation	<u>(125,122,582)</u>	<u>115,691,000</u>	<u>17,493,041</u>
Income tax at Hong Kong Profits Tax rate of 17.5%	(21,896,452)	20,245,925	3,061,281
Tax exempt revenue	(15,477)	(64,020,889)	(51,219,648)
Non-deductible expenses	6,648,471	47,651,501	50,105,240
Unrecognised tax losses	7,647,525	–	–
Unrecognised temporary differences	4,398,625	444,142	–
Utilisation of previously unrecognised deductible temporary difference	689,250	–	(796,567)
Utilisation of previously unrecognised tax losses	–	(4,359,938)	(1,150,306)
Others	480,058	39,259	–
Tax credit for the year	<u>(2,048,000)</u>	<u>–</u>	<u>–</u>

8. GOODWILL

	2006 <i>HK\$</i>	2007 <i>HK\$</i>	2008 <i>HK\$</i>
Reconciliation of carrying amount			
At beginning of year	-	-	-
Business combination	-	16,963,663	-
Impairment losses	-	(16,963,663)	-
	<u>-</u>	<u>-</u>	<u>-</u>
At the balance sheet date	<u>-</u>	<u>-</u>	<u>-</u>
Cost	-	16,963,663	16,963,663
Accumulated impairment losses	-	(16,963,663)	(16,963,663)
	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>

9. PROPERTY, PLANT AND EQUIPMENT

	Furniture and office equipment HK\$	Telecom- munications equipment HK\$	Leasehold improvements HK\$	Motor vehicle HK\$	Construction in progress HK\$	Total HK\$
Reconciliation of carrying amount – year ended 31 March 2006						
At beginning of year	5,141,283	77,892,700	1,022,198	–	49,545,881	133,602,062
Additions	521,686	6,124,161	18,586	507,000	–	7,171,433
Exchange difference	15,922	266,324	14,634	–	–	296,880
Transfer out-inter-completion	–	17,652,500	–	–	(17,652,500)	–
Reclassification	4,120	(4,120)	–	–	–	–
Impairment loss	–	(50,852,918)	–	–	–	(50,852,918)
Disposals	(34,599)	–	(364,251)	–	(31,893,381)	(32,292,231)
Depreciation	(1,628,269)	(33,605,361)	(273,090)	(114,075)	–	(35,620,795)
As at 31 March 2006	<u>4,020,143</u>	<u>17,473,286</u>	<u>418,077</u>	<u>392,925</u>	<u>–</u>	<u>22,304,431</u>
Reconciliation of carrying amount – year ended 31 March 2007						
At beginning of year	4,020,143	17,473,286	418,077	392,925	–	22,304,431
Additions	209,977	1,226,511	413,099	–	–	1,849,587
Transfer to a fellow subsidiary	–	(167,631)	–	–	–	(167,631)
Disposals	(557,926)	(4,956,878)	(146,111)	–	–	(5,660,915)
Exchange difference	(12,807)	(207,412)	(11,330)	–	–	(231,549)
Depreciation	(1,497,768)	(8,272,759)	(262,983)	(152,100)	–	(10,185,610)
As at 31 March 2007	<u>2,161,619</u>	<u>5,095,117</u>	<u>410,752</u>	<u>240,825</u>	<u>–</u>	<u>7,908,313</u>
Reconciliation of carrying amount – year ended 31 March 2008						
At beginning of year	2,161,619	5,095,117	410,752	240,825	–	7,908,313
Additions	729,524	12,569,201	–	–	–	13,298,725
Disposals	(50,149)	–	(25,239)	–	–	(75,388)
Exchange difference	3,306	34,567	(2,905)	–	–	34,968
Depreciation	(1,244,370)	(3,486,200)	(252,003)	(152,100)	–	(5,134,673)
As at 31 March 2008	<u>1,599,930</u>	<u>14,212,685</u>	<u>130,605</u>	<u>88,725</u>	<u>–</u>	<u>16,031,945</u>
At 1 April 2006						
Cost	8,733,339	164,277,294	1,227,420	507,000	–	174,745,053
Accumulated depreciation and impairment losses	(4,713,196)	(146,804,008)	(809,343)	(114,075)	–	(152,440,622)
	<u>4,020,143</u>	<u>17,473,286</u>	<u>418,077</u>	<u>392,925</u>	<u>–</u>	<u>22,304,431</u>
At 1 April 2007						
Cost	7,256,523	102,515,802	1,396,332	507,000	–	111,675,657
Accumulated depreciation and impairment losses	(5,094,904)	(97,420,685)	(985,580)	(266,175)	–	(103,767,344)
	<u>2,161,619</u>	<u>5,095,117</u>	<u>410,752</u>	<u>240,825</u>	<u>–</u>	<u>7,908,313</u>
At 31 March 2008						
Cost	7,686,175	115,037,669	570,408	507,000	–	123,801,252
Accumulated depreciation and impairment losses	(6,086,245)	(100,824,984)	(439,803)	(418,275)	–	(107,769,307)
	<u>1,599,930</u>	<u>14,212,685</u>	<u>130,605</u>	<u>88,725</u>	<u>–</u>	<u>16,031,945</u>

The net book value of the Target Group's property, plant and equipment includes an amount of HK\$392,925; HK\$240,825 and HK\$88,725 as at 31 March 2006, 2007 and 2008 respectively in respect of assets held under finance leases.

