IMPORTANT

If you are in any doubt about any of the contents of this Prospectus, you should obtain independent professional advice.

CITIC 1616 Holdings Limited
中信1616集团有限公司
(Incorporated in Hong Kong with limited liability)

GLOBAL OFFERING

Number of Offer Shares : 815,920,000 Shares
(subject to Over-allotment Option)

Number of Public Offer Shares : 137,592,000 New Shares
(subject to adjustment)

Number of International Placing Shares : 678,328,000 Shares
(subject to Over-allotment Option and adjustment) comprising 50,408,000 New Shares and 627,920,000 Sale Shares

Offer Price : Not more than HK$2.58 per Offer Share
(payable in full on application and subject to refund) and expected to be not less than HK$2.13 per Offer Share

Nominal value : HK$0.10 per Share

Stock code : 1883

Global Coordinator, Bookrunner, Lead Manager and Sponsor

BNP PARIBAS

BNP Paribas Capital (Asia Pacific) Limited

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this Prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Prospectus.

A copy of this Prospectus, having attached thereto the documents specified in the paragraph headed “Documents delivered to the Registrar of Companies in Hong Kong” in Appendix VI to this Prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 38D of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this Prospectus or any other documents referred to above.

The Offer Price is expected to be determined by agreement between the Company, the Vendor and the Global Coordinator (on behalf of the Underwriters) on 28 March 2007 or such later time or date as may be agreed by the Company and the Global Coordinator but in any event not later than 30 March 2007.

The Offer Price will be not more than HK$2.58 per Offer Share and is expected to be not less than HK$2.13 per Offer Share. Investors applying for Public Offer Shares must pay the maximum Offer Price of HK$2.58 per Offer Share together with brokerage of 1%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.004%. The Global Coordinator (on behalf of the Underwriters) may reduce the indicative Offer Price range stated in this Prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer. In such a case, a notice of the reduction of the indicative Offer Price range will be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Public Offer. If applications for Public Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Public Offer, then even if the Offer Price is so reduced, such applications cannot subsequently be withdrawn. Further details are set out in the sections headed "Structure and conditions of the Global Offering" and "How to apply for the Public Offer Shares and Reserved Shares" in this Prospectus.

If, for any reason, the Offer Price is not agreed between the Company, the Vendor and the Global Coordinator (on behalf of the Underwriters) on or around 28 March 2007 (or such later time or date as may be agreed by the Company, the Vendor and the Global Coordinator) but in any event not later than 30 March 2007, the Global Offering will not become unconditional and will lapse. Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this Prospectus and the application forms, including the risk factors set out in the section headed “Risk factors” in this Prospectus.

Pursuant to the termination provisions contained in the Underwriting Agreements in respect of the Offer Shares, the Global Coordinator (on behalf of the Underwriters) has the right in certain circumstances, in the reasonable opinion of the Global Coordinator, to terminate the obligations of the Underwriters pursuant to the Underwriting Agreements at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Further details of the terms of the termination provisions are set out in the section headed “Underwriting – Grounds for termination” in this Prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the US Securities Act and may be offered, sold, pledged or transferred only (i) in the United States to QIBs in reliance on Rule 144A or another exemption from registration under the US Securities Act and (ii) outside the United States in reliance on Regulation S under the US Securities Act.

22 March 2007
EXPECTED TIMETABLE

If there is any change in the following expected timetable of the Public Offer, the Company will issue an announcement to be published in English in South China Morning Post and in Chinese in the Hong Kong Economic Times.

2007
(Note 1)

Latest time to lodge PINK application forms ...................... 5:00 p.m. on 26 March
Latest time to lodge WHITE, YELLOW and BLUE
application forms .................................................. 12:00 noon on 27 March
Latest time to give electronic application instructions
to HKSCC (Note 2) .................................................. 27 March
Application lists open (Note 3) ..................................... 11:45 a.m. on 27 March
Application lists close .............................................. 12:00 noon on 27 March
Expected Price Determination Date (Note 4) ...................... 28 March
Announcement of the Offer Price, the level of indication of
interest in the International Placing, the results of applications
of Public Offer and Preferential Offer and the basis of allotment
of the Public Offer Shares and Reserved Shares
to be published in South China Morning Post (in English) and
Hong Kong Economic Times (in Chinese) on or about .............. 2 April
Despatch of Share certificates in respect of wholly or
partially successful applications on or about (Note 5) ............... 2 April
Despatch of refund cheques in respect of wholly or partially
unsuccessful applications
on or about (Note 5) (Note 6) ...................................... 2 April
Dealings in Shares on the Stock Exchange expected
to commence on ...................................................... 9:30 a.m. on 3 April

Notes:

1. All times refer to Hong Kong local time, except as otherwise stated. Details of the structure and conditions of the Global Offering, including its conditions, are set out in the section headed “Structure and conditions of the Global Offering” in this Prospectus.

2. Applicants who apply by giving electronic application instructions to HKSCC should refer to the section headed “How to apply for Public Offer Shares and Reserved Shares — How to apply by giving electronic application instructions to HKSCC” in this Prospectus.

3. If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force at any time between 9:00 a.m. and 12:00 noon on 27 March 2007, the application lists will not be opened on that day. Further information is set out in the section headed “How to apply for Public Offer Shares and Reserved Shares — Effect of bad weather conditions on the opening of the application lists” in this Prospectus.
Please note that the Price Determination Date, being the date on which the Offer Price is to be determined, is expected to be on or around 28 March 2007. Notwithstanding that the Offer Price may be fixed at below the maximum offer price of HK$2.58 per Offer Share payable by applicants for Shares under the Public Offer, applications who apply for Offer Shares must pay on application the maximum offer price of HK$2.58 per Offer Share plus the brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005% but will be refunded the surplus application monies as provided in the section headed “How to apply for Public Offer Shares and Reserved Shares” in this Prospectus.

Applicants who apply for 1,000,000 or more Public Offer Shares and/or 1,000,000 or more Reserved Shares and have indicated in their Application Forms their wish to collect refund cheques (where applicable) and, where applicable, Share certificates in person may do so from the Share Registrar, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Monday, 2 April 2007 or any other date notified by the Company in the newspapers as the date of despatch of Share certificates and/or refund cheques. Applicants being individuals who opt for personal collection must not authorise any other person to make their collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporations stamped with the corporations’ chops. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to the Share Registrar. Uncollected Share certificates and refund cheques will be despatched by ordinary post at the applicant’s own risk to the addresses specified in the relevant Application Forms shortly thereafter. Further information is set out in the section headed “How to apply for Public Offer Shares and Reserved Shares” in this Prospectus.

Refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications in the event that the Offer Price is less than the initial price per Offer Share payable on application.

Share certificates will only become valid certificates of title provided that the Public Offer and the Preferential Offer have become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms, which is expected to be at or around 8:00 a.m. on the Listing Date. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of Share certificates or prior to the Share certificates becoming valid certificates of title do so entirely at their own risk.
You should rely only on the information contained in this Prospectus and the application forms to make your investment decision.

The Company has not authorised anyone to provide you with information that is different from what is contained in this Prospectus and/or the related Application Forms.

Any information or representation not included in this Prospectus and the related Application Forms must not be relied on by you as having been authorised by the Company, the Sponsor, the Underwriters, any of their respective directors or affiliates, or any other person involved in the Global Offering.

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SUMMARY

This summary aims to give you an overview of the information contained in this Prospectus and should be read in conjunction with the full text of this Prospectus. Since this is a summary, it does not contain all the information that may be important to you. You should read this Prospectus in its entirety before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are summarised in the section headed “Risk factors” in this Prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

Various expressions used in this section are defined or explained in the sections headed “Definitions” and “Glossary of technical terms” in this Prospectus.

OVERVIEW

The Group is a provider of connectivity and value-added services to telecoms operators with a focus on the China and Hong Kong telecoms markets. The Group owns and operates an independent telecoms hub that provides interoperability, interconnections and value-added services to approximately 240 customers (mainly telecoms operators) around the globe. During the Track Record Period, the Group handled a substantial volume of China’s in-bound and out-bound international voice traffic and a large majority of the in-bound and out-bound international messages for one of the largest mobile telecoms operators in China. The Group’s services include transmission of traditional international voice calls, roaming voice and SMS and provision of advanced Mobile VAS.

Most of the Group’s Mobile VAS are designed to be utilised by the subscribers of the mobile telecoms operators that connect to the Group’s telecoms hub. To the extent these Mobile VAS are utilised, they increase traffic flow of the telecoms operators and help enhance their revenue. The Group in turn benefits from the increase in traffic flow. The availability of Mobile VAS also makes the Group’s hub more attractive to telecoms operators.

The following table shows the turnover of each type of service of the Group, expressed as a percentage contribution to total turnover for the three years ended 31 December 2006:

<table>
<thead>
<tr>
<th></th>
<th>For the year ended 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004 (HK$’million)</td>
</tr>
<tr>
<td>Fixed-Line/Hybrid Carrier Voice Hubbing Services</td>
<td>440.0</td>
</tr>
<tr>
<td>Mobile Carrier Voice Hubbing Services</td>
<td>503.5</td>
</tr>
<tr>
<td>SMS Hubbing Services</td>
<td>48.2</td>
</tr>
<tr>
<td>Mobile VAS and Enterprise Solutions (Note)</td>
<td>55.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,047.2</strong></td>
</tr>
</tbody>
</table>

Note: Mobile VAS are also complementary services which boost in part the overall traffic volume of the Group’s business, in particular, Mobile Carrier Voice Hubbing Services and SMS Hubbing Services.
The Group is a neutral intermediary, bridging the often incompatible communication standards, protocols, network interfaces and systems between telecoms operators that must successfully interoperate in order to provide global voice and data services. These incompatibilities have become increasingly difficult to manage as new wireless technologies and services are introduced and deployed. Telecoms operators simply have to connect to the Group's service hub, and the Group's technology platforms will then translate the communication standards of the voice or data messages from the originating telecoms operators to that of the receiving telecoms operators' networks, and route the calls or data messages to their chosen networks. This allows telecoms operators connected to the Group's hub to reduce costs and increase speed in establishing connectivity with other telecoms operators, enabling them to focus their resources on other areas such as expanding their business and customer base, which in turn, drives the growth of the Group's business.

The following diagrams illustrate (i) the connections between telecoms operators which are not connected through a telecoms hub, i.e. having a web-like configuration of connections, and (ii) the connections through the Group's telecoms hub:

The Group believes that its Hong Kong based hub has become a leading interconnection service provider between telecoms operators in China and the rest of the world because of its existing connection with major telecoms operators in China, its extensive network, worldclass hardware and self-developed software and its strong relationships with China's major telecoms operators. In 2006, the Group handled a substantial portion of China's in-bound and out-bound international voice traffic and a large majority of the in-bound and out-bound international messages for one of the largest mobile telecoms operators in China.

CUSTOMERS

The Group has established good customer relationships with certain major telecoms operators, particularly with those in China and Hong Kong. To date, about 240 customers (mainly telecoms operators) in approximately 50 countries/areas are directly connected to the Group's telecoms hub, including China's largest international telecoms operators.

For the years ended 31 December 2004, 2005 and 2006, total turnover attributable to the Group's five largest customers accounted for approximately 48.0%, 51.5% and 47.7% of the Group's total telecoms operations turnover, respectively. The Group's largest customer 中国移动通信集团有限公司 (China Mobile Communications Corporation) accounted for approximately 33.1%, 35.3% and 30.6% of the Group's total telecoms operations turnover for the years ended 31 December 2004, 2005 and 2006, respectively.
SUMMARY

NETWORK

The physical network infrastructure through which the Group provides its services consists primarily of (i) the hub based in Hong Kong, (ii) five points of presence, or POPs – two located in Los Angeles, two in London and one in New York, through which telecoms operators can connect to the Group’s Hong Kong based hub, and (iii) transmission capacity on certain undersea and underground telecommunications cables which the Group leases to transmit traffic among the POPs, the hub based in Hong Kong and the networks of major telecoms operators which are its customers.

COMPETITIVE STRENGTHS

The Directors believe that the Group’s historical and potential future growth are primarily attributable to the following strengths:

• the Group operates an international telecoms hub which is one of the leading independent telecoms hubs in Asia, providing interoperable connections between approximately 240 customers (mainly telecoms operators) in approximately 50 countries/areas

• the Group is strategically positioned to capitalise on the expected strong growth of the Chinese economy and the China telecoms market

• the Group has strong customer relationships especially with the major China telecoms operators

• the Group has the ability to develop innovative and customised applications and services by utilising its internal development team to respond to, and anticipate customers’ needs

• the Group has a strong senior management team with extensive experience in the telecoms industry

BUSINESS STRATEGIES

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

• further develop and strengthen the Group’s established, long-standing relationships with major telecoms operators, in particular, its relationships with telecoms operators in China;

• maintain and expand the Group’s leadership in hub based telecoms services by providing interoperable interconnections for multiple types of traffic between multiple types of networks;

• maintain growth in core business, in particular by expanding the scale of the Group’s interoperability capabilities and providing an increasing amount of value-added services so as to enhance its network coverage and telecoms traffic and to expand its global customer base;
SUMMARY

• selectively expand into high potential new businesses, such as 3G applications, and enhance existing service portfolio through continuous technology improvements developed in cooperation with existing customers;

• maintain leadership and growth in rolling out time-to-market integrated solutions for customers, which keep pace with the rapid technology developments in the telecoms market;

• aggressively pursue expansion opportunities; and

• leverage on the Group’s existing customer base by marketing additional services to existing customers.

RISK FACTORS

There are certain risks and considerations relating to an investment in the Company’s Shares, details of such risks and considerations are set out in the section headed “Risk factors” of this Prospectus. A summary of these risks and considerations is as follows:

Risk relating to the Group and its operations

• The Group depends on major customers for a significant portion of its business and the loss of any of such customers could materially and adversely affect the Group’s business and financial position

• Systems failures, delays and other problems could harm the Group’s reputation and business, and cause the Group to lose customers and expose the Group to customer liability

• Increasing competition may have an adverse effect on the Group’s business and results of operations

• The loss of, or damage to, a data centre, submarine cable connection or any of the Group’s POPs may interrupt the Group's operations and harm its revenues and growth

• Security or privacy breaches may result in an interruption of service or a reduced quality of service, which could increase the Group’s costs or result in a reduction in the use of the Group’s services by its customers

• The failure of the third-party software and equipment which the Group uses in its systems may cause interruptions or failures of its systems

• Inadequate network resilience and diversity and backup systems may result in service disruptions

• Loss of significant information may adversely affect the Group’s business

• Property “all risks” insurance and public liability insurance do not cover cyber risks and data loss
• Capacity limits on the Group’s network and application platforms may be difficult to project and the Group may not be able to expand or upgrade its systems to meet increasing demand

• Rapid technological changes may increase competition and render the Group’s technologies, products or services obsolete or cause the Group to lose market share

• The Group’s ability to maintain and expand its telecoms services may be affected by disruption of supplies from its major suppliers

• CITIC Guoan and CTM may compete with the Group in the future which could adversely affect the Group’s business

• The Group’s failure to achieve or sustain market acceptance at desired pricing levels may impact its ability to maintain profitability or positive cash flow

• A decline in the volume of transactions the Group handles may have an adverse effect on its results of operations

• The Group may need additional capital in the future which may not be available on acceptable terms

• The loss of any key members of the management team may impair the Group's ability to identify and secure new contracts with customers or otherwise manage its business effectively

• The Group’s failure to recruit and retain qualified employees may undermine its ability to maintain business growth

• The Group relies heavily on the China market and may be adversely affected by changes in China's economic, political and social conditions

• The Group may not be successful in expanding into overseas markets and this could adversely affect the Group’s prospects and results

• The Group is subject to credit risk in respect of its account receivables

• The Group relies on sophisticated billing and credit control systems, and any problems with these systems could interrupt the Group’s operations

• The Group’s ability to provide commercially viable telecoms services depends, in part, upon various intellectual property rights owned by the Group and those licensed from third parties

• The Group has not registered all of the intellectual property rights in its technologies, and any unauthorised use, infringement or misappropriation of such rights by third parties may adversely affect the Group’s business
SUMMARY

• The Group’s business is subject to seasonal fluctuation which may affect its cashflow

• A number of Mobile VAS have only been launched in 2006 and there can be no assurance that such services will be profitable

• The Group may not be able to sustain its existing Sales Margins

• Litigation claims by the Group for outstanding receivables may not be successful

• Irregularity in the Group’s licencing issues may cause some of the Group’s services to be suspended in the future

Risks relating to the industry

• Consolidation among the Group’s customers may cause the Group to lose transaction volume

• The Group is in a regulated business and requires licences from the TA, without which the Group would be unable to operate

• Regulatory changes for the telecoms industry in China may adversely affect the Group’s business in China

• Developments of VoIP may threaten the volume and quality of hubbing services provided by the Group

Risks relating to economy and politics

• The state of Hong Kong’s economy and politics may adversely affect the Group’s performance and financial condition

• Any future outbreak of severe acute respiratory syndrome (“SARS”) may adversely affect the Group’s business and operations, as well as its financial condition and results of operations

• Political and economic conditions in the Asia-Pacific region are unpredictable and the Group’s operations may be disrupted if these conditions become unfavourable to its business

• Depreciation or fluctuation of US dollars relative to Hong Kong dollars would adversely affect the Group’s financial condition and results of operations
SUMMARY

Risks relating to the Global Offering

• There has been no prior public market for the Shares. The liquidity and the trading price of the Shares may be volatile

• Unpredictability of the Group's periodic results may adversely affect the trading price of its Shares

• Purchasers of the Shares may experience dilution if the Company issues additional Shares in the future

• The Group’s controlling shareholder may take actions that conflict with the best interests of the Group’s public shareholder

• Sales of substantial amounts of the Shares in the public market may materially and adversely affect the prevailing trading price of the Shares

• Statistics and figures contained in this Prospectus may not be most up-to-date or accurate

• Forward-looking information included in this Prospectus may not be accurate

• Dividend policy not indicative of future dividends

• No guarantee on the accuracy of facts, forecasts and other statistics with respect to the PRC, China’s economy and telecoms industry contained in this Prospectus

• Investors should read the entire prospectus carefully and the Group strongly cautions investors not to place any reliance on any information contained in press articles or other media, certain of which may not be consistent with information contained herein
FINANCIAL INFORMATION

The combined income statements of the Group for the Track Record Period, extracted from the Accountants’ Report set out in Appendix I to this Prospectus, are as follows:

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<thead>
<tr>
<th></th>
<th>Year ended 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004</td>
</tr>
<tr>
<td></td>
<td>HK$’000</td>
</tr>
<tr>
<td>Turnover</td>
<td>1,047,152</td>
</tr>
<tr>
<td>Other revenue</td>
<td>8</td>
</tr>
<tr>
<td>Other net loss</td>
<td>(257)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,046,903</td>
</tr>
<tr>
<td>Network, operations and support expenses</td>
<td>(747,151)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>(60,565)</td>
</tr>
<tr>
<td>Staff costs</td>
<td>(35,987)</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>(94,501)</td>
</tr>
<tr>
<td><strong>Profit from operations and before taxation</strong></td>
<td>108,699</td>
</tr>
<tr>
<td>Income tax</td>
<td>(17,564)</td>
</tr>
<tr>
<td><strong>Profit for the year from continuing operations</strong></td>
<td>91,135</td>
</tr>
<tr>
<td><strong>Discontinued operations (Note 1)</strong></td>
<td></td>
</tr>
<tr>
<td>Profit for the year from discontinued operations</td>
<td>10,343</td>
</tr>
<tr>
<td><strong>Profit for the year</strong></td>
<td>101,478</td>
</tr>
<tr>
<td>Attributable to:</td>
<td></td>
</tr>
<tr>
<td>Equity holders of the Company</td>
<td>101,478</td>
</tr>
<tr>
<td>Minority interests (Note 3)</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>101,478</td>
</tr>
<tr>
<td>Dividends payable to equity holders of the Company attributable to the year:</td>
<td></td>
</tr>
<tr>
<td>Interim dividend declared during the year</td>
<td>—</td>
</tr>
<tr>
<td><strong>Basic and diluted earnings per share (Note 2)</strong></td>
<td></td>
</tr>
<tr>
<td>From continuing and discontinued operations (HK cents)</td>
<td>6.0</td>
</tr>
<tr>
<td>From continuing operations (HK cents)</td>
<td>5.4</td>
</tr>
<tr>
<td>From discontinued operations (HK cents)</td>
<td>0.6</td>
</tr>
</tbody>
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Notes:

(1) The Group discontinued its non-telecoms operations in June 2006. For details of the discontinued operations, including financial information, please refer to note 9 of the Accountants' Report set out in Appendix I to this prospectus.

(2) The basic earnings per share for each of the years ended 31 December 2004, 2005 and 2006 is calculated based on the profit attributable to the equity holders of the Company during the relevant period and the 1,692,000,000 Shares in issue as at the date of the Prospectus and immediately before the Global Offering, as if the Shares were outstanding throughout the entire relevant period.

(3) No minority interest was recorded in 2006 because the Group and the 25% shareholder of the 75% owned subsidiary of the Group had contractually agreed that the minority shareholder would only share losses up to its share capital contribution. Given that accumulated losses as at 31 December 2005 exceeded the minority shareholder’s share capital contribution, all expenses incurred by the 75% owned subsidiary would have to be borne by the Group in 2006.

DIVIDEND POLICY

For each of the two years ended 31 December 2005, the Company did not declare or pay any dividend. For the year ended 31 December 2006, the Company declared and paid an interim dividend of HK$495 million representing approximately 83.8% of the retained earnings prior to the distribution of such dividend of the Company as at 31 December 2006. Payment of such dividend was financed by internal resources of the Group.

Subject to the availability of the Company’s cash and distributable reserves, the Group’s investment requirements, and the Group’s cashflow and working capital requirements, the Directors currently intend to declare and recommend dividends which would amount to not less than 30% of the net profit, if any, from ordinary activities for the first financial year subsequent to the Global Offering.

The recent declaration of dividend and the above intention does not amount to any guarantee or representation or indication that the Company must or will declare and pay a dividend in such manner or declare and pay any dividend at all, either in the first financial year subsequent to the Global Offering or thereafter. Particulars of the dividend policy to be adopted by the Group following the Listing are set out in the sub-section headed “Dividend policy, working capital and distributable reserves” under the section headed “Financial information” of this Prospectus. The dividend policy is subject to review by the Directors at any time and the Company may determine not to pay any dividends as a result of such review.

OFFER STATISTICS

<table>
<thead>
<tr>
<th></th>
<th>Based on an Offer Price of</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HK$2.13</td>
</tr>
<tr>
<td>Market capitalisation of the Shares (Note 1)</td>
<td>HK$4,004.4 million</td>
</tr>
<tr>
<td>Historical price-earning multiples</td>
<td></td>
</tr>
<tr>
<td>— from continuing and discontinued</td>
<td>19.9</td>
</tr>
<tr>
<td>operations (Note 2)</td>
<td></td>
</tr>
<tr>
<td>— from continuing operations (Note 3)</td>
<td>22.0</td>
</tr>
<tr>
<td>Unaudited pro forma adjusted net tangible asset value per Share (Note 4)</td>
<td>HK$0.42</td>
</tr>
</tbody>
</table>
Notes:

(1) The calculation of the market capitalisation of the Shares is based on 1,880,000,000 Shares in issue immediately after completion of the Capitalisation Issue and the Global Offering but does not take into account any Shares which may be allotted and issued or repurchased by the Company pursuant to the Issuing Mandate and the Repurchase Mandate.

(2) The calculation of historical price-earning multiple from continuing and discontinued operations is based on the earnings per Share from continuing and discontinued operations for the year ended 31 December 2006 of HK$0.1072 per Share at the respective Offer Price of HK$2.13 and HK$2.58 per Offer Share and based on the assumptions set out in note 1 above.

(3) The calculation of historical price-earning multiple from continuing operations is based on the earnings per Share from continuing operations for the year ended 31 December 2006 of HK$0.0967 per Share at the respective Offer Price of HK$2.13 and HK$2.58 per Offer Share and based on the assumptions set out in note 1 above.

(4) The unaudited pro forma adjusted net tangible asset value per Share has been arrived at after the adjustments referred to in the paragraph headed “Unaudited pro forma adjusted net tangible assets” under the section headed “Financial information” in this Prospectus and on the basis of 1,880,000,000 Shares in issue at the respective Offer Price of HK$2.13 and HK$2.58 per Offer Share immediately following completion of the Capitalisation Issue and the Global Offering but without taking into account any Shares which may be allotted and issued or repurchased by the Company pursuant to the Issuing Mandate and the Repurchase Mandate.

USE OF PROCEEDS

Assuming an Offer Price of HK$2.355 per Offer Share (being the mid-point of the Offer Price between HK$2.13 and HK$2.58 per Offer Share), the net proceeds of the Global Offering to be received by the Company after deduction of underwriting commission and estimated expenses payable by the Group are estimated to be approximately HK$423.8 million. The Directors currently plan to use such net proceeds as follows:

- approximately HK$230 million as funding for investments which may be in the form of acquisitions or joint ventures or strategic alliances with third parties to achieve (a) expansion of technological applications (e.g. the Group’s 3G software applications); or (b) expansion of geographical network coverage;
- approximately HK$100 million as capital expenditure to upgrade the Group’s computer software and hardware;
- approximately HK$90 million to enhance the Group’s application development activities including hiring extra application development staff; and
- the remaining balance as the Group’s general working capital.

The current plan of the Group is to acquire investment targets which may help the Group to increase market share, extend geographical coverage, increase product line or achieve technology edge. The Group has not, at this stage, identified any specific investment targets nor entered into any legally binding agreement or arrangement with respect to the investments mentioned above and there is no acquisition in progress. The Group is likely to invest in or enter into contractual arrangements with other companies which provide telecoms hubbing services, SMS hubbing services and/or Mobile VAS products which in the view of the Group may increase its market share and have synergy with the businesses of the Group. The Group will also consider investing in or entering into contractual arrangements with companies as described above outside of Hong Kong in order to widen its market share, subject to fulfilment of the local legal...
requirements. For details of the future plans of the Group, please refer to the paragraph headed “Future plans” in the section headed “Future plans and use of proceeds”. The above use of proceeds are allocated based on the current business plan of the Group on capital expenditure and application development. The proceeds of approximately HK$230 million allocated for funding investments is decided after allocations to capital expenditure and application development. As such, the proceeds raised under the Global Offering and allocated may not be sufficient for the Group to complete all the future investment plans. Future acquisitions may have to be funded through various means including but not limited to debt financing and equity funding.

Assuming an Offer Price of HK$2.58 per Offer Share (being the high-end of the stated range of the Offer Price between HK$2.13 and HK$2.58 per Offer Share), the amount of additional net proceeds to be received by the Company are estimated to be approximately HK$40.3 million, which the Directors intend to apply as additional funding for the Group’s investments in acquisitions, joint ventures, or strategic alliances with third parties.

Assuming an Offer Price of HK$2.13 per Offer Share (being the low-end of the stated range of the Offer Price between HK$2.13 and HK$2.58 per Offer Share), the Directors intend that the respective amounts to be applied for each of the above purposes will remain unchanged save that the amount to be applied as funding for the Group’s investments in acquisitions, joint ventures or strategic alliances with third parties will be reduced accordingly.

To the extent that the net proceeds of the Global Offering are not immediately required for the above purposes, the Group may hold such funds in short-term deposits with banks and/or financial institutions in Hong Kong for so long as it deems to be in the best interests of the Group.

The net proceeds from the sale of the Sale Shares by the Vendor in the Global Offering after deducting the related expenses, and assuming an Offer Price of HK$2.355 per Offer Share (being the mid-point of the stated range of the Offer Price of between HK$2.13 and HK$2.58 per Offer Share) and that the Over-allotment Option is not exercised in whole or in part, are estimated to amount to approximately HK$1,412.8 million. If the Over-allotment Option is exercised in full, and assuming an Offer Price of HK$2.355 per Offer Share (being the mid-point of the stated range of the Offer Price of between HK$2.13 and HK$2.58 per Offer Share), the Vendor will receive additional net proceeds of approximately HK$280.6 million. The Company will not receive any proceeds from the sale of the Sale Shares by the Vendor in the Global Offering. All of the net proceeds from the sale of the Sale Shares by the Vendor in the Global Offering will be for the account of the Vendor.
In this Prospectus, unless the context otherwise requires, the following terms have the following meanings. Certain other terms are explained in the section headed “Glossary of technical terms” in this Prospectus.