10. TRADE AND OTHER RECEIVABLES

	<i>Note</i>	2006 <i>HK\$</i>	2007 <i>HK\$</i>	2008 <i>HK\$</i>
Trade receivables				
From third parties		161,961,675	53,676,116	61,740,804
Allowance for doubtful debts	10(b)	<u>(50,254,539)</u>	<u>(28,658,080)</u>	<u>(28,547,200)</u>
	10(a)	<u>111,707,136</u>	<u>25,018,036</u>	<u>33,193,604</u>
Other receivables				
Deposits, prepayments and other receivables		14,608,586	6,904,630	14,553,362
Due from immediate holding company	10(c)	8	12,373	12,373
Due from intermediate holding company	10(c)	–	99,878	99,878
Due from fellow subsidiaries	10(c)	<u>45,297,363</u>	<u>83,977,902</u>	<u>109,362,801</u>
		<u>59,905,957</u>	<u>90,994,783</u>	<u>124,028,414</u>
		<u>171,613,093</u>	<u>116,012,819</u>	<u>157,222,018</u>

10(a) Trade receivables

The Target Group has established credit policies for customers in each of its core businesses. The average credit period granted for trade receivables ranges from 30 to 60 days. The carrying amount of the amounts due approximates their fair values.

The ageing analysis of the trade receivables (net of allowance for doubtful debts) as at the balance sheet date is as follows:

	2006 <i>HK\$</i>	2007 <i>HK\$</i>	2008 <i>HK\$</i>
0 – 30 days	28,728,448	12,855,983	18,915,502
31 – 60 days	20,459,489	4,213,881	4,956,900
61 – 90 days	21,083,396	2,139,919	4,011,833
Over 90 days	<u>41,435,803</u>	<u>5,808,253</u>	<u>5,309,369</u>
	<u>111,707,136</u>	<u>25,018,036</u>	<u>33,193,604</u>

10(b) Allowance for doubtful debts

	2006 HK\$	2007 HK\$	2008 HK\$
Balance at beginning of year	23,027,625	50,254,539	28,658,080
Increase in allowance	27,656,131	1,756,820	502,807
Amount recovered	(429,217)	(19,840,993)	(613,687)
Disposal of subsidiaries	–	(3,512,286)	–
	<u>50,254,539</u>	<u>28,658,080</u>	<u>28,547,200</u>

Included in the Target Group's trade receivable balance are debtors with a carrying amount of HK\$99,928,994, HK\$19,102,659 and HK\$22,114,236 as at 31 March 2006, 2007 and 2008 respectively which are past due at the balance sheet date for which the Target Group has not impaired as there has not been a significant change in credit quality and the directors believe that the amounts are considered recoverable. The Target Group does not hold any collateral over these balances.

10(c) Due from immediate holding company/intermediate holding company/fellow subsidiaries

The amounts due are unsecured, interest-free and have no fixed repayment term. The carrying amount of the amounts due approximates their fair values.

11. TRADE AND OTHER PAYABLES

	Note	2006 HK\$	2007 HK\$	2008 HK\$
Trade payables				
To third parties	11(a)	<u>179,944,548</u>	<u>53,063,301</u>	<u>79,028,394</u>
Other payables				
Accrued charges and other creditors		26,346,161	5,458,600	5,964,985
Advance subscription fees received		5,656,505	2,812,975	1,555,393
Deposits received		4,821,692	3,278,923	3,541,969
Due to ultimate holding company	11(b)	3,738,076	–	–
Due to intermediate holding companies	11(b)	106,832,199	131,151,014	141,143,405
Due to fellow subsidiaries	11(b)	76,585,797	7,491,922	16,174,674
Due to a related company	11(b)	–	120,000	120,000
		<u>223,980,430</u>	<u>150,313,434</u>	<u>168,500,426</u>
		<u>403,924,978</u>	<u>203,376,735</u>	<u>247,528,820</u>

11(a) Trade payables

The ageing analysis of trade payables as at the balance sheet date is as follows:

	2006 <i>HK\$</i>	2007 <i>HK\$</i>	2008 <i>HK\$</i>
0 – 30 days	34,759,412	18,498,150	14,848,704
31 – 60 days	24,750,427	5,060,938	8,030,161
61 – 90 days	26,619,176	2,720,958	7,888,574
Over 90 days	93,815,533	26,783,255	48,260,955
	<u>179,944,548</u>	<u>53,063,301</u>	<u>79,028,394</u>

**11(b) Due to ultimate holding company/intermediate holding companies/Fellow subsidiaries/
A related company**

The amounts due are unsecured, interest-free and have no fixed repayment term. The carrying amount of the amounts due approximates their fair values.

12. INTEREST-BEARING BORROWINGS

	<i>Note</i>	2006 <i>HK\$</i>	2007 <i>HK\$</i>	2008 <i>HK\$</i>
Bank loans, secured	12(a)	–	–	4,290,000
Obligations under finance leases	12(b)	<u>2,147,117</u>	<u>190,499</u>	<u>42,331</u>
		<u>2,147,117</u>	<u>190,499</u>	<u>4,332,331</u>
Current portion		1,941,018	148,164	4,332,331
Non-current portion		<u>206,099</u>	<u>42,335</u>	–
		<u>2,147,117</u>	<u>190,499</u>	<u>4,332,331</u>

12(a) Bank loans, secured

The bank loans are secured by the corporate guarantee from a fellow subsidiary.