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;APIX&quot;</td>
<td>Asia Pacific Internet Exchange Limited (亞太互聯網交換中心有限公司), formerly known as Market Dynamic Holdings Limited, a company incorporated in Hong Kong on 18 October 2004 and a 75% subsidiary of CITIC Data 1616</td>
</tr>
<tr>
<td>&quot;Articles&quot;</td>
<td>the articles of association of the Company, conditionally approved and adopted on 16 March 2007 and as amended from time to time</td>
</tr>
<tr>
<td>&quot;Associate(s)&quot;</td>
<td>has the meaning ascribed to it in the Listing Rules</td>
</tr>
<tr>
<td>&quot;Assured Entitlements&quot;</td>
<td>the entitlement of Qualifying CP Shareholders to apply for the Reserved Shares under the Preferential Offer on the basis of an assured entitlement of one Reserved Share for every whole multiple of 20 CP Shares</td>
</tr>
<tr>
<td>&quot;Board&quot;</td>
<td>the board of Directors</td>
</tr>
<tr>
<td>&quot;Business Day&quot;</td>
<td>any day (excluding a Saturday or a Sunday) on which banks in Hong Kong are generally open for normal banking business</td>
</tr>
<tr>
<td>&quot;CAGR&quot;</td>
<td>Compound Annual Growth Rate</td>
</tr>
<tr>
<td>&quot;Capitalisation Issue&quot;</td>
<td>the issue of Shares to be made upon capitalisation of part of the retained earnings of the Company referred to in the paragraph headed “Resolutions of the sole shareholder of the Company” in Appendix V to this Prospectus</td>
</tr>
<tr>
<td>&quot;CCASS&quot;</td>
<td>the Central Clearing and Settlement System established and operated by HKSCC</td>
</tr>
<tr>
<td>&quot;CCASS Broker Participant&quot;</td>
<td>a person admitted to participate in CCASS as a broker participant</td>
</tr>
<tr>
<td>&quot;CCASS Custodian Participant&quot;</td>
<td>a person admitted to participate in CCASS as a custodian participant</td>
</tr>
<tr>
<td>&quot;CCASS Investor Participant&quot;</td>
<td>a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation</td>
</tr>
<tr>
<td>&quot;CCASS Participant&quot;</td>
<td>a CCASS Broker Participant, a CCASS Custodian Participant or a CCASS Investor Participant</td>
</tr>
</tbody>
</table>
DEFINITIONS

“CITB” Commerce, Industry and Technology Bureau of Hong Kong

“CITIC Concept 1616” CITIC Concept 1616 Limited (中信概念1616有限公司), formerly known as (a) Advance Achieve Limited (弘拓有限公司) and (b) CITIC 1616 Concept Limited, a company incorporated in Hong Kong on 23 August 2002 and an indirect wholly-owned subsidiary of the Company

“CITIC Consultancy 1616” CITIC Consultancy 1616 Limited (中信顧問服務1616有限公司), formerly known as (a) Glory Genius Development Limited (能智發展有限公司), (b) CITIC Telecom 1616 Consultancy Services Limited and (c) CITIC Consultancy 1616 Limited, a company incorporated in Hong Kong on 28 November 2001 and an indirect wholly-owned subsidiary of the Company

“CITIC Data 1616” CITIC Data 1616 Limited (中信數據1616有限公司), formerly known as (a) Grand Power Technology Limited, (b) CITIC Data 1616 Limited (中信資訊1616有限公司) and (c) CITIC 1616 Data Limited (中信1616資訊有限公司), a company incorporated in Hong Kong on 6 March 2000 and an indirect wholly-owned subsidiary of the Company

“CITIC Guoan” 中信國安有限公司 (CITIC Guoan Co., Ltd.), a company established in the PRC on 29 December 1997 and re-registered as a sino-foreign equity joint venture company on 1 November 2000, a jointly controlled entity of CITIC Pacific

“CITIC Media 1616” CITIC Media 1616 Limited (中信數碼媒體1616有限公司), formerly known as (a) Invest Network Limited (俊勵有限公司), (b) CITIC Mobile Services 1616 Limited and (c) CITIC Mobile Services 1616 Limited (中信移動服務1616有限公司), a company incorporated in Hong Kong on 17 September 2004 and an indirect wholly-owned subsidiary of the Company

“CITIC Networks 1616” CITIC Networks 1616 Limited (中信網絡1616有限公司), formerly known as (a) Success Global Limited (俊勤有限公司) and (b) CITIC 1616 Networks Limited, a company incorporated in Hong Kong on 10 September 2001 and an indirect wholly-owned subsidiary of the Company

“CITIC Pacific” CITIC Pacific Limited (中信泰富有限公司), formerly known as (a) Tylfull Company Limited and (b) Tylfull Company Limited (泰富發展(集團)有限公司), a company incorporated under the laws of Hong Kong on 8 January 1985, the shares of which are listed on the Stock Exchange (stock code: 0267) on 26 February 1986 and the controlling shareholder of the Company
DEFINITIONS

“CITIC Telecom 1616” CITIC Telecom 1616 Limited (中信電訊1616有限公司), formerly known as (a) Natural Resources Limited (天祥資源有限公司) and (b) Telecom 1616 Limited (電訊1616有限公司), a company incorporated in Hong Kong on 5 December 1996 and a direct wholly-owned subsidiary of the Company

“CITIC TeleSoft 1616” CITIC TeleSoft 1616 Limited (中信系統1616有限公司), formerly known as Keen Dynamic Developments Limited, a company incorporated in Hong Kong on 15 September 2003 and an indirect wholly-owned subsidiary of the Company

“CP Shares” ordinary share(s) of HK$0.40 each in the share capital of CITIC Pacific

“Companies Ordinance” the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

“Company” CITIC 1616 Holdings Limited (中信1616集團有限公司), formerly known as World Navigation Limited (寶航有限公司), a company incorporated in Hong Kong on 25 June 1997

“connected person” has the meaning set out in the Listing Rules

“controlling shareholder” has the meaning ascribed to it in the Listing Rules and “controlling interest” shall be construed accordingly. CITIC Pacific is the controlling shareholder of the Company

“Covenants” the executive Directors of the Company and the Vendor

“CPC” CITIC Pacific Communications Limited (中信泰富信息科技有限公司), a company incorporated in Bermuda on 25 January 2000, an indirect wholly-owned subsidiary of CITIC Pacific

“CPC Services Agreement” the service agreement dated 21 March 2007 between the Company and CPC whereby the Company would procure provision of various telecoms services in normal courses of business to CPC and its subsidiaries

“CTM” Companhia de Telecomunicacoes de Macau S.A.R.L., a company incorporated in Macao in October 1981, an associated company of CITIC Pacific

“Director(s)” the director(s) of the Company

“Effective tax rate” the income tax expenses divided by the profit for the year from continuing operations

“Enterprise Solutions” data services, facility management and system integration services
DEFINITIONS

“Fixed-Line/Hybrid Carrier Hubbing Services” hubbing services in respect of voice calls not originated by pure mobile carriers

“Global Coordinator”, “Sponsor”, “Compliance Adviser” and “BNP Paribas” BNP Paribas Capital (Asia Pacific) Limited, a licensed corporation for type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined in the SFO

“Global Offering” the Public Offer and the International Placing

“Goldon” Goldon Investment Limited, a company incorporated in Hong Kong on 16 August 1994 with limited liability and a 40%-owned associated company of CITIC Pacific

“Greater China Region” Hong Kong, Macao, the PRC and Taiwan

“Group” the Company together with its subsidiaries at the relevant time or where the context so requires, in respect of the period before the Company became the holding company of those subsidiaries, those subsidiaries as if they were the subsidiaries of the Company

“Guoan Information” 中信國安信息產業股份有限公司 (CITIC Guoan Information Industry Co. Ltd.), a joint stock limited liability company established in the PRC and owned as to 41.63% by CITIC Guoan

“Hen Fai” Hen Fai Engineering Networks Company Limited (恆輝工程網絡有限公司), formerly known as Meritgold Investments Limited, a company incorporated in Hong Kong with limited liability on 16 December 2002 and an indirect wholly-owned subsidiary of the Company

“HK$” and “cents” Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong

“HKIX” Hong Kong Internet Exchange, an exchange point providing mainly interconnection amongst internet access providers in Hong Kong

“HKIX Co” HKIX Hong Kong Ltd., a company incorporated in the British Virgin Islands, a 25% shareholder of APIX, which is 75%-owned subsidiary of the Company

“HKIX2” Hong Kong Internet Exchange 2, the mirror site of HKIX

“HKIX2 Shareholders’ Agreement” the shareholders’ agreement entered into between HKIX Co, CITIC Data 1616, The Chinese University of Hong Kong Foundation Limited and the Company on 18 August 2004
DEFINITIONS

“HKSCC” Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited

“HKSCC Nominees” HKSCC Nominees Limited

“Hong Kong” the Hong Kong Special Administrative Region of the People’s Republic of China

“Hong Kong Government” the Government of Hong Kong

“hubbing services” the provision of interoperable interconnection services between telecoms networks

“Independent Third Party” or “Independent Third Parties” a person(s) or company(ies) which is/are independent of, and not connected with the directors, the chief executives or the substantial shareholders of the Company or its subsidiaries or any of their respective associates

“International Placing” the conditional placing of the International Placing Shares by the International Underwriters with professional and institutional investors and in the United States to QIBs under Rule 144A at the Offer Price, as further described in the section headed “Structure and conditions of the Global Offering” in this Prospectus

“International Placing Shares” 50,408,000 New Shares and 627,920,000 Sale Shares being initially offered at the Offer Price pursuant to the International Placing, together with, where relevant, any additional Sale Shares pursuant to the exercise of the Over-allotment Option, subject to reallocation as described in the section headed “Structure and conditions of the Global Offering” in this Prospectus

“International Underwriters” the underwriters of the International Placing listed in the section headed “Underwriting” in this Prospectus

“International Underwriting Agreement” the international underwriting agreement relating to the International Placing, which is expected to be entered into by, amongst others, the Vendor, the Company and the International Underwriters on 28 March 2007

“Issuing Mandate” the general unconditional mandate given to the Directors by the Shareholders relating to the issue of new Shares, further details of which are contained in the paragraph headed “Resolutions of the sole shareholder of the Company” passed on 16 March 2007 in Appendix V to this Prospectus

“IVANS” International Value-Added Network Services
**DEFINITIONS**

<table>
<thead>
<tr>
<th>Term</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;Latest Practicable Date&quot;</td>
<td>14 March 2007, being the latest practicable date prior to the bulk printing of this Prospectus for the purpose of ascertaining certain information contained in this Prospectus</td>
</tr>
<tr>
<td>&quot;Listing&quot;</td>
<td>the listing of the Shares on the Main Board</td>
</tr>
<tr>
<td>&quot;Listing Date&quot;</td>
<td>the date expected to be on or about 3 April 2007 on which Shares are listed and from which dealings therein are permitted to commence on the Stock Exchange</td>
</tr>
<tr>
<td>&quot;Listing Rules&quot;</td>
<td>the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time</td>
</tr>
<tr>
<td>&quot;Macao&quot;</td>
<td>the Macao Special Administrative Region of the PRC</td>
</tr>
<tr>
<td>&quot;Main Board&quot;</td>
<td>the stock exchange operated by the Stock Exchange prior to the establishment of the Growth Enterprise Market of the Stock Exchange, excluding the option market, and which continues to be operated by the Stock Exchange in parallel with the Growth Enterprise Market of the Stock Exchange</td>
</tr>
<tr>
<td>&quot;MII&quot;</td>
<td>the Ministry of Information Industry of the People's Republic of China</td>
</tr>
<tr>
<td>&quot;Mobile Carrier Voice Hubbing Services&quot;</td>
<td>hubbing services in respect of voice calls originated by pure mobile carriers</td>
</tr>
<tr>
<td>&quot;Mobile VAS&quot;</td>
<td>Mobile Value Added Services, telecoms services beyond standard voice call services which add value to the standard service offering, spurring subscribers to use their mobile phones more and allowing telecoms operators to increase their average revenue per user</td>
</tr>
<tr>
<td>&quot;New Shares&quot;</td>
<td>188,000,000 new Shares being offered by the Company at the Offer Price</td>
</tr>
<tr>
<td>&quot;OFTA&quot;</td>
<td>the Office of the Telecommunications Authority of Hong Kong</td>
</tr>
<tr>
<td>&quot;Offer Price&quot;</td>
<td>the final offer price per Offer Share (exclusive of brokerage of 1%, SFC transaction levy of 0.004%, and Stock Exchange trading fee of 0.005%) at which Offer Shares are to be subscribed pursuant to the Public Offer and to be subscribed and/or purchased pursuant to the International Placing to be determined as described in the section headed “Structure and conditions of the Global Offering” in this Prospectus</td>
</tr>
</tbody>
</table>
DEFINITIONS

“Offer Share(s)”  the Public Offer Share(s) (including the Reserved Share(s) and Share(s) initially available for subscription by full-time employees of the Company or any of its subsidiaries) and the International Placing Share(s) being offered at the Offer Price under the Global Offering, together with, where relevant, any additional Sale Share(s) pursuant to the exercise of the Over-allotment Option

“Over-allotment Option”  the option to be granted by the Vendor to BNP Paribas pursuant to which the Vendor may be required to sell up to an additional aggregate of 122,388,000 Sale Shares (representing 15% of the Offer Shares initially being offered under the Global Offering) to cover over-allocations in the International Placing, details of which are described in the section headed “Structure and conditions of the Global Offering” in this Prospectus

“Overseas CP Shareholders”  registered holders of CP Shares whose addresses on the register of members of CITIC Pacific were outside Hong Kong on the Record Date

“PRC” or “China” or “Mainland” or “Mainland China”  the People’s Republic of China which, for the purpose of this Prospectus, excludes Hong Kong, Macao and Taiwan

“Preferential Offer”  the preferential offer to the Qualifying CP Shareholders for the subscription of the Reserved Shares on an assured basis as further described in the section headed “Structure and conditions of the Global Offering” in this Prospectus

“Price Determination Agreement”  the agreement to be entered into between the Company, the Vendor and the Global Coordinator (for itself and on behalf of the Underwriters) on or around the Price Determination Date to record the Offer Price

“Price Determination Date”  28 March 2007 or such later date as the Company and the Global Coordinator (on behalf of the Underwriters) may agree, being the date on which the Offer Price is determined

“Public Offer”  the issue and offer of the Public Offer Shares to the public in Hong Kong for subscription at the Offer Price, subject to and in accordance with the terms and conditions set out in this Prospectus and the related application forms, including the Preferential Offer

“Public Offer Shares”  137,592,000 New Shares being initially offered by the Company for subscription at the Offer Price pursuant to the Public Offer, subject to reallocation as described in the section headed “Structure and conditions of the Global Offering” in this Prospectus. The 137,592,000 New Shares include the 56,000,000 Reserved Shares and the 7,600,000 Shares initially available for subscription by the full-time employees of the Company or any of its subsidiaries
DEFINITIONS

“Public Offer Underwriters” the underwriters of the Public Offer listed in the section headed “Underwriting” in this Prospectus

“Public Offer Underwriting Agreement” the underwriting agreement dated 21 March 2007 relating to the Public Offer entered into by, amongst others, the Company and the Public Offer Underwriters

“QIBs” qualified institutional buyers as defined in Rule 144A

“Qualifying CP Shareholders” holders of not less than 20 CP Shares, whose names appeared on the register of members of CITIC Pacific on the Record Date, other than the Overseas CP Shareholders subject to compliance with rule 13.36(2) of the Listing Rules

“Record Date” 16 March 2007, being the record date for ascertaining Assured Entitlements

“Regulation S” Regulation S under the US Securities Act, as amended, supplemented or otherwise modified from time to time

“Repurchase Mandate” the general unconditional mandate to repurchase Shares given to the Directors by the Shareholders, further details of which are contained in the paragraph headed “Resolutions of the sole shareholder of the Company” in Appendix V to this Prospectus

“Reserved Shares” the 56,000,000 New Shares (representing approximately 6.9% of the Offer Shares initially available under the Global Offering) offered pursuant to the Preferential Offer and which are to be allocated out of the Public Offer Shares being offered under the Public Offer

“Retained Group” CITIC Pacific and its subsidiaries (excluding the Group)

“RMB” or “Renminbi” Renminbi, the lawful currency of the PRC

“Rule 144A” Rule 144A under the US Securities Act, as amended, supplemented or otherwise modified from time to time

“Sales Margin” a percentage equal to (x) turnover less carrier costs and other telecommunications service costs and then divided by (y) turnover

“Sale Shares” 627,920,000 existing Shares being offered for sale by the Vendor at the Offer Price under the Global Offering, and to the extent the Over-allotment Option is exercised, together with up to an aggregate of 122,388,000 additional Sale Shares to be offered for sale by the Vendor pursuant to the exercise of the Over-allotment Option
DEFINITIONS

“SFC” the Securities and Futures Commission of Hong Kong

“SFO” the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

“Share(s)” share(s) in the share capital of the Company, with a par value of HK$0.10 each, for which an application has been made for the listing of and permission to deal on the Stock Exchange

“Shareholders” holders of Shares

“Share Registrar” Tricor Investor Services Limited

“SIMN” Single IMSI Multiple Number service, a Mobile VAS which allows mobile operators’ subscribers to hold multiple overseas mobile phone numbers on their existing SIM cards, providing frequent travellers and mobile roamers the choice of saving roaming charges in SIMN-enabled regions

“SMS Hubbing Services” hubbing services in respect of SMS messages

“Stock Borrowing Agreement” the agreement entered into by the Vendor with the Global Coordinator in respect of the borrowing of up to 122,388,000 Shares from the Vendor by the Global Coordinator to cover over-allocation

“Stock Exchange” The Stock Exchange of Hong Kong Limited

“substantial shareholder” has the meaning ascribed thereto in the Listing Rules

“TA” the Telecommunication Authority of Hong Kong

“Telecommunications Ordinance” Telecommunications Ordinance (Chapter 106, Laws of Hong Kong)

“Tenancy Agreements” the two tenancy agreements both dated 22 December 2006 between the Company and Goldon whereby the Company leased the Group’s office premises located at CITIC Tower in Hong Kong from Goldon

“Track Record Period” the period comprising the three years ended 31 December 2006

“Trade payable days” trade payables at year end divided by network, operations and support expenses for the year multiplied by 365 days

“Trade receivable days” trade receivables at year end divided by turnover from the telecoms operations for the year multiplied by 365 days
DEFINITIONS

“Underwriters” the International Underwriters and the Public Offer Underwriters

“Underwriting Agreements” International Underwriting Agreement and Public Offer Underwriting Agreement

“US” or “United States” the United States of America

“US$” or “US dollars” United States dollars, the lawful currency of the United States of America

“US Person” has the meaning ascribed to it in Regulation S

“US Securities Act” United States Securities Act of 1933, as amended

“Vendor” CITIC Pacific (acting through its wholly-owned subsidiary Ease Action Investments Corp.)

“World Navigation (BVI)” World Navigation (BVI) Ltd., formerly known as Leicester Assets Limited, a company incorporated in the British Virgin Islands with limited liability on 1 July 1997 and a direct wholly-owned subsidiary of the Company

“sq.ft.” square feet

“sq.m.” square metre

“%” per cent

Unless otherwise specified, statements contained in this Prospectus assume no exercise of the Over-allotment Option.

If there is any inconsistency between the official Chinese name of the PRC laws or regulations or the PRC government authorities or the PRC entities mentioned in this Prospectus and their English translation, the Chinese version shall prevail. English translations of official Chinese names are for identification purposes only.

In this Prospectus, unless otherwise specified, conversions of US dollars and RMB at 31 December 2006 into Hong Kong dollars are based on the approximate exchange rates of US$1.00 to HK$7.80 and RMB100.3 to HK$100 respectively, for the purpose of illustration only. No representation is made that any amount in Hong Kong dollars, US dollars or RMB could have been or can be converted at the above rates or at any other rates.

All times referred to in this Prospectus in relation to the Global Offering refer to Hong Kong local time.
This glossary contains explanations of certain terms used in this Prospectus in connection with the Group and its business. These technical terms and their given meanings may not correspond to their standard meanings and usages adopted in the industry.

“2G” Second Generation, a type of wireless mobile communications technology, based on digital technology, including GSM, CDMA and D-AMPS technology, which was developed primarily for voice applications.

“3G” Third Generation, a term given to the next generation of mobile communication systems which offer enhanced services, such as multimedia services and video. The main 3G technologies include UMTS, CDMA2000 and TD-SCDMA. 3G was an initiative originally spearheaded by the ITU under the IMT2000 project.

“Asia-Pacific Cable Network” also known as APCN, a submarine telecoms cable system linking nine Asian countries.

“Asia-Pacific Cable Network 2” also known as APCN2, a submarine telecoms cable linking six countries in the Asia-Pacific region with 10 landing points.

“Answer Seizure Ratio” also known as ASR, the number of successfully answered calls divided by the total number of calls attempted.

“CAMEL” Customised Applications for Mobile Networks Enhanced Logic, a set of GSM standards designed to work on a GSM core network.

“CDMA” Code Division Multiple Access, a digital cellular technology developed in the United States which provides a way of multiplying a variety of signals onto a single communications channel.

“CLI” Calling Line Identification, the information generated by a telecoms system which identifies the calling number and forwards that information through that telecoms system to another telecoms system directly or indirectly.

“CIMD2” CIMD2 is version 2 of the Computer Interface to Message Distribution (CIMD) protocol developed by Nokia Corporation to transfer messages between applications and the Nokia Short Message Service Center.

“CMPP” China Mobile Peer to Peer protocol for exchanging SMS between SMS peer entities such as short message service centres.
“Disaster Recovery Plan”  a disaster recovery plan covering the data, hardware and software critical for a business to restart its operations in the event of a natural or human-caused disaster with a view to protecting business-critical and irreplaceable data, limiting data loss and aiding data recovery

“East Asia Crossing”  a submarine telecoms cable system interconnecting several countries in East Asia

“E1”  an European digital transmission format devised by the ITU with a line data rate of 2.048 Mbit/s

“Ethernet”  a large, diverse family of frame-based computer networking technology for local area networks

“External Telecoms Services”  also known as ETS, telecoms services which are regulated and licensed in Hong Kong by the OFTA for external telecoms services over IPLCs

“Fast Ethernet” or “FE”  a collective term for a number of Ethernet standards that carry traffic at the nominal rate of 100 Mbit per second

“Flag North Asia Loop”  also known as FNAL, a submarine telecoms cable system interconnecting several countries in North Asia

“Fixed Telecoms Network Services”  also known as FTNS, telecoms services which are regulated and licensed in Hong Kong by the OFTA for internal and external telecoms services between fixed points

“GE”  gigabit Ethernet

“GPRS”  General Packet Radio Services, version of 2G GSM technology which transmits and receives packets of data in bursts instead of using continuous open radio channel. GPRS’ bandwidth is 115.2 kilobits per second

“GSM”  Global System for Mobile Communications, a standard digital cellular phone service and used worldwide by mobile operators

“GSMA”  GSM Association, a global trade association representing more than 700 GSM mobile phone operators across approximately 217 territories and countries in the world

“HLR”  Home Location Register, a database within a GSM network that stores details of all the subscriber data

“IDD”  International Direct Dialling
“IMSI” International Mobile Subscriber Identity, a number stored in the SIM Card which uniquely identifies mobile subscribers to a mobile network

“INAP” Intelligent Network Application Part, a signaling protocol used in the intelligent network architecture

“international roaming” a service which permits subscribers to use their existing handset and telephone number when travelling in other countries outside their local network

“Internet” international computer network – a worldwide electronic communication network

“IP” Internet Protocol, a data-oriented protocol used by source and destination hosts for communicating data across a packet-switched inter-network. The protocol is defined by IETF, Internet Engineering Task Force, an international standardisation organisation which is responsible to define standards for Internet

“IPLC” International Private Leased Circuit

“ISDN” Integrated Services Digital Network, a type of circuit switched telephone network system designed to allow digital transmission of voice and data over ordinary telephone copper wires

“ISR” International Simple Resale, a mechanism enabling operators who are licensed to provide external telecoms services which enable IDD calls using the external telecoms facilities of fixed telecoms network services operators who are licensed to provide them

“IT” Information Technology

“ITU” The International Telecommunications Union, an international organisation established to standardise and regulate international radio and telecoms. ITU is one of the specialised agencies of the United Nations, and has its headquarters in Geneva, Switzerland

“MHz” MegaHertz, a measure of frequency equal to one million cycles per second

“Mobile Roaming Call Back service” a Mobile VAS which enables a mobile customer to reverse a roaming originating call to a roaming terminating call by initiating a call, and then wait for a call back to his mobile phone instead of making a call directly, thereby benefitting from the general service charge difference between roaming originating calls and roaming terminating calls
“Mobile Virtual Network Operator” also known as MVNO, a mobile operator that provides mobile telecoms services to customers through interconnection with and access to the radiocommunications infrastructure of a mobile network operator. The concept behind having the Mobile Virtual Network Operator is to allow companies to participate in the business of supplying mobile services without having to hold a full mobile network operator licence. MVNO can focus on services and application levels, providing a vast variety of products to users.

“Pacific Crossing” also known as PC-1, a submarine telecoms cable system in the North Pacific Ocean linking the USA and Japan.

“PHS” Personal Handy-phone System, a mobile network system operating in the 1880-1930 MHz frequency band, used mainly in Japan, China, Taiwan and some other Asian countries.

“PMRS” Public Mobile Radiotelephone Service.

“PNETS (ETS) licence” Public Non-Exclusive Telecommunications Service (External Telecommunications Services) licence, which is required to be obtained by an IDD service provider in Hong Kong in order to provide customers Short Codes access to that service provider’s IDD services and permits such a service provider to use ISR to provide IDD services.

“PNETS (MVNO) licence” Public Non-Exclusive Telecommunications Service (Mobile Virtual Network Operator Services) licence which is required by an operator in Hong Kong in order to provide PRS to customers through interconnection with, and access to, the radio telecoms infrastructure of an operator licensed under a PMRS licence, a PRC licence or a mobile carrier licence (3G licence) and assigned with the radio spectrum through which the PRS is provided.

“PNETS (IVANS) licence” Public Non-Exclusive Telecommunications Service (International Value-Added Network Services) licence. Such licence is required by an operator in Hong Kong in order to provide IVANS over public switched telecoms networks or, under specified conditions, over IPLCs.

“PNETS” Public Non-Exclusive Telecommunications Services, which are regulated and licensed in Hong Kong by the OFTA for services such as IVANS (which also covers the licencing of Internet service providers), virtual private network services (VPNs) and ETS.
“POP(s)”  
Point(s) of Presence, connection facilities co-located in the data centers of other telecoms operators that consist primarily of transmission equipment with which calls and data are routed to and from the Group’s hub

“portal”  
a principal entry point and gateway for accessing the Internet that typically provides useful web-related services and links

“Prepaid Roaming Card service”  
a pre-paid Mobile VAS which enables mobile customers to send or receive SMS and/or to receive calls or to call other countries using their mobile phones while overseas

“Post Dial Delay”  
the time delay between entering the last digit of a telephone number and receiving a ring or busy signal

“PRS licence”  
Public Radiocommunication Service licence which permits the provision by a mobile operator of personal communication service public mobile radiocommunication services

“Public Switched Telephone Network”  
also known as PSTN, a generic term for a fixed network to which a cellular network is interconnected in order to be able to send and receive calls to and from fixed network subscribers

“SAN” or “Storage Area Network”  
a network designed to attach computer storage devices such as disk array controllers and tape libraries to servers

“SCCP”  
Signalling Connection Control Part of SS7 signalling protocol that provides connectionless and connection-oriented network services and global title translation (GTT) capabilities above MTP Level 3

“Short Codes”  
also known as short numbers or Common Short Codes (CSC), telephone numbers consisting no more than 7 digits and are either used for services with high volume of traffic so that the FTNS networks will not be unduly overloaded or where expeditious access by customers is required. Examples are the enquiry services and hotlines provided by the FTNS operators under the “10X” and “12X” codes, the “180” payment-by-phone services provided by the banking industry and utility companies and the “999” emergency services. Since Short Codes are valuable scarce resources, any request for allocation of a Short Code will be scrutinised by the TA closely

“SIM card”  
Subscriber Identity Module card, a smart card which stores the subscriber’s identity information and authentication key and which needs to be inserted into a GSM handset to make it operable
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<th><strong>GLOSSARY OF TECHNICAL TERMS</strong></th>
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<td><strong>“STM-1”, “STM-4”, “STM-16”</strong></td>
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<td><strong>“switch”</strong></td>
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<td><strong>“switching centre”</strong></td>
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“TDMA” Time Division Multiple Access, a digital cellular technology, which allows several users to share the same frequency by dividing the radio transmission into different timeslots. TDMA is used in the Global System for Mobile Communications (GSM) network.

“T1” T1 is the basic rate of transmission widely used standard in telecoms in North America and Japan to transmit voice and data at a rate of 1.544Mbit/s.

“UMTS” Universal Mobile Telephony System or Service, a standard for 3G networks.

“UCP” Universal Computer Protocol, a protocol primarily used to connect to short message service centres for mobile telephones.

“VoIP” Voice over Internet Protocol, the category of hardware and software that enables people to make telephone calls via the Internet or IP networks, including phone to phone, phone to PC, PC to phone but excluding PC to PC communications and private network traffic. Voice signals are converted to packets of data, which are transmitted on shared public lines, hence avoiding the tolls of the traditional Public Switched Telephone Network.
Potential investors should consider carefully all the information set out in this Prospectus and, in particular, should consider the following risks and special considerations associated with an investment in the Group and/or the Company before making any investment decision in relation to the Offer Shares, the Group and/or the Company. The occurrence of any of the following risks could have a material adverse effect on the business, results of operation, financial condition and future prospects of the Group and cause the market price of the Offer Share to fall significantly.