12(b) Obligations under finance leases

	Minimum lease payments			Present value of minimum lease payments		
	2006	2007	2008	2006	2007	2008
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Amount payable:						
Within one year	1,981,969	154,193	42,988	1,941,018	148,164	42,331
In the second to fifth years inclusive	<u>212,692</u>	<u>42,990</u>	<u>–</u>	<u>206,099</u>	<u>42,335</u>	<u>–</u>
	2,194,661	197,183	42,988	2,147,117	190,499	42,331
Future finance charges	<u>(47,544)</u>	<u>(6,684)</u>	<u>(657)</u>	<u>–</u>	<u>–</u>	<u>–</u>
Present value of lease obligations	<u><u>2,147,117</u></u>	<u><u>190,499</u></u>	<u><u>42,331</u></u>	<u><u>2,147,117</u></u>	<u><u>190,499</u></u>	<u><u>42,331</u></u>

The average lease term is 2 years and all leases are payable in fixed monthly installments.

13. DEFERRED TAXATION

The movement for the Relevant Periods in the Target Group's net deferred tax position was as follows:

	2006	2007	2008
	HK\$	HK\$	HK\$
At beginning of year	(2,048,000)	–	–
Income statement credit	<u>2,048,000</u>	<u>–</u>	<u>–</u>
At the balance sheet date	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>–</u></u>

Unrecognised deferred tax assets arising from

	2006	2007	2008
	HK\$	HK\$	HK\$
Deductible temporary differences	18,579,357	19,600,669	15,053,497
Tax losses	<u>124,298,224</u>	<u>16,386,560</u>	<u>9,813,376</u>
At the balance sheet date	<u><u>142,877,581</u></u>	<u><u>35,987,229</u></u>	<u><u>24,866,873</u></u>

Both the tax losses and the deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Target Group can utilise the benefits thereon.

14. SHARE CAPITAL

	2006		2007		2008	
	<i>No. of shares</i>	<i>US\$</i>	<i>No. of shares</i>	<i>US\$</i>	<i>No. of shares</i>	<i>US\$</i>
Authorised 50,000 ordinary shares of US\$1 each	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>
Equivalent to HK\$		<u>390,000</u>		<u>390,000</u>		<u>390,000</u>
Issued and fully paid						
At beginning of the year	1	1	1	1	10	10
New shares issued	<u>-</u>	<u>-</u>	<u>9</u>	<u>9</u>	<u>-</u>	<u>-</u>
At balance sheet date	<u>1</u>	<u>1</u>	<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>
Equivalent to HK\$		<u>8</u>		<u>78</u>		<u>78</u>

On 31 January 2007, the issued share capital of the Target was increased by US\$9 (HK\$70) by allotting 9 ordinary shares of US\$1 each, for cash at par, to provide for additional working capital. These shares rank pari passu with the existing shares in all respects.

15. CASH GENERATED FROM (USED IN) OPERATIONS

	2006	2007	2008
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
(Loss) Profit before taxation	(125,122,582)	115,691,000	17,493,041
Depreciation	35,620,795	10,185,610	5,134,673
Interest income	(100,411)	(57,105)	(204,032)
Interest expense	-	409	20,219
Impairment loss on non-current assets	12,768,170	-	-
Exchange difference arising on translation	(978,408)	27,392	1,477,879
Provision for inventory	105,768	-	-
Interest on obligation under finance lease	161,340	44,610	7,625
Impairment loss of goodwill	-	16,963,663	-
Gain on disposal in interest in subsidiaries	-	(114,131,787)	-
Impairment loss on property, plant and equipment	50,852,918	-	-
Provision for doubtful debts	37,103,681	2,627,980	502,386
Loss on disposal of property, plant and equipment	377,252	234,758	74,145
Write back of provision for doubtful debts	-	(19,840,993)	(605,231)
Changes in working capital:			
Increase in inventories	(106,569)	(64,641)	-
Decrease (Increase) in trade and other receivables	131,586,836	25,090,967	(41,106,354)
(Decrease) Increase in trade and other payables	<u>(111,939,501)</u>	<u>(48,954,706)</u>	<u>44,152,085</u>
Cash generated from (used in) operations	<u>30,329,289</u>	<u>(12,182,843)</u>	<u>26,946,436</u>

16. ACQUISITION OF A SUBSIDIARY

On 7 December 2006, the Target acquired the entire equity interest in China Motion (Taiwan) Limited, which specialises in the provision of long distance call services activities in Taiwan.

The fair value of the identifiable assets and liabilities of the business as at the date of acquisition and their carrying value determined in accordance with HKFRS immediately before combination are as follows:

	Carrying value and fair value HK\$
Property, plant and equipment	1,118,955
Cash and cash equivalents	609,715
Trade and other receivables	4,785,187
Trade and other payables	(22,366,409)
	<u>(15,852,552)</u>
Goodwill arising on acquisition	16,963,663
	<u>1,111,111</u>
Total consideration	<u><u>1,111,111</u></u>
Satisfied by:	
Offsetting amount due from a fellow subsidiary	<u><u>1,111,111</u></u>
Net cash acquired from the subsidiary	<u>609,715</u>
Net cash inflow	<u><u>609,715</u></u>

Since acquisition, the acquired business has contributed HK\$5,593,476 and HK\$16,477,689 to the revenue and loss of the Target Group respectively for the year ended 31 March 2007.

Included in the goodwill recognised above are certain intangible assets that cannot be individually separated and reliably measured from the acquiree due to their nature.