This Prospectus contains certain forward-looking statements regarding the Directors’ or the Group’s plans, objectives, expectations and intentions which involve risks and uncertainties. The Group’s actual results could differ materially from those described in this Prospectus. Factors that could cause or contribute to such differences include those described below as well as those described elsewhere in this Prospectus.

**RISKS RELATING TO THE GROUP AND ITS OPERATIONS**

The Group depends on major customers for a significant portion of its business and the loss of any of such customers could materially and adversely affect the Group’s business and financial position

A significant portion of the Group’s revenue has been and is expected to continue to be, derived from a limited number of customers. For the years ended 31 December 2004, 2005 and 2006, the turnover attributable to the Group’s largest customer accounted for approximately 33.1%, 35.3% and 30.6% of the Group’s total turnover from continuing operations respectively, and for the same periods, turnover attributable to the Group’s five largest customers accounted for approximately 48.0%, 51.5% and 47.7% of the Group’s total turnover from continuing operations respectively. Most of these customers are major operators of telecoms services in the Asia Pacific region. There can be no assurance that the Group’s major customers will continue to use the Group’s services. In the event that any of these customers cease to use the services of the Group and the Group fails to replace such customers, the Group’s business and financial position may be materially and adversely affected.

**Systems failures, delays and other problems could harm the Group’s reputation and business, and cause the Group to lose customers and expose the Group to customer liability**

The Group provides interoperable interconnections, Mobile VAS and Enterprise Solutions that are critical to the operations of its customers. The Group’s system architecture is integral to its ability to process a high volume of transactions in a timely and effective manner. The Group may experience failures or interruptions of its systems and services, or other problems in connection with its operations as a result of, amongst others:

- damage to or failure of its computer software or hardware or its infrastructure and connections;
- data processing errors by its systems;
- computer viruses or software defects;
RISK FACTORS

• physical or electronic break-ins, sabotage, intentional acts of vandalism and similar events; and

• the failure of the Group to adapt to rapid technological changes in the telecoms industry.

If the Group cannot adequately ensure the ability of its network services to perform consistently at a high level or otherwise fails to meet its customers’ expectations:

• it may experience damage to its reputation, which may adversely affect its ability to attract or retain customers for its existing services, and may also make it more difficult for the Group to market its existing or future services;

• it may be subject to significant damages or customer liability claims, under its contracts or otherwise, including the requirement to pay penalties relating to service level requirements in its contracts;

• its operating expenses or capital expenditures may increase as a result of corrective efforts that the Group must perform;

• the Group’s customers may reduce their use of the Group’s services; or

• one or more of its significant contracts may be terminated early, or may not be renewed.

These or other consequences would adversely affect the Group’s revenues and performance.

Increasing competition may have an adverse effect on the Group’s business and results of operations

The market for communications services is extremely competitive and rapidly changing. The Group faces competition from other providers of connectivity and value-added services, some of which are larger and may be better funded than the Group. In addition, certain telecoms hubs based in Hong Kong and a few other Asian countries providing competing services have strong connections with China telecoms operators or are otherwise affiliated with other telecoms operators. Moreover, the Group is aware that some other companies are focusing significant resources in developing and marketing services that will compete with those of the Group. Although the Group is not a basic telecoms service provider, it competes in some areas against telecoms operators, communications software companies and system integrators which provide systems and services used by telecoms operators to manage their networks and internal operations relating to inter-operator connections and other telecoms transactions. In addition, competition also exists between certain of the Group’s Mobile VAS and the software developed in-house by its customers.

The Group anticipates continual growth of competition. Certain competitors may be able to respond to new or emerging changes in technology or customers’ requirements much more quickly than the Group. A number of the Group’s current and potential competitors, such as the major telecoms operators in Hong Kong, Singapore and Taiwan, may have greater name recognition and/or more extensive customer bases than the Group. Increasing competition could result in fewer customer orders, reduced revenues, reduced Sales Margins and loss of market share, any one of which could harm the business of the Group.
Finally, customers may internally deploy services and technologies which may reduce or eliminate their demand for such services and technologies from third party providers including the Group and further increase competitive pricing pressure.

The loss of, or damage to, a data centre, submarine cable connection or any of the Group’s POPs may interrupt the Group’s operations and harm its revenues and growth

The integrity of the Group’s data centres and its infrastructure, in particular in relation to its POPs, submarine cable connections, international private lease lines, local lease lines, switches or other circuits connecting the Group with its customers, are important to the Group’s provision of services. The Group may not have sufficient backup systems or facilities to allow it to receive, process and/or transmit data in the event of a loss of, or damage to, any of its data centres or infrastructure. Such loss or damage may be caused by power loss, natural disasters such as fires, earthquakes, floods and typhoons, telecoms failures such as transmission cable cuts or other similar events that could adversely affect its customers’ ability to access the Group’s hub. In the event of such loss or damage, the Group may be required to make significant expenditures to repair or replace a data centre and/or its other infrastructure. Any interruption to the Group’s operations due to the loss of, or damage to, a data centre and/or its other infrastructure could harm the Group’s reputation and cause its customers to reduce their use of the Group’s services, which could harm the Group’s revenues and business prospects.

The Group’s business model depends on the availability of Internet telecoms networks and infrastructure maintained by third parties to transmit and terminate voice and/or data traffic. In addition, the Group also engages broker carriers to carry some of its traffic to certain parts of the world. Where a particular operator requires telecoms traffic to terminate at a particular country, the company will transmit the telecoms traffic to a broker carrier which will in turn transmit the traffic to a local designated carrier or operator, rather than having direct connections established between a foreign telecoms operator or telecoms hub with any local telecoms operator. In the event that any of these broker carriers or third parties fails to provide their telecoms networks, infrastructure or other facilities to the Group for whatever reason, for instance, due to natural disasters or problems with, or scheduled or unscheduled maintenance activities upon, any of their telecoms networks, infrastructure or other facilities, the Group’s ability to complete calls or provide other services to its customers may be materially disrupted or suspended which could in turn discourage its customers from using the Group’s services.

Security or privacy breaches may result in an interruption of service or a reduced quality of service, which could increase the Group’s costs or result in a reduction in the use of the Group’s services by its customers

The Group’s systems may be vulnerable to physical break-ins, computer viruses, attacks by computer hackers or similar disruptive problems. If unauthorised users gain access to the Group’s databases, they may be able to steal, publish, delete or modify sensitive information that is stored or transmitted on the Group’s networks and which the Group is required by its contracts to keep confidential. A security or privacy breach could result in an interruption of service or a reduced quality of service. Confidential information internal to the Group may also be disclosed to unauthorised personnel who may use such information in a manner adverse to the interests of the Group. Hackers may attempt to “flood” the network, thereby preventing legitimate network traffic or to disrupt connections between two machines, thereby preventing access to a service or preventing a particular individual from accessing a service. The VoIP network may also be exposed to intruders’ attacks or other unauthorised access, resulting in
call hijacking, eavesdropping, resource exhaustion and making of free telephone calls. The Group may therefore be required to make significant expenditures in connection with corresponding corrective or preventive measures. In addition, a security or privacy breach may harm the Group’s reputation and cause its customers to reduce their use of the Group’s services, which could harm the Group’s revenues and business prospects.

In addition, the Group’s revenue may be adversely affected by un-captured usage, in the event that the Group’s system is “hacked” into, resulting in transmissions that may not be detected by its billing system. Further, the increase in traffic as a result of such unauthorised “hacking” may slow or overload the Group’s transmission network, thereby adversely affecting the overall quality of services which the Group provides to its paying customers.

The Group’s exposure to telecoms security concerns is heightened as Hong Kong and PRC law relating to liability under such circumstances are relatively new. In addition, the Group does not carry “errors and omissions” or other insurance covering losses or liabilities caused by computer viruses or security breaches, which under such circumstances could mitigate damages that the Group may suffer. If the Group incurs any such losses or liabilities, its operating results, financial condition, business and prospects may be adversely affected.

The failure of third-party software and equipment which the Group uses in its systems may cause interruptions or failures of its systems

In addition to the use of the Internet and certain telecoms networks maintained by broker carriers and other third parties for the transmission of voice and/or data traffic, the Group also incorporates hardware, software and equipment developed by third parties into its systems. As a result, the Group’s ability to provide interoperability services depends in part on the continued performance and support of these third-party products. If these products experience failures or contain defects, and the third parties supplying these products fail to provide adequate remedial support, this may result in the interruption or unsatisfactory performance of the Group’s systems or services.

Inadequate network resilience and diversity and backup systems may result in service disruptions

Any failure of the Group’s backup systems or any insufficiency in the Group’s redundancy capacity may disrupt the Group’s operations. The Group’s Disaster Recovery Plan is in progress but is not expected to be in full operation until mid-2007 at the earliest. In addition, the Group has yet to implement backup facilities in relation to its POPs and some of its services such as its SCCP Roaming Signaling Transit service. There can be no assurance that the Group’s existing alternative routes and cable diversity will provide adequate backup for all kinds of service interruptions that may occur.

Moreover, even with these contingency measures, service disruptions could last for a considerable period of time before complete service can be restored. This may cause customers to reduce their use of the Group’s services, which could harm the Group’s revenues and business prospects.

Loss of significant information may adversely affect the Group’s business

In cases of a failure of the Group’s data storage system, the Group may lose mission critical network or billing data, source codes, proprietary production system designs or important email correspondences with its customers and suppliers. The Group has introduced the SAN disaster recovery system to replicate all its mission critical data from its primary storage system
in its core data centre in CITIC Tower to its other data centre in Central at pre-determined intervals. The Group also performs periodic offline backups of its important data. However, mission critical data stored in its core data centre may still be lost if there is a lapse or failure of the SAN disaster recovery system in backing up these data, or if the periodic offline backup is not frequent or sufficient enough. In such circumstances, the business of the Group may be materially affected.

Property “all risks” insurance and public liability insurance do not cover cyber risks and data loss

The property “all risks” insurance and public liability insurance taken out by the Group do not cover certain damages or losses, and contain a number of liability exclusion clauses, including exclusions for:

- damage or loss relating to the use or misuse of the Internet or similar facility, such as:
  - unauthorised access;
  - unauthorised use;
- damage to or loss of data or software, in particular any detrimental change in data, software or computer programs that is caused by a deletion, corruption or deformation of the original structure, and any business interruption losses resulting from such damage or loss; and
- damage or loss resulting from an impairment in the function, availability, range of use or accessibility of data software or computer programs, and any business interruption loss resulting from such damage or loss.

As such, the Group may not be adequately indemnified or compensated for if it sustains any such loss or damage, which in turn may adversely affect the financial position of the Group.

Capacity limits on the Group’s network and application platforms may be difficult to project and the Group may not be able to expand or upgrade its systems to meet increasing demand

The Group’s business requires it to handle a large number of international calls simultaneously. In order to manage growth in the number of such calls successfully, the Group needs to enhance its operational, management, financial, and information systems and controls continuously and effectively. It is difficult to predict when the capacity limits on the Group’s network and application platforms will be reached, given that the usage requirement of the Group’s services depends on the demand from the subscribers of telecoms operators as well as the choices of telecoms operators on which hubbing service provider to use. If the Group does not expand or upgrade its hardware and software quickly enough, it may not have sufficient capacity to handle the increasing traffic and this would limit the growth of its operation and improvement of its performance. In particular, the establishment of a fully equipped data centre and the related network infrastructure is expected to take approximately six months and will be subject to the availability of capital, location, telecoms connection networks and electricity supplies. Even with sufficient expansion, the Group may fail to manage its deployments of the latest technology or utilise it in a cost-effective manner. In addition to potential losses of growth opportunities, any such failure could adversely affect customer confidence in the Group’s capability and could result in the loss of businesses outright.
RISK FACTORS

Rapid technological changes may increase competition and render the Group’s technologies, products or services obsolete or cause the Group to lose market share

The telecoms industry is subject to rapid and significant changes in technology, frequent new service introductions and evolving industry standards. Such changes may adversely affect the Group’s revenue. The Group’s business currently covers both TDM and IP telecoms traffic, including VoIP. Telecoms operators are changing the underlying technology of their networks. In the event the Group is not in a position to cope with emerging and future technological changes, the Group’s operations or its competitiveness will be adversely affected. There can be no assurance that the Group can improve the features, functionality, reliability and responsiveness of its interoperability, infrastructure and other services to meet the changing demands of its customers towards new communication technologies.

Similarly, the technologies that the Group employs may become obsolete or subject to intense competition from new technologies in the future. If the Group fails to develop, or obtain timely access to, new technologies, or if it fails to obtain the necessary licences for the provision of services using these new technologies, the Group may lose its customers and market share, and its results of operations would be adversely affected.

The Group’s ability to maintain and expand its telecoms services may be affected by disruption of supplies from its major suppliers

A significant portion of the Group’s supplies has been, and is expected to continue to be, derived from a limited number of suppliers. Major purchase costs of the Group relate to carrier costs, being terminating telecoms operators’ fees charged against the Group. For the years ended 31 December 2004, 2005 and 2006, the top five largest suppliers of the Group accounted for approximately 32.3%, 33.8% and 31.1% respectively of the Group’s total costs for network, operations and support expenses. During the same periods, the largest supplier accounted for approximately 11.4%, 13.6% and 10.3% respectively of the Group’s total costs for network, operations and support expenses.

The Group has not entered into long-term supply contracts with many of its major suppliers, save in respect of private lease circuits in respect of certain undersea cables and local loops. As such, there can be no assurance that the Group’s major suppliers will continue to provide the relevant technical support to the Group. In the event that any of these suppliers cease to provide their services to the Group, and the Group fails to replace such suppliers, or if there are significant increases in the cost of these supplies, the Group’s business and financial position may be materially and adversely affected.

CITIC Guoan and CTM may compete with the Group in the future which could adversely affect the Group’s business

CITIC Guoan’s primary business is its 41.63% interest in Guoan Information, a Shenzhen Stock Exchange listed company, which operates cable television networks in 18 cities and one province in China, serving approximately 6.1 million subscribers. Guoan Information also has interests in systems integration, software development, hotel management, salt lake consolidated resources development and property development. Mr. Lee Chung Hing, a non-executive Director, is the Vice Chairman of CITIC Guoan. Mr. Kwok Man Leung, a non-executive Director, is a director of CITIC Guoan.
CTM is a full service telecoms operator in Macao that provides comprehensive telecoms services including international and domestic telephone services, leased circuits, mobile telephone services, value-added services, Internet and other network services as well as international hubbing services. In addition, CTM offers co-location, data centre and leased circuit services that are similar to those of the Group.

Guoan Information's system integration services and CTM's international hubbing services, co-location, data centre and leased circuit services are the only areas within the Retained Group’s telecoms business that may compete with the Company's business. In the event that Guoan Information or CTM competes with the Company, the Group's business and financial position may be adversely affected.

**The Group's failure to achieve or sustain market acceptance at desired pricing levels may impact its ability to maintain profitability or positive cash flow**

The Group’s competitors and customers may cause the Group to reduce the prices it charges for its services which in turn could adversely affect the Group’s profitability and cash flow. The primary sources of pricing pressure include:

- competitors offering competing services at reduced prices, or bundling and pricing services in a manner which makes it difficult for the Group to compete;
- customers with a significant volume of transactions may have enhanced leverage in pricing negotiations with the Group; and
- if the prices of the Group’s services are too high, potential customers may find it economically more advantageous to handle certain functions in-house instead of using the Group’s services.

The Group may not be able to offset the effects of any price reductions.

**A decline in the volume of transactions the Group handles may have an adverse effect on its results of operations**

The Group earns revenues for the majority of its services on a usage basis. The Group has entered into service contracts with some of its customers which contain terms specifying minimum usage requirements or commitment arrangements between the Group and its customers. The majority of the Group’s contracts with its customers do not contain such terms. As such, the Group is not protected against the potential adverse effect on its revenues as a result of a decrease in the transaction volumes provided by its customers.

In addition, if telecoms operators develop internal systems to address their business needs or establish direct links with their counterparts, or if the cost of using the Group’s services makes it not economical for a telecoms operator to use the Group’s services, the Group may experience a reduction in its business volumes.

**The Group may need additional capital in the future which may not be available on acceptable terms**

The Group may require additional capital in the future to fund its operations, finance investments in equipment or infrastructure, or respond to competitive pressures or strategic opportunities. The Group has historically relied on financial support from its shareholders and
RISK FACTORS

internal resources to fund its operations, capital expenditures and expansion. Upon completion of the Global Offering and the proposed listing of the Group, there can be no assurance that the historic support from its shareholders will continue. In addition, the Group cannot be certain that additional financing will be available on terms favorable to it, or at all. Further, the terms of available financing may place limits on the Group’s financial and operating flexibility. If the Group is unable to obtain sufficient capital in the future, the Group may face the following risks:

• not being able to continue to meet customers’ demands for service quality, capacity and competitive pricing;

• not being able to expand its capacity or operations or acquire complementary businesses;

• not being able to develop new services or otherwise respond competitively to changing business conditions; and

• being forced to reduce its operations.

The loss of any key members of the management team may impair the Group's ability to identify and secure new contracts with customers or otherwise manage its business effectively

The Group’s success depends on, in part, the continued contributions of its senior management. Most of them have over 10 years experience in the telecoms markets with in-depth knowledge of various aspects of telecoms business development. Mr. Shi Cuiming, the Chairman of the Company, and Mr. Yuen Kee Tong, the Chief Executive Officer of the Company, have been nominated by CITIC Pacific to oversee and supervise the strategic direction and overall performance of the Group. Mr. Shi was previously a consultant of CITIC Pacific in telecoms and Mr. Yuen was previously a director of CITIC Pacific and was the Chairman of CPC, the intermediate holding company of the Company. With the listing of the Company, the major telecoms entity of CITIC Pacific, Mr. Shi and Mr. Yuen become Directors and oversee all aspects of the Company. Both Mr. Shi and Mr. Yuen have over 20 years experience as top management members in major telecoms companies. The Group relies on its senior management to manage its business successfully. In addition, the relationships and reputation that members of the Group’s management team have established and maintained with its customers contribute to the Group’s ability to maintain good customer relations, which is important to the direct selling strategy that the Group adopts. Although the Group has entered into employment contracts with all its senior management, these contracts cannot prevent its senior management from terminating their employment. Hence, the resignation of Mr. Shi, Mr. Yuen or any other member of the Group’s senior management may impair the Group’s ability to identify and secure new contracts with customers or otherwise to manage its business effectively.

The Group’s failure to recruit and retain qualified employees may undermine its ability to maintain business growth

The Group believes that an integral part of its success relies on its ability to recruit and retain employees who have advanced skills in the services that the Group provides. In particular, the Group must hire and retain employees with the technical expertise and industry knowledge necessary to maintain and continue to develop the Group's operations. The Group succeeded in recruiting experienced professionals in the field during the Track Record Period. Nevertheless, there can be no assurance that the Group will be able to recruit and/or retain suitable employees in the future.
RISK FACTORS

The Group must also effectively manage the growth of its sales and marketing team to ensure the growth of its business. The Group’s business depends on, to a considerable extent, the ability of its sales and marketing team to establish direct sales channels. The Group’s success also depends on its application development team to improve and develop its services. Employees with the skills that the Group requires are in great demand and are likely to remain a limited resource in the foreseeable future. If the Group is unable to recruit and retain a sufficient number of these employees at all levels, its ability in maintaining and growing its business may be adversely affected.

The Group relies heavily on the China market and may be adversely affected by changes in China’s economic, political and social conditions

For the years ended 31 December 2004, 2005 and 2006, approximately 41.2%, 41.7% and 44.2% of the Group’s total turnover from continuing operations respectively was derived from the PRC. The Group anticipates that China will continue to be the Group’s largest market in the foreseeable future. Should there be any material adverse change in the political, economic, legal, regulatory and social conditions in China, the Group’s business and profitability may be materially and adversely affected.

The Chinese economy has historically been a planned economy. A substantial portion of productive assets in China are still owned by various levels of the PRC government. In recent years, the government has implemented economic reform measures emphasizing decentralization, utilisation of market forces in the development of the economy and a high level of management autonomy. Such economic reform measures may be inconsistent or ineffectual, and the Group may not benefit from all such reforms. Furthermore, these measures may be adjusted or modified, possibly resulting in such economic liberalisation measures being applied inconsistently from industry to industry, or across different regions of the country.

In the past twenty years, China has been one of the world’s fastest growing economies in terms of gross domestic product, or GDP. The Group cannot assure that such growth will be sustained in the future. Moreover, a slowdown in the economies of the United States, the European Union and certain Asian countries may adversely affect economic growth in China. The Group’s financial condition and results of operation, as well as the Group’s future prospects, would be materially and adversely affected by an economic downturn in China.

Economic growth in China has also historically been accompanied by periods of high inflation. The government has implemented various policies from time to time to control the rate of economic growth, limit inflation and otherwise regulate economic expansion. Some of these measures, while benefiting the overall economy of China, may have a negative effect on the Group.

The Group may not be successful in expanding into overseas markets and this could adversely affect the Group’s prospects and results

The strategy of the Group involves the growth of its operations in overseas countries. International operations and business expansion plans are subject to additional risks, such as differences in legal and regulatory and licensing requirements, patent protection, potentially adverse tax consequences, fluctuations in currency exchange rates, differences in legal burdens in complying with foreign laws and regulations and changes in political and economic conditions. In addition, the technologies involved in the services which the Group intends to launch overseas
may already be patented overseas. There can be no assurance that the Group will be able to receive or retain licences or authorisations that may be required for the Group to provide its services in other countries. In addition, the Group cannot ensure that it will be able to anticipate and manage all these risks and other risks associated with its expansion into overseas markets, and the deployment of human and financial resources in pursuing such expansion may have a material and adverse impact on the Group.

The Group is subject to credit risk in respect of its account receivables

The Group provides credit periods to its customers, which are calculated from the dates the invoices are issued by the Group to the dates of payment by the customers. Such credit periods generally range from 7 to 180 days depending on the credit status of the customers. For customers having business relationships with the Group exceeding one year and which have a good credit rating, the Group generally provides such customers with a credit period of 30 to 150 days. The Group may also offer an extended credit term. The Group has a concentration of credit risk of trade and other receivables due from the Group's largest customers and customers in China. Should such customers fail to settle such receivables in full, the Group's financial conditions and profitability could be adversely affected.

Although the Group implements credit control policies and measures, the Group cannot assure that these measures are adequate in protecting the Group against material credit risks. The Group may provide services to customers who do not provide sufficient deposits, advance payments or bank guarantees for the Group's services. Moreover, should the Group's customers be unable to pay in full for any reason, the Group's profit and cashflow will be adversely affected. Any delay in the payment by customers may also adversely affect the Group's operation and financial position. The Group may have to sustain legal costs in pursuing unsettled invoices, a process which is time-consuming and may be affected by a variety of factors including any counterclaim from such non-paying customers. Even if the Group obtains favourable judgements, enforcement of such judgements may take time and may not always be successful.

The Group relies on sophisticated billing and credit control systems, and any problems with these systems could interrupt the Group's operations

Sophisticated billing and credit control systems are critical to the Group's ability to increase revenue streams, avoid revenue loss and potential credit problems, and bill customers properly and in a timely manner. If adequate billing and credit control systems and software programmes are unavailable, or if upgrades are delayed or not introduced in a timely manner, or if the Group is unable to integrate such systems and software programmes into its billing and credit systems, the Group may experience delayed billing which may negatively affect the Group's cash flow and other aspects of its operations.

The Group will need to expand and adapt its billing and credit control systems to capture revenue streams as its businesses continue to grow. Failure by the Group to do so could adversely affect its business, prospects, financial condition and results of operations. Moreover, the Group may decide to launch certain services and products even though its billing and control systems are not yet able to fully track and bill for these services and products at the time of their launch.
The Group’s ability to provide commercially viable telecoms services depends, in part, upon various intellectual property rights owned by the Group and those licensed from third parties

The Group currently licenses certain technologies and other intellectual property rights from third parties. As the Group continues to introduce new services requiring new technologies, it may need to obtain licence to use additional third-party technologies. If the Group is unable to obtain or renew these technology licences on commercially acceptable terms, its new product and service launches could be severely compromised. Moreover, it is possible that in the course of using existing or new technologies, the Group may inadvertently breach the intellectual property rights of others and liabilities may ensue, which may materially affect the Group’s business and financial condition.

The intellectual property rights developed or owned by or licensed to the Group may be challenged or circumvented by competitors or other third parties, or the relevant intellectual property rights may be invalid, unenforceable or insufficiently broad to protect the Group’s interests or to provide the Group with any competitive advantage. Any loss or withdrawal of intellectual property rights may affect the Group’s ability to provide its services and may adversely affect the Group’s financial condition, results of operations and prospects.

The Group has not registered all the intellectual property rights in its technologies, and any unauthorised use, infringement or misappropriation of such rights by third parties may adversely affect the Group’s business

The Group has developed a number of trademarks, copyrights, domain names, software applications and technologies. While under Hong Kong law, copyright arises without the need of its owner to register his copyright first, intellectual property rights such as patents and trademarks must be registered with the relevant governmental authority in Hong Kong before a person or entity can become its registered owner, and hence be protected by the relevant intellectual property laws. The registration of trademarks, domain names, software applications and technologies is necessary before the Group can enforce its intellectual property rights against unauthorised use, infringement or misappropriation of such rights. Although the Group has registered a number of its domain names and one of its trademarks, the absence of registration for the intellectual property rights that the Group may have over its other trademarks, software applications and technologies exposes the Group to the possible unauthorised use, infringement or misappropriation of its marks and technologies to which the Group cannot effectively enforce its rights. This may result in the revenue-generating intellectual property rights being used and developed by third parties for their own business purposes and the Group’s business may therefore be adversely affected.

The Group’s business is subject to seasonal fluctuation which may affect its cashflow

The Group usually records a lower business turnover around Chinese New Year. Although the difference is not significant, this will inevitably affect the cash inflow of the Group for the months that follow, which may affect the liquidity of the Group.

A number of Mobile VAS have only been launched in 2006 and there can be no assurance that such services will be profitable

Certain Mobile VAS such as SIMN, Mobile Roaming Call Back service, SCCP Roaming Signaling Transit service and Prepaid Roaming service have only been launched in 2006. There
can be no assurance that such services will gain widespread market acceptance. In addition, there is no standard for measuring the effectiveness of these services, given that they are at a nascent stage of development.

In addition, there can be no assurance that any of these services will generate sufficient revenue to be profitable. The success of any of these services relies on the performance of the Group's technological infrastructure for the services, the quality of the services as well as the demand of these services by telecoms operators. There can be no assurance that the Group will be able to charge for any of these services at levels that would make it profitable.

**The Group may not be able to sustain its existing Sales Margins**

For the years ended 31 December 2004, 2005 and 2006, the Group achieved Sales Margins of approximately 33.2%, 34.8% and 34.1% respectively. However, there can be no assurance that the Group will be able to sustain these Sales Margins in the future due to the likelihood of rapid changes in the telecoms industry and the keen competition in the industry. In the event that the Group is unable to develop new services with high Sales Margins or if its services are substituted or are otherwise adversely affected by similar or superior services developed by its competitors, the Group may not be able to sustain its high Sales Margins.

**Litigation claims by the Group for outstanding receivables may not be successful**

The Group instituted a civil claim against one of its customers for the invoice amount of approximately US$591,000 (equivalent to approximately HK$4,609,800) on 18 June 2001 in relation to the Group's provision of telecoms services. The Group is pursuing this action.

On 16 December 2004, the Group instituted a civil claim against one of its customers for the invoice amount of approximately HK$4.3 million in relation to the Group's provision of telecoms services as well as against the guarantors of this customer for the guaranteed amount of US$300,000 (equivalent to approximately HK$2,340,000). The Group is actively pursuing this action.

On 6 January 2005, the Group instituted a civil claim against one of its customers for the estimated sum of HK$280,000, being the outstanding balance of the price of goods sold and delivered and/or services rendered pursuant to the End User Purchase and Licence Agreement dated 20 February 2003 and a Sales Agreement dated 2 July 2003. The customer has counter claimed against the Group for an estimated sum of HK$4.4 million for such customer's loss of revenue due to the alleged defects in the software function and telecoms services provided by the Group. The case is still on-going and the date of its conclusion is uncertain. Details of this litigation are described in the section headed “Litigation” under Appendix V “Statutory and general information” of this Prospectus.

Any unfavourable results of the above cases, which may include the Group losing a counter claim, being given judgment in favour but subject to certain conditions to be fulfilled by the Group, any appeal from the customer against favourable judgments, and customers not complying with favourable judgment in a case, may adversely affect the business or reputation of the Group.

In addition, the Group has also instituted other minor legal claims against its customers on disputed balances for services rendered to them by the Group. It is not certain whether the Group can successfully recoup any of these disputed balances in a short period of time or at all.