17. DISPOSAL OF SUBSIDIARIES

	2006 HK\$	2007 HK\$	2008 HK\$
Net assets disposed of:			
Property, plant and equipment	–	6,407,296	–
Inventories	–	326,161	–
Trade and other receivables	–	42,645,044	–
Cash and bank balances	–	1,530,675	–
Trade and other payables	–	(165,040,953)	–
	<u>–</u>	<u>(114,131,777)</u>	<u>–</u>
Profit on disposal of subsidiaries	<u>–</u>	<u>114,131,787</u>	<u>–</u>
Total consideration	<u><u>–</u></u>	<u><u>10</u></u>	<u><u>–</u></u>
Satisfied by:			
Settlement through amount due from a fellow subsidiary	<u><u>–</u></u>	<u><u>10</u></u>	<u><u>–</u></u>

Analysis of outflow of cash and cash equivalents in respect of disposal of businesses:

	2006 HK\$	2007 HK\$	2008 HK\$
Cash and cash equivalents disposed	–	(1,530,675)	–
Net outflow of cash and cash equivalents	–	(1,530,675)	–

18. RELATED PARTY TRANSACTIONS

In addition to the transactions/information disclosed elsewhere in the Financial Information, during the Relevant Periods, the Target Group had the following transactions with related parties:

Related party relationship	Nature of transaction	2006 HK\$	2007 HK\$	2008 HK\$
Key management personnel	Salaries and other short-term employee benefits paid	3,811,002	5,719,475	4,121,581
	Termination benefits	307,800	348,922	–
		<u>4,118,802</u>	<u>6,068,397</u>	<u>4,121,581</u>
Intermediate holding company	Management fee paid	7,363,506	10,000,000	8,241,000
Fellow subsidiaries	Sales	(2,776,214)	(21,917,794)	(19,837,924)
	Purchases	27,600	–	–
	Dataline rental and maintenance fee paid	60,000	–	–
	Disposal of property, plant and equipment	–	(167,631)	–
		<u>–</u>	<u>(167,631)</u>	<u>–</u>

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Group's major financial instruments include borrowings, trade receivables, trade payables, cash and cash equivalents. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Foreign exchange risk

The Target Group operates mainly in Hong Kong, the People's Republic of China (the "PRC") and the North America region and majority of transactions are dominated in United States dollars ("US\$") and HK\$. Therefore, the Target Group is exposed to foreign exchange risk arising from this currency exposures. Hong Kong dollars are pegged to the United States dollars and the foreign exchange exposure between them are considered limited. The Target Group currently does not have a foreign currency hedging policy in respect of assets and liabilities denominated in foreign currencies. The Target Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(ii) Interest rate risk

The Target Group's exposure to changes in interest rates is mainly attributable to its bank deposits and borrowings. Bank borrowings at variable rates expose the Target Group to fair value interest rate risk. The Target Group's income and operating cash flows are substantially independent of changes in market interest rates. The Target Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

As at 31 March 2006, 2007 and 2008, a reasonably possible change of 100 basis-points interest rates on borrowings would have no material impact on the Target Group's results for the years and equity at each of the balance sheet dates.

Credit risk

The Target Group's credit risk is primarily attributable to trade or other receivables. The Target Group has no significant concentrations of credit risk.

The Target Group's maximum exposure to credit risk which will cause a financial loss to the Target Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the balance sheets.

In order to minimise the credit risk, the management has credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In this regard, the management considers that the Target Group's credit risk is significantly reduced.

Liquidity risk

The Target Group follows the financial risk management objectives and policies of the intermediate holding company in managing its liquidity risk.

The liquidity risk is under continuous monitoring by management. As disclosed in note 1 to the Financial Information, an intermediate holding company has confirmed its intention to make available adequate funds to the Target Group as and when required to maintain the Target Group as a going concern.

The maturity profile of the Target Group's financial liabilities at the balance sheet date based on contractual undiscounted payments are summarised below:

	At 31 March 2006			Total HK\$
	Within 1 year or on demand HK\$	More than 1 year but within 2 years HK\$	More than 2 years but within 5 years HK\$	
Non-derivative financial liabilities				
Obligations under finance leases	1,981,969	169,797	42,895	2,194,661
Trade payables	179,944,548	–	–	179,944,548
Deposits received, accruals and other payable	223,980,430	–	–	223,980,430
Taxation	434,332	–	–	434,332
Total	406,341,279	169,797	42,895	406,553,971

	At 31 March 2007			Total HK\$
	Within 1 year or on demand HK\$	More than 1 year but within 2 years HK\$	More than 2 years but within 5 years HK\$	
Non-derivative financial liabilities				
Obligations under finance leases	154,193	42,990	–	197,183
Trade payables	53,063,301	–	–	53,063,301
Deposits received, accruals and other payable	150,313,434	–	–	150,313,434
Total	203,530,928	42,990	–	203,573,918

	At 31 March 2008			Total HK\$
	Within 1 year or on demand HK\$	More than 1 year but within 2 years HK\$	More than 2 years but within 5 years HK\$	
Non-derivative financial liabilities				
Bank borrowings	4,290,000	–	–	4,290,000
Obligations under finance leases	42,988	–	–	42,988
Trade payables	79,028,394	–	–	79,028,394
Deposits received, accruals and other payable	168,500,426	–	–	168,500,426
Total	251,861,808	–	–	251,861,808

Fair value of financial instruments

The carrying value of trade receivables (net of allowance for doubtful debts) and payables are a reasonable approximate of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Target Group for similar financial instruments.

20. CAPITAL MANAGEMENT

The objectives of the Target Group's capital management are to safeguard the entity's ability to continue as a going concern and to provide returns for shareholders. The Target Group manages its capital structure and makes adjustments, including payment of dividend to shareholders, return capital to shareholders or issue new shares or sell assets to reduce debts. No changes were made in the objectives, policies or processes during the Relevant Periods.

21. COMMITMENTS UNDER OPERATING LEASES

At the balance sheet date, the Target Group had total future minimum lease payments under non-cancellable operating leases, which are payable as follows:

	2006 <i>HK\$</i>	2007 <i>HK\$</i>	2008 <i>HK\$</i>
In respect of leased properties, including transmission sites:			
Within one year	6,065,543	2,496,103	2,915,477
In the second to fifth years inclusive	<u>2,012,293</u>	<u>2,426,116</u>	<u>1,513,403</u>
	<u><u>8,077,836</u></u>	<u><u>4,922,219</u></u>	<u><u>4,428,880</u></u>
 In respect of leased lines:			
Within one year	4,939,140	2,710,114	9,051,877
In the second to fifth years inclusive	2,400,000	24,754	2,577,799
Over five years	<u>4,200,000</u>	<u>35,068</u>	<u>-</u>
	<u><u>11,539,140</u></u>	<u><u>2,769,936</u></u>	<u><u>11,629,676</u></u>

22. OTHER COMMITMENTS

As at 31 March 2008, the Target Group had commitments in respect of minimum traffic payable of HK\$1,173,366. There were no such commitments as at 31 March 2006 and 2007.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Target Group or any of its subsidiaries have been issued in respect of the period subsequent to 31 March 2008.

Yours faithfully
Mazars CPA Limited
Certified Public Accountants
Hong Kong

1. MANAGEMENT DISCUSSION AND ANALYSIS ON CMN

Review of the operating results for the year ended 31 March 2008 and 2007

Turnover

The turnover was HK\$444.5 million for 2008, representing a decrease of HK\$0.1 million as compared with that of 2007. Although there is a decrease in average selling price per minutes rate as a result of severe competition, the CMN Group carried 3,296 million minutes during the year, an increase of 18.9% as compared to last year. During the year, the CMN Group's overseas operation continued to perform as planned. The CMN Group will continue its plan to increase in overseas connectivity and develop market with good profit margin.

Gross profit

The gross profit for 2008 reached HK\$67.7 million, representing an increase of HK\$3.4 million or 5.3% as compared with that of 2007. The encouraging result was mainly due to the CMN Group's strategy of developing centralised routing, shifting to high-margin terminations and implementing a more effective credit control. This led to a reduction in the direct cost. After a series of effective measure to increase the cost efficiency of the operation, the CMN Group had managed to increase its gross profit margin to 15.2%.

Profit after tax

The profit after tax for 2008 reached HK\$17.5 million, representing a decrease of 84.9% as compared with HK\$115.7 million in 2007. If we excluded the exceptional items such as the provision written back for doubtful debts (2008: HK\$0.1 million, 2007: HK\$17.2 million), gain on disposal of interest in subsidiaries (2008: HK\$nil, 2007: HK\$114.1 million), and the impairment loss on goodwill (2008: HK\$nil, 2007: HK\$16.9 million), the net profit after tax would amount to HK\$17.4 million in 2008 and HK\$1.3 million in 2007, an increase of HK\$16.1 million or 1,238.5% as compared with 2007. The encouraging result was due to the effective cost control, risk management and resources reallocation which reduced the operating and administrative cost.

Review of the operating results for the year ended 31 March 2007 and 2006*Turnover*

The turnover was decreased by HK\$206.8 million or 31.7% to HK\$444.6 million in 2007, as compared with HK\$651.4 million in 2006. The decrease was mainly resulted from the restructuring of the CMN Group's operations. During the year, the CMN Group had concentrated its focus on high margin customers and reduce the commitment on unutilized capacity. As a result, voice traffic had decreased by 18.5% to 2,771 million minutes in 2007. Nevertheless, despite the decrease in traffic volume, the gross profit margin had increased to 14.5% in the financial year 2007 (2006: 10.4%).

Gross profit

The gross profit for 2007 reached HK\$64.3 million, representing a decrease of HK\$3.3 million or 4.9% as compared with that of 2006. The reason was mainly due to decrease in traffic volume and turnover. Nevertheless, owing to the increase in gross profit margin as a result of the CMN Group concentration on high margin customers and an effective credit and cost control policy which substantially reduced the direct cost, the decrease in gross profit was significantly less than the decrease in turnover.

Profit after tax

The profit after tax for 2007 amounted to HK\$115.7 million, a big improvement as compared to the loss after tax of HK\$123.1 million in 2006. If the exceptional items such as the written back/(provision) for doubtful debts (2007: HK\$17.2 million, 2006: HK\$(37.1) million), gain on disposal of interest in subsidiaries (2007: HK\$114.1 million, 2006: HK\$nil), impairment loss on goodwill (2007: HK\$16.9 million, 2006: HK\$nil), impairment loss on property, plant and equipment and other non-current assets (2007: HK\$nil, 2006: HK\$63.6 million) were excluded, the net profit/(loss) after tax for 2007 and 2006 would amount to HK\$1.3 million and HK\$(22.4) million respectively. During the year, significant effort was implemented to strengthen cost control, risk management and resources reallocation which substantially reduced the operating and administrative expenses.

Liquidity and capital resources for the year ended 31 March 2008, 2007 and 2006

Financial Position

CMN Group's treasury function has primary responsibility for managing financial risks to which the CMN Group is exposed. The working capital was supported by CMT Group during the review periods.