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RISK FACTORS

Irregularity in the Group’s licensing issues may cause some of the Group’s services to be suspended in the future

CITIC Telecom 1616 has been providing SMS Hubbing Services and data services such as Internet transit access services to its customers since mid-2003. However, the relevant licence, (PNETS (IVANS) licence) (Licence No. 1274)), was only obtained by CITIC Telecom 1616 on 8 March 2006 due to a misunderstanding during the interim period that the Group may utilise the licence held by another Group member, CITIC Data 1616 Limited. The Group has obtained written confirmation from OFTA which provides that OFTA does not intend to take any enforcement action against CITIC Telecom 1616, in respect of this irregularity, taking into account that CITIC Telecom 1616 has taken remedial action by obtaining a licence to cover the services in question and that OFTA was not aware of any other malpractices engaged by CITIC Telecom 1616. Nonetheless, the reply from OFTA cannot be taken as constituting any precedent in its future enforcement of the Telecommunications Ordinance nor does it in any way prejudice the power of TA to investigate or take enforcement action where there is any new evidence requiring such action. In the event OFTA revokes or does not renew the licences granted to the Group, some of the Group’s services may have to be suspended.

RISKS RELATING TO THE INDUSTRY

Consolidation among the Group’s customers may cause the Group to lose transaction volume

As a hub-based service provider, the business of the Group is derived from exchange of voice and data transmission between telecoms operators. Consolidations, mergers and acquisition activities among telecoms operators typically reduce their needs for interconnection services. Therefore, these types of corporate activities may cause the Group to lose transmission volume or may cause the Group to reduce per-transmission prices for its services.

The Group is in a regulated business and the Group requires licences from the TA, without which the Group would be unable to operate

The Group is in a highly regulated business and it requires licences from the TA, without which the Group would be unable to operate.

The Group is subject to the rules and regulations of the TA, which regulates the telecoms industry in Hong Kong, and OFTA, which assists the TA in enforcing and administering the Telecommunications Ordinance. The TA’s authority includes regulating and licensing telecoms facilities and managing the radio frequency spectrum. If the TA determines that the Group has violated Hong Kong’s telecoms laws or regulations or the conditions of its licences, the TA may suspend or cancel the Group’s licences or take other action detrimental to the Group. The Group is also subject to various other rules, laws and ordinances applicable to companies operating in Hong Kong, including, for example, laws relating to obscenity and privacy. If the Group is found to be in violation of these laws, it may face judgments or consequences detrimental to its business.

In addition, the PNETS licences granted by OFTA to the Group are normally valid for one year, subject to renewal at the discretion of OFTA and compliance of all terms and conditions of the licences. In the event that OFTA refuses to renew any of the existing licences of the Group, the Group’s ability to offer its services will be adversely affected. The Chief Executive in Council may also cancel or suspend licences if it considers that it is in the public’s interest to do so.
Moreover, if the TA changes its existing regulations or policies such as those governing interconnection or competition, including the requirement on the Group to obtain separate or further licences for its existing operations or services, or to obtain licences in respect of its future operations or services based on new communication technologies, the Group’s results of operations, financial condition, business and prospects could be adversely affected. The Group may also incur extra costs in order to comply with technical specifications or other conditions resulting from any enacted or proposed changes in the applicable laws and regulations. As a result, the Group’s financial condition, results of operations and/or prospects may be adversely affected.

The business of the Group’s customers is also subject to regulations. As a result, such regulations could indirectly affect the Group’s business. As communications technologies and the telecoms industry continue to evolve, the regulations governing the telecoms industry may change. If this were to occur, the demand for the Group’s services could change in ways that the Group cannot easily predict and may result in a decline in the Group’s revenues.

**Regulatory changes for the telecoms industry in China may adversely affect the Group’s business in China**

For the years ended 31 December 2004, 2005 and 2006, the Group derived approximately 41.2% and 41.7% and 44.2% respectively of its total turnover from China. Therefore, the Company’s ability to successfully maintain and develop its services in China and to do business with telecoms operators in China may be affected by PRC laws. In particular, the laws governing China’s telecoms industry are evolving, and the laws governing China’s Internet industry remain underdeveloped. There can be no assurance whether and to what extent PRC law will affect the Group’s services in China or the telecoms operators in China which in turn may affect the Group’s business with them.

Issues may also arise regarding the interpretation and enforcement of China’s WTO commitments regarding telecoms services, which may affect telecoms regulations and the telecoms industry in China. Any future regulatory changes, such as those relating to the issuance of additional telecoms licences, tariff setting, interconnection and settlement arrangements, changes in technical and service standards, universal service obligations and spectrum and number allocations, may have a material adverse effect on the Group’s business and operations.

**Developments of VoIP may threaten the volume and quality of hubbing services provided by the Group**

The Group believes that VoIP is one of the important emerging trends in telecommunications. Whilst the Group can benefit from this trend by providing interoperability and hubbing services to connect originating VoIP calls to fixed-line or mobile recipients or vice versa, the demand for the Group’s hubbing services may be reduced when both the caller and the recipient connect to each other via VoIP.
RISK FACTORS

In addition, when one end of the calls is connected with VoIP devices, the quality of the Group’s interoperability and hubbing services may be affected due to the inherit risks of VoIP arising from its different overall technical architecture from that of the ordinary circuit-based or other traditional networks. Such inherit risks include:

(a) Security

VoIP networks are vulnerable to all the same security risks as traditional IP data networks are, such as denial of service, viruses, worms and unauthorised access. As the very nature of VoIP call is real-time, and that each VoIP call requires an adequate amount of bandwidth being reserved for its transmission, the quality of the transmission link must be well maintained throughout each call to ensure call quality. Any disruption during the call is easily noticeable and unacceptable. Unfortunately, the implementation of various traditional security measures in their current form can cause a marked deterioration in the quality of service provided by VoIP. Therefore, these traditional security measures such as firewalls and intrusion detection systems must be specialised for VoIP. There is no assurance that satisfactory security measures can be developed in the near future.

(b) Power outage

Regular telephone lines have the ability to continuously run even during blackouts because they have their own source of power. VoIP, however, requires external electrical power to function. Thus, when power goes out, so does the Internet and hence the VoIP service. Additional electricity generator or backup battery is therefore required to ensure continued operation during power outage, which will add to the set-up and maintenance costs of this service. This may particularly not be practical or economically justifiable for home or office users. All or any of the foregoing factors may reduce the usage or market acceptance of VoIP services.

(c) Emergency call

Unlike traditional telephone connections which are tied to physical locations, VoIP’s packet switched technology allows automatic forwarding of calls. However, this flexibility complicates the provision of emergency services, which normally can trace the location of the caller when the emergency call is made. For VoIP, a method has yet to be developed to pinpoint the location from which the call is made.

(d) Latency

VoIP converts voice into digital data, which are then assembled into packets in sequential order and transmitted over the Internet. As with any other type of data, these packets may or may not be in the correct order when the recipient receives them. The recipient’s VoIP system normally can reassemble the packets regardless of what order they arrive in. However, the real-time nature of voice conversations means that if the packets arrive out of order, the data will need to be reassembled, resulting in time lag between voice transmission, generally known as latency, which can affect the quality of VoIP services.

If technological improvements in VoIP cannot reduce or eliminate the inherit risks of VoIP, the Group’s effort in developing its VoIP-compatible platform may not generate expected favourable results and its Sales Margins may thereby be negatively affected.
RISKS RELATING TO ECONOMY AND POLITICS

The state of Hong Kong's economy and politics may adversely affect the Group's performance and financial condition

The Group's primary facilities and operations are located in Hong Kong. Hong Kong is a special administrative region of the PRC with its own government and legislature. Under the Basic Law of Hong Kong, Hong Kong is entitled to a high degree of autonomy granted by the PRC under the principle of “one country, two systems”. However, there is no assurance that Hong Kong will continue to enjoy its current level of autonomy from the PRC. If it does not, this could have a material adverse effect on the Group's business, results of operations and financial condition.

The Hong Kong economy has experienced considerable volatility since the second half of 1997. Hong Kong's primary economic sectors, such as real estate, retail and finance, are volatile, although the economy has experienced growth since 2005. It is not certain whether such growth will be sustained. As the Group's operations are principally conducted in Hong Kong, its financial position and results of operations are and will be affected by the state of Hong Kong's economy, which in turn is subject to many different factors that are beyond the control of the Group.

In particular, the economy of Hong Kong is significantly affected by the developments in China, the Asia-Pacific region and the United States. China’s economy may experience negative economic developments, and other regional economies may also deteriorate. In any such circumstances, Hong Kong’s economy and hence the Group’s operating results, financial condition, business and prospects would be adversely affected.

Any future outbreak of severe acute respiratory syndrome ("SARS") may adversely affect the Group's business and operations, as well as its financial condition and results of operations

Beginning in early 2003, Hong Kong and certain other regions experienced outbreaks of SARS. Any future outbreak of SARS may disrupt the Group's ability to adequately staff the Group's business and may generally disrupt the Group's operations. If any of the Group’s employees is suspected to have contracted SARS, the Group may, under certain circumstances, be required to quarantine such employee and the affected areas within the Group's premises. As a result, the Group may have to temporarily suspend part or all of its operations. Furthermore, any future outbreak of SARS may restrict the level of economic activity in the affected regions. If such affected regions include Hong Kong, the Group's business and prospects may be adversely affected. In light of the above, the Group cannot assure that the recent or any future outbreak of SARS would not have any adverse effect on the Group’s financial condition and results of operations.

Political and economic conditions in the Asia-Pacific region are unpredictable and the Group's operations may be disrupted if these conditions become unfavourable to its business

A key element of the Group’s international business strategy involves the expansion of its operations in the Asia-Pacific region. Changes in the political or economic conditions in this region are difficult to predict and may adversely affect the Group’s operations or cause this
region to become less attractive to businesses, which may in turn reduce the Group’s revenues. Declining economic growth rates in this region in the future may also reduce the Group’s revenues and force it to lower its expenditures on its infrastructure and operations, which may negatively impact its responsiveness towards technological changes and therefore its business and profitability in the long run. The Group’s Asia-Pacific operations also expose the Group to additional risks inherent in its international operations, including:

- difficulties in enforcing agreements and collecting receivables through some Asian legal systems;
- fluctuations in foreign currency exchange rates, which may adversely affect the Group’s results of operations;
- implementation of foreign exchange controls or other restrictions within the Asia-Pacific region; and
- difficulties in obtaining licences or interconnection arrangements on acceptable terms, or at all.

Any of the above risks may adversely affect the Group’s business, financial condition and results of operations.

**Depreciation or fluctuation of US dollars relative to Hong Kong dollars would adversely affect the Group’s financial condition and results of operations**

Substantially all of the Group’s operating revenue is denominated in US dollars. However, the Group also incurs expenses and liabilities in Hong Kong dollars, mainly in connection with its business establishment and presence in Hong Kong. As a result, the Group may be exposed to adverse effects from exchange rate fluctuations, particularly against the US dollars. Significant fluctuations in the US dollar to Hong Kong dollar exchange rate would likely have an adverse effect on the Group’s operating results and financial condition. While the Hong Kong Government has continued to support a pegged value at approximately HK$7.75 = US$1.00, there can be no assurance that its policies will remain unchanged.

**RISKS RELATING TO THE GLOBAL OFFERING**

**There has been no prior public market for the Shares. The liquidity and trading price of the Shares may be volatile**

An active trading market for the Shares may not develop and the trading price of the Shares may fluctuate significantly. Prior to the Global Offering, there has been no public market for the Shares. The Offer Price range has been determined through negotiation between the Company and the Global Coordinator (on behalf of the Underwriters) and the final Offer Price may not be indicative of the price at which the Shares will be traded following the completion of the Global Offering. In addition, there can be no assurance that an active trading market for the Shares will develop, or, if it does develop, that it will be sustained following completion of the Global Offering, or that the trading price of the Shares will not decline below the Offer Price.
The trading price of the Shares may also be subject to significant volatility in response to, among others, the following factors:

- variations in the Group's operating results;
- changes in the analysis and recommendations of securities analysts;
- announcements made by the Group or its competitors;
- changes in investors' perception of the Group and the investment environment generally;
- developments in the telecoms industry;
- changes in pricing made by the Group or its competitors;
- the liquidity of the market for the Shares; and
- general economic and other factors.

**Unpredictability of the Group’s periodic results may adversely affect the trading price of its Shares**

The Group's revenue and operating results may vary significantly from period to period due to a number of factors, some of which are outside the Group's control. Some of these factors include:

- fluctuation in the demand for the Group's services;
- introduction of new or better technologies and services or lower prices by the Group's competitors;
- changes in pricing policies of the Group, particularly in response to aggressive pricing by the Group's competitors;
- the Group's ability to introduce, develop and deliver products and services that meet customers’ requirements in a timely manner;
- abnormally high marketing expenses associated with new services; and
- general global, regional or local economic conditions, in particular for Hong Kong and China.

Due to the foregoing factors, the Directors believe that period-to-period comparisons of the Group's operating results are not a good indication of its future performance and should not be relied upon. It is likely that the Group's operating results in some periods will be below the expectations of public market analysts and investors. In such circumstances, the trading price of the Shares may decline, perhaps more significantly in percentage terms than the decline in the Group's operating results.
Purchasers of the Shares may experience dilution if the Company issues additional Shares in the future

In order to expand its business, the Company may consider offering and issuing new Shares in the future which may cause dilution in the net tangible asset value per Share and the shareholdings of the Shareholders at the time.

The Group’s controlling shareholder may take actions that conflict with the best interests of the Group’s public shareholders

On completion of the Global Offering, CITIC Pacific will indirectly hold 56.6% (assuming the Over-allotment Option is not exercised) or approximately 50.09% (assuming the Over-allotment Option is exercised in full) of the Company's Shares.

CITIC Pacific has given a non-competition undertaking in respect of the restricted activities, being the current business of the Group. However, in circumstances involving a conflict of interest which is not covered by the non-competition undertaking, given CITIC Pacific is a listed company and has to act in the best interests of its shareholders, the Group cannot ensure that CITIC Pacific will not act in a manner that would benefit CITIC Pacific to the detriment of the other Shareholders of the Company.

In addition, the Group has been granted the right to use the trademark of CITIC Pacific. As such, any event that may be negative in relation to CITIC Pacific may, through the Group’s association with, or its use of, CITIC Pacific's trademark, also adversely affect the Group.

Following the Global Offering, CITIC Pacific’s equity interests in the Group will be reduced. With the independent operation of the Group from CITIC Pacific and the Listing, the Group may lose some of the “marketing and propaganda convenience” it previously enjoyed as a wholly-owned subsidiary of CITIC Pacific.