As at 31 March 2008, the CMN Group had cash and cash equivalent of HK\$25.2 million, representing an increase of HK\$18.0 million or 250.0% as compared with 31 March 2007. The increase was mainly due to the strong cash flow generated from operating activities during the financial year ended 31 March 2008.

The cash and cash equivalent was HK\$7.2 million as at 31 March 2007, a decrease of 70.5% as compared to 31 March 2006. The decrease was mainly due to the CMN Group's effort to reduce the overdue accounts payable and the working capital needed to fund the CMN Group's operating activities during the financial year 2007.

As at 31 March 2008, the CMN Group had total borrowings (including obligation under finance lease) of HK\$4.3 million, representing an increase of HK\$4.1 million as compared to the financial year 2007. The increase was mainly due to a short term bank loan of HK\$4.3 million for acquisition of fixed assets during the financial year 2008.

The total borrowings (including obligation under finance lease) was HK\$0.2 million as at 31 March 2007, a decrease of 90.5% as compared to the year 2006 of HK\$2.1 million. The decrease was due to repayment of capital element of finance leases under monthly repayment schedule for the financial year 2007.

There was no unutilised banking facility at 31 March 2006 and 2007. As at 31 March 2008, the unutilised banking facility was US\$0.33 million (equivalent to HK\$2.6 million).

Securities and Guarantees

As at 31 March 2006, 2007 and 2008, the CMN Group had not made any pledge of or created any security over its assets and had not provided any corporate guarantee.

Contingent Liabilities

As at 31 March 2006, 2007 and 2008, the CMN Group did not have any contingent liability.

Capital Commitments

As at 31 March 2006, 2007 and 2008, the CMN Group did not have any capital commitments.

Exchange Rate Risk

The CMN Group operates mainly in Hong Kong and the North America region and the majority of transactions are dominated in United States dollars (“US\$”) and HK\$. As Hong Kong dollars is pegged to the United States dollars, the foreign exchange exposure between them are considered minimal. The CMN Group currently does not have a foreign currency hedging policy in respect of assets and liabilities denominated in foreign currencies. The CMN Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

Credit Risk

The CMN Group’s credits risk is primarily attributable to trade or other receivables. The CMN Group has no significant concentrations of credit risk.

The CMN Group has established credit policies for its customers in each of its businesses. The average credit period granted for trade receivable ranges from 30 to 60 days.

As at 31 March 2008, the CMN Group’s maximum exposure to credit risk which may cause financial loss to the CMN Group may due to the payment default of its trade debtors.

In order to minimise the credit risk, CMN’s management has credit approvals and other monitoring procedures to ensure that sufficient follow-up action is taken to recover overdue debts. In this regard, the CMN Group’s credit risk is significantly reduced.

Acquisition/Disposal of Subsidiaries

During the financial year 2007, CMN Group acquired China Motion (Taiwan) Limited and disposed certain subsidiaries to CMT Group for group restructuring.

Staff and remuneration policy for the year ended 31 March 2008, 2007 and 2006

Staff costs for the year ended 31 March 2006, 2007 and 2008 were HK\$37.4 million, HK\$31.3 million and HK\$26.4 million respectively. CMN Group’s remuneration policy is in line with prevailing market practice on performance of individual staff. In addition, part of the staff was on sharing basis with the holding company of CMT. The holding company charged management fee for service provided.

1. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED 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 all the issued shares in ChinaMotion NetCom Limited (the “Acquisition”), as if it had taken place on 30 June 2008.

This unaudited pro forma statement of assets and liabilities of the Group and ChinaMotion NetCom Limited and its subsidiaries (“CMN Group”) (collectively referred to as the “Enlarged Group”) as at 30 June 2008 has been prepared using the accounting policies materially consistent with that of the Group and based on the unaudited consolidated balance sheet of the Group as at 30 June 2008 as extracted from the Group’s published interim financial report for the six months ended 30 June 2008 and the audited consolidated balance sheet of CMN Group as at 31 March 2008 as set out in Appendix II to this circular, after making certain pro forma adjustments as set out in notes below. A narrative description of the 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 summarized in the notes below.

This unaudited pro forma statement of assets and liabilities of the Enlarged Group is 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 Enlarged Group does not purport to describe the actual financial position of the Enlarged Group that would have been attained had the Acquisition been completed on 30 June 2008 or any future date. Further, the accompanying unaudited pro forma statement of assets and liabilities of the Enlarged Group does not purport to predict the Enlarged Group’s future financial position.

This unaudited pro forma statement of assets and liabilities of the Enlarged 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 CMN Group as set out in Appendix II to this circular and other financial information included in elsewhere of this circular.

APPENDIX IV FINANCIAL INFORMATION ON THE ENLARGED GROUP

	Unaudited statement of assets and liabilities of the Group as at 30 June 2008 <i>(Note 1)</i> HK\$'000	Audited statement of assets and liabilities of CMN Group as at 31 March 2008 <i>(Note 2)</i> HK\$'000	Pro forma adjustments		Unaudited pro forma statement of assets and liabilities of the Enlarged Group <i>(Note 5)</i> HK\$'000
			<i>(Note 3)</i> HK\$'000	<i>(Note 4)</i> HK\$'000	
Non-current assets					
Property, plant and equipment	327,360	16,032			343,392
Intangible assets (including goodwill)	32,534	-	242,968		275,502
Non-current other receivables	32,348	-			32,348
Deferred tax assets	34,538	-			34,538
	<u>426,780</u>	<u>16,032</u>			<u>685,780</u>
	-----	-----			-----
Current assets					
Trade and other receivables	713,882	157,222		(109,475)	761,629
Current tax recoverable	747	-			747
Cash and cash equivalents	875,307	25,151	(237,475)		662,983
	<u>1,589,936</u>	<u>182,373</u>			<u>1,425,359</u>
	-----	-----			-----
Current liabilities					
Trade and other payables	572,162	247,529		(157,438)	662,253
Current portion of interest-bearing borrowings	-	4,332			4,332
Current tax payable	37,614	-			37,614
	<u>609,776</u>	<u>251,861</u>			<u>704,199</u>
	-----	-----			-----
Net current assets/(liabilities)	<u>980,160</u>	<u>(69,488)</u>			<u>721,160</u>
	-----	-----			-----
Total assets less current liabilities	<u>1,406,940</u>	<u>(53,456)</u>			<u>1,406,940</u>
	-----	-----			-----
Non-Current liabilities					
Deferred tax liabilities	30,348	-			30,348
	<u>30,348</u>	<u>-</u>			<u>30,348</u>
	-----	-----			-----
NET ASSETS/(LIABILITIES)	<u>1,376,592</u>	<u>(53,456)</u>			<u>1,376,592</u>
	-----	-----			-----

APPENDIX IV FINANCIAL INFORMATION ON THE ENLARGED GROUP

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 unaudited consolidated balance sheet of the Group as at 30 June 2008 as included in the published interim report of the Group for the six months ended 30 June 2008.
2. The balances of assets and liabilities are extracted from the audited consolidated balance sheet of CMN Group as at 31 March 2008 as set out in Appendix II of this circular.
3. The adjustments represent the acquisition by the Group of the entire equity interest in CMN for a cash consideration of HK\$237,475,000 (Details of the consideration adjustment is set out in Letter from the Board of this circular). For the purpose of the unaudited pro forma financial information, bank balances of the Group were used to settle the cash consideration of the acquisition.

According to the audited balance sheet of the CMN Group as at 31 March 2008, the net current liabilities of the CMN Group (excluding the amount due from or to the CMT Group and cash and cash equivalents) amounted to approximately HK\$46,676,000 and the cash and cash equivalents of the CMN Group was approximately HK\$25,151,000. The consideration was adjusted to HK\$237,475,000.

Intangible assets (including goodwill) of approximately HK\$242,968,000 from the acquisition represents the difference between the consideration and the CMN's Group net assets as at 31 March 2008. Since the fair value of the net identifiable assets of CMN Group at the date of completion of the Acquisition may be substantially different from the fair value used in the preparation of this unaudited pro forma statement of assets and liabilities of the Enlarged Group. In addition, the adjustment to the consideration at the date of completion of the Acquisition may be substantially different from the adjusted consideration used in the preparation of this unaudited pro forma statement of assets and liabilities of the Enlarged Group, the final amount of intangible assets (including goodwill) to be recognised in connection with the Acquisition may be different from the estimated intangible assets (including goodwill) stated herein.

4. The adjustment reflects the net settlement of all balances owing to CMT Group companies by the CMN Group, amounting to HK\$47,963,000 as at 31 March 2008, in accordance with the terms of the agreement.
5. No adjustment has been made to reflect any trading results or other transactions of the Group and CMN Group entered into subsequent to 30 June 2008 and 31 March 2008 respectively.

2. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED 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

30 September 2008

The 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 118 to 120 in Appendix IV of the investment circular dated 30 September 2008 ("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 all the issued shares in ChinaMotion NetCom Limited ("CMN") might have affected the financial information presented. The basis of preparation of the Pro Forma Financial Information is set out on page 118 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 ("HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29 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 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 and CMN had the acquisition of the entire issued shares in CMN actually completed on 30 June 2008 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

At the close of business on 31 August 2008, being the latest practicable date for this statement of indebtedness prior to the date of this circular, the Enlarged Group had obligations under finance leases of US\$770,000 (equivalent to HK\$6,006,000).

Contingent liabilities

At the close of business on 31 August 2008, the Enlarged Group did not have any contingent liability.

Disclaimer

Save as disclosed above, as at the close of business on 31 August 2008, the Enlarged 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 Enlarged Group's internal resources, available banking and other borrowing facilities, the Enlarged 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.

1. 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.

2. 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 are 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 or short positions which he is taken or deemed to have under such provision 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 were as follows:

(a) *Interest in Shares*

Name of Director	<u>Number of Shares</u>		Percentage of issued Share capital (%)
	Personal interests		
Yuen Kee Tong	500,000		0.0253
David Chan Tin Wai	2,000		0.0001
Chau Chi Yin	26,750		0.0014

(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
Shi Cuiming	2,900,000	0.15	3.26	23.5.2007	23.5.2007 – 22.5.2012
Yuen Kee Tong	2,500,000	0.13	3.26	23.5.2007	23.5.2007 – 22.5.2012
David Chan Tin Wai	1,845,000	0.09	3.26	23.5.2007	23.5.2007 – 22.5.2012
Yang Xianzu	300,000	0.02	3.26	23.5.2007	23.5.2007 – 22.5.2012
Liu Li Qing	300,000	0.02	3.26	23.5.2007	23.5.2007 – 22.5.2012
Gordon Kwong Che Keung	300,000	0.02	3.26	23.5.2007	23.5.2007 – 22.5.2012

(c) Interest in shares of CITIC Pacific

Name of Director	Number of shares			Percentage of issued share capital (%)
	Personal interests	Corporate interests	Total	
Shi Cuiming	72,000	–	72,000	0.003
Yuen Kee Tong	1,033,000	–	1,033,000	0.047
David Chan Tin Wai	40,000	–	40,000	0.002
Chau Chi Yin	536,000	–	536,000	0.024
Yang Xianzu	20,000	–	20,000	0.001
Gordon Kwong Che Keung	20,000	50,000	70,000	0.003

(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
Chau Chi Yin	500,000		19.9	1.11.2004	1.11.2004 – 31.10.2009
	800,000		22.1	20.6.2006	20.6.2006 – 19.6.2011
	800,000		47.32	16.10.2007	16.10.2007 – 15.10.2012
	2,100,000	0.096			
Kwok Man Leung	600,000	0.027	47.32	16.10.2007	16.10.2007 – 15.10.2012

(e) Interest in shares of Dah Chong Hong Holdings Limited

Name of Director	<u>Number of shares</u>		Percentage of issued share capital (%)
	Personal interests		
Shi Cuiming	3,400		0.0002
Yuen Kee Tong	20,000		0.0011
David Chan Tin Wai	5,279		0.0003
Chau Chi Yin	21,000		0.0012

Save as disclosed above, 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 are 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 or short positions which he is 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.

- (ii) As at the Latest Practicable Date, each of Mr. Chau Chi Yin and Mr. Kwok Man Leung is an Executive Director of CITIC Pacific. Apart from this, 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 2007, being the date to which the latest published audited accounts of the Group 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.

3. 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).

4. 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.

5. 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 may compete with the business of the Group:

Mr. Chau Chi Yin, a non-executive director, is a member of Fiscal Committee (Supervisory Board) of Companhia de Telecomunicacoes de Macau S.A.R.L (“CTM”). CTM, the only integrated telecommunications service provider in Macau, is principally engaged in the mobile services, international and local fixed telephony services, internet and leased circuits services.

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 41.63% interest in CITIC Guoan Information Industry Co. Ltd. (“Guoan Information”), a company listed on the Shenzhen Stock Exchange. Guoan Information’s major activities include the construction and operation of cable television networks and satellite information networks, the provision of network system integration, software development and value-added telecommunications services, the development of salt lake resources, the manufacture of new materials, as well as property management.

6. QUALIFICATIONS

The following is the qualifications of the expert who has given an opinion or advice on the information contained in this circular:

Name	Qualifications
KPMG	Certified Public Accountants
Mazars CPA Limited	Certified Public Accountants

As at the Latest Practicable Date, KPMG and Mazars CPA Limited 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 KPMG and Mazars CPA Limited had no interest, either directly or indirectly, in any assets which have been, since 31 December 2007, 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.

KPMG and Mazars CPA Limited have given and have not withdrawn their written consents to the issue of this circular with the inclusion of their respective letters and references to their names in the form and context in which they appear.

7. MATERIAL CONTRACTS

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

- (a) a cornerstone placing agreement dated 15 March 2007 between the Company, CITIC Pacific, Diamond Season Limited, Nina Kung and BNP Paribas Capital (Asia Pacific) Limited in relation to the purchase of Shares up to the amount of US\$15 million;
- (b) a cornerstone placing agreement dated 15 March 2007 between the Company, CITIC Pacific, Best Transform Limited, Ying Lee Yuen Michael and BNP Paribas Capital (Asia Pacific) Limited in relation to the purchase of Shares up to the amount of US\$15 million;
- (c) a cornerstone placing agreement dated 15 March 2007 between the Company, CITIC Pacific, Government of Singapore Investment Corporation Pte Ltd. and BNP Paribas Capital (Asia Pacific) Limited in relation to the purchase of Shares up to the amount of US\$35 million;

- (d) a deed of non-competition dated 21 March 2007 entered into by CITIC Pacific in favour of the Company whereby CITIC Pacific has given certain undertakings to the Company, among others, that it will not compete with the businesses of the Group, and that it will give the Group a right of first refusal in respect of any investment opportunity for a business that competes with those of the Group;
- (e) a public offer underwriting agreement dated 21 March 2007 entered into by, amongst others, the Company, BNP Paribas Capital (Asia Pacific) Limited and other Hong Kong underwriters relating to issue and offer of an initial 137,592,000 new Shares for subscription by the public in Hong Kong;
- (f) a deed of indemnity dated 21 March 2007 entered into by CITIC Pacific in favour of the Group whereby CITIC Pacific agreed to give certain indemnities in respect of taxation matters in favour of the Group;
- (g) a sale and purchase agreement dated 12 November 2007 entered into between Smooth Tone Enterprises Inc. (an indirect wholly owned subsidiary of the Company's controlling shareholder, CITIC Pacific) and the Company whereby the Company conditionally agreed to acquire the entire issued share capital of Silver Linkage Investments Inc. (an indirect wholly owned subsidiary of CITIC Pacific) from Smooth Tone Enterprises Inc. The consideration was satisfied by allotment and issue of 98,066,283 Shares of the Company; and
- (h) the Sale and Purchase Agreement.

8. MATERIAL ADVERSE CHANGES

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2007, being the date to which the latest published audited financial statements of the Group were made up.

9. 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.

10. 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 15 October 2008:

- (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;
- (iii) the annual report of the Company for the financial year ended 31 December 2007;
- (iv) the interim report of the Company for the six months ended 30 June 2008;
- (v) the written consents referred to in paragraph headed "Qualifications" of this appendix;
- (vi) the accountants' report on CMN, the text of which is set out in Appendix II to this circular; and
- (vii) the report from KPMG on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix IV to this circular.