Sales of substantial amounts of Shares in the public market may materially and adversely affect the prevailing trading price of the Shares

The Shares held by CITIC Pacific will be subject to certain lock-up restrictions, details of which are set out in the section headed “Substantial shareholder” in this Prospectus. While the Group is not aware of any plans of CITIC Pacific to dispose of a significant amount of its Shares after completion of the Global Offering, the Group cannot provide any assurance that CITIC Pacific will not dispose of any of its Shares upon or after expiration of the applicable lock-up period. Sales of substantial amounts of Shares in the public market, or the perception that these sales may occur, could materially and adversely affect the prevailing trading price of the Shares.

Statistics and figures contained in this Prospectus may not be most up-to-date or accurate

Some of the facts and statistics appearing in this Prospectus have been derived from external sources. Whilst the Directors have taken reasonable care to ensure that the facts and statistics presented in this Prospectus are accurately reproduced from their respective official sources, they have not been independently verified by the Company.
Forward-looking information included in this Prospectus may not be accurate

This Prospectus contains certain forward-looking statements and information relating to the Group that are based on the beliefs of the Group’s management as well as assumptions made by and information currently available to its management. When used in this Prospectus, the words “anticipate”, “believe”, “consider”, “could”, “estimate”, “expect”, “going forward”, “intend”, “may”, “plan”, “seek”, “will”, “would”, and similar expressions, as they relate to the Group or its management, are intended to identify forward-looking statements. Such statements reflect the current views of the Group’s management with respect to future events and are subject to certain risks, uncertainties and assumptions, including the other risk factors described in this Prospectus. The risks and uncertainties which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- future financial position of the Group;
- business prospects of the Group;
- future debt levels and capital needs of the Group;
- strategy, plans, objectives and goals of the Group;
- general economic conditions;
- changes in regulatory and operating conditions of the markets in which the Group operates;
- the Group’s ability to reduce costs;
- capital market developments;
- the actions and developments of the Group’s competitors;
- certain statements in the section headed “Financial information” in this Prospectus with respect to trends in prices, results, volumes, operations, margins, overall market trends, risk management and exchange rates; and
- other statements in this Prospectus that are not historical fact.

Should one or more of these risks or uncertainties materialise, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this Prospectus as anticipated, believed, estimated or expected.

Dividend policy not indicative of future dividends

For the two years ended 31 December 2005, the Company did not declare or pay any dividend. The Company declared and paid an interim dividend of HK$495,000,000 on 29 December 2006. The Directors currently intend to declare and recommend dividend which would amount to not less than 30% of the net profit from ordinary activities attributable to Shareholders for the first financial year subsequent to the Global Offering. The 2006 dividend and the above intention do not amount to any guarantee, representation or indication that the
RISK FACTORS

Company must or will declare and pay any dividend in such manner in the future or declare and pay any dividend at all. Particulars of the dividend policy to be adopted by the Group following the Listing are set out in the sub-section headed “Dividend policy, working capital and distributable reserves” under the section headed “Financial information” of this Prospectus. There can be no assurance and in fact it is not expected that the amount of dividend declared by the Company in the future, if any, will be at the level declared and paid by the Company immediately prior to Listing.

No guarantee on the accuracy of facts, forecasts and other statistics with respect to the PRC, China's economy and telecoms industry contained in this Prospectus

Certain facts, forecasts and other statistics in this Prospectus relating to the PRC, China's economy and telecoms industry have been derived from various official government publications. The Directors and the Sponsor have exercised reasonable care in reproducing such facts, forecasts and statistics. However, the quality or reliability of such source materials cannot be guaranteed. They have not been prepared or independently verified by the Group, the Sponsor, the Underwriters or any of their respective Directors, affiliates or advisers. Therefore the Group makes no representation as to the accuracy of such facts, forecasts and statistics, which may not be consistent with other information compiled within or outside China. Due to possibly flawed or ineffective collection methods or discrepancies between published information, market practice and other problems, the official statistics referred to or contained in this Prospectus may be inaccurate or may not be comparable to statistics produced for other publications or purposes and should not be relied upon. Furthermore, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere.

In all cases, investors should give consideration as to how much weight or importance they should attach to, or place on, such facts, forecasts or statistics.

Investors should read the entire prospectus carefully and the Group strongly cautions investors not to place any reliance on any information contained in press articles or other media, certain of which may not be consistent with information contained herein

There has been press coverage regarding the Group and the Global Offering in, among others, the following Hong Kong news publications: the Oriental Daily News and Hong Kong Economic Times on 13 March 2007 and 15 March 2007, respectively, which included certain information about the Group (the “Information”). The Group wishes to emphasise to potential investors that it does not accept any responsibility for the accuracy or completeness of the Information and that the Information was not sourced from or authorised by the Group. It makes no representation as to appropriateness, accuracy, completeness or reliability of any of the Information. To the extent that any of the Information is inconsistent with, or conflicts with, the information contained in this prospectus, the Group disclaims it. Accordingly, prospective investors should not rely on any of the Information.
In connection with the Global Offering, the Global Coordinator may over-allocate up to and not more than an aggregate of 122,388,000 Sale Shares and cover such over-allocations by exercising the Over-allotment Option, by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means. In particular, for the purpose of covering such over-allocations, the Global Coordinator may borrow from the Vendor up to 122,388,000 Sale Shares, which are equivalent to the maximum number of Shares to be sold on a full exercise of the Over-allotment Option, under the Stock Borrowing Agreement.

Following the application by the Company, the Stock Exchange has granted a waiver to the Company and the Vendor from strict compliance with Rule 10.07(1)(a) of the Listing Rules which restricts the disposal of Shares by the controlling shareholder following a new listing, in order to allow the Vendor to enter into and perform its obligations under the Stock Borrowing Agreement on the following conditions:

(a) the Stock Borrowing Agreement will only be effected by the Global Coordinator for settlement of over-allocations in the International Placing;

(b) the maximum number of Shares borrowed from the Vendor will be limited to the maximum number of Shares which may be issued upon exercise of the Over-allotment Option;

(c) the same number of Shares so borrowed must be returned to the Vendor or its nominee on or before the third Business Day following the earlier of (i) the last day on which the Over-allotment Option may be exercised, or (ii) the day on which the Over-allotment Option is exercised in full or (iii) such earlier time as may be agreed in writing between the Global Coordinator and the Vendor;

(d) the Stock Borrowing Agreement will be effected in compliance with all applicable laws and regulatory requirements; and

(e) no payments or benefits will be made to the Vendor by the Global Coordinator in relation to the Stock Borrowing Agreement.

CONNECTED TRANSACTIONS

Certain members of the Group have entered into and are expected to continue certain transactions, which will constitute non-exempt continuing connected transactions of the Company under the Listing Rules upon the Listing. The Company has applied to the Stock Exchange for a waiver from the strict compliance of the requirements regarding the announcements and/or independent shareholders’ approvals in respect of such non-exempt continuing connected transactions under Chapter 14A of the Listing Rules. The details of such waivers are set out in the section headed “Connected transactions” of this Prospectus.

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

This Prospectus includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules of the SFO and the Listing Rules for the purpose of giving information to the public with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief:

1. there are no other facts the omission of which would make any statement in this Prospectus misleading;

2. the information contained in this Prospectus is accurate and complete in all material aspects and is not misleading; and

3. all opinions expressed in this Prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

FULLY UNDERWRITTEN

The Global Offering comprises the International Placing and the Public Offer. Details of the structure and conditions of the Global Offering are set out in the section headed “Structure and conditions of the Global Offering” in this Prospectus. This Prospectus is published in connection with the Global Offering and, together with the related application forms, sets out the terms and conditions of the Global Offering.

The Global Offering is sponsored by BNP Paribas and fully underwritten by the Underwriters. Information relating to the underwriting arrangements is set out in the section headed “Underwriting” in this Prospectus.

DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price which will be determined by the Global Coordinator (on behalf of the Underwriters), the Vendor and the Company on or around 28 March 2007 (Hong Kong time), or such later time as may be agreed between the Global Coordinator (on behalf of the Underwriters), the Vendor and the Company, but in any event no later than 30 March 2007.

If the Global Coordinator (on behalf of the Underwriters), the Vendor and the Company are unable to reach an agreement on the Offer Price on or around 28 March 2007, or such later time as may be agreed between the Global Coordinator (on behalf of the Underwriters), the Vendor and the Company but in any event no later than 30 March 2007, the Global Offering will not become unconditional and will lapse.

SELLING RESTRICTIONS

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong. Accordingly, this Prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.
The Offer Shares are offered to the public in Hong Kong for subscription solely on the basis of the information contained and the representations made in this Prospectus and the related application forms. No person is authorised in connection with the Global Offering to give any information, or to make any representation, not contained in this Prospectus, and any information or representation not contained in this Prospectus must not be relied upon as having been authorised by the Vendor, the Company, BNP Paribas, the Underwriters, any of their respective directors or any other person involved in the Global Offering.

Each person acquiring the Offer Shares will be required, and is deemed by his acquisition of the Offer Shares, to confirm that he is aware of the restrictions on offers of the Offer Shares described in this Prospectus and that he is not acquiring, and has not been offered any Offer Shares in circumstances that contravene any such restrictions.

This Prospectus is also being distributed in electronic format on CD ROM to Qualifying CP Shareholders. The CD ROM may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, in whole or in part, for any purpose. Neither the CD ROM nor any of its contents is a public offer of securities for sale in any other jurisdictions other than Hong Kong. Neither the CD ROM, any of its contents, nor any copy of it may be forwarded or distributed or reproduced (in whole or in part) in any manner whatsoever in any jurisdiction where such forwarding, distribution or reproduction is not permitted under the law of that jurisdiction. By accepting the CD ROM, Qualifying CP Shareholders are deemed to agree to be bound by the foregoing instructions.

The following information is provided for guidance only. Prospective applicants for Offer Shares should consult their financial advisers and take legal advice, as appropriate, to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective applicants for the Offer Shares should inform themselves as to the relevant legal requirements of applying for the Offer Shares and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

Italy

This Prospectus has not been and will not be filed with or approved by the Italian securities market regulator (Commissione Nazionale per le Società e la Borsa — the "CONSOB"), pursuant to Legislative Decree No. 58 of 24 February 1998 (as amended, the "Finance Law") and to CONSOB Regulation No. 11971 of 14 May 1999 (as amended, the "Issuers Regulation"). Accordingly, this Prospectus or any other document relating to the Offer Shares may not be distributed, made available or advertised in Italy, nor may the Offer Shares be offered, purchased, sold, promoted, advertised or delivered, directly or indirectly, to the public other than (i) to "Professional Investors" (such being the persons and entities as defined pursuant to Article 31(2) of CONSOB Regulation No. 11522 of 1 July 1998, as amended, the "Intermediaries Regulation"), pursuant to Article 100 of the Finance Law; (ii) to prospective investors where the offer of the Offer Shares is subject to a minimum investment requirement of EUR250,000 or to a maximum, in Italy, of 200 investors, pursuant to Article 100 of the Finance Law and article 33 of the Issuers Regulation; or otherwise in reliance on a total exemption from the investment solicitation rules pursuant to, and in compliance with the conditions set forth by Article 100 of the Finance Law or article 33 of the Issuers Regulation, or by any applicable exemption; or (iii) to Italian residents who submit an unsolicited offer to purchase such Offer Shares, provided that any such offer, sale, promotion, advertising or delivery of the Offer Shares or distribution of the
Prospectus, or any part thereof, or of any other document or material relating to the Offer Shares in Italy is made: (a) by investment firms, banks or financial intermediaries authorised to carry out such activities in the Republic of Italy in accordance with the Finance Law, the Issuers Regulation, the Legislative Decree No. 385 of 1 September 1993 (as amended, the “Banking Law”), the Intermediaries Regulation, and any other applicable laws and regulations; (b) in compliance, as the case may be, with Article 129 of the Banking Law and the implementing regulations and instructions issued by the Italian national central bank (“Bank of Italy”); and (c) in compliance with any other applicable notification requirement or duty which may, from time to time, be imposed by CONSOB, Bank of Italy or by any other competent authority.

Singapore

This Prospectus has not been and will not be lodged with and registered by the Monetary Authority of Singapore (“MAS”) in Singapore as a Prospectus under the Securities and Futures Act, Chapter 289 of Singapore (SFA) and the Global Offering is made pursuant to an exemption invoked under Sections 274 and 275 of the SFA. Accordingly, this Prospectus and any other document or material in connection with the Global Offering may not be issued, circulated or distributed in Singapore, nor may any of the Offer Shares be offered for subscription or purchase, whether directly or indirectly, nor may any invitation or offer to subscribe for or purchase any Offer Shares be made, whether directly or indirectly, to any person in Singapore other than (i) pursuant to, and in accordance with the conditions of, exemptions invoked under Subdivision 4, Division 1 of Part XIII of the SFA, particularly Sections 274 and 275 of the SFA, and to persons to whom the Offer Shares may be offered or sold under such exemptions; or (ii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provisions of the SFA (including any re-sale restrictions under Section 276 of the SFA). The MAS takes no responsibility for the contents of this Prospectus or any of the documents referred to above.

The Netherlands

No offer of the Offer Shares has been or will be made to the public in the Netherlands prior to the publication of a prospectus in relation to the Offer Shares which has been approved by the competent authority in the Netherlands in accordance with the European Union Prospectus Directive, except that it may, with effect from and including the date on which the Prospectus Directive is implemented in the Netherlands, make an offer of the Offer Shares to the public in the Netherlands at any time:

(a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than Euro 43,000,000 and (iii) an annual net turnover of more than Euro 50,000,000, as shown in its last annual or consolidated accounts; or

(c) in any other circumstances which do not require the publication by the issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.
INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

For the purposes of this provision, the expression an “offer of the Offer Shares to the public” in relation to any Offer Shares in the Netherlands means the communication in any form and by any means of sufficient information on the terms of the offer and the Offer Shares to be offered so as to enable an investor to decide to purchase or subscribe for the Offer Shares, as the same may be varied in the Netherlands and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in the Netherlands.

If the Offer Shares are offered in the Netherlands upon reliance of Article 3 sub 2(a) of the Prospectus Directive, then “qualified investors” shall have the meaning of “professional market parties” as defined in Article 1(a) sub 3 of the Exemption Regulation of the Netherlands Act on the Supervision of Securities Trade 1995 (Vrijstellingsregeling Wet toezicht effectenverkeer 1995).

France

The Offer Shares may not be offered or sold, directly or indirectly, and copies of this Prospectus or other documents or materials relating to the Global Offering may not be distributed or caused to be distributed, directly or indirectly, in France except to corporate entities having the status of “qualified investors” (investisseurs qualifiés) and acting for their own account, as defined in, and in accordance with, Article L. 411-2 of the French Code Monétaire et Financier, or otherwise in circumstances which have not resulted and will not result in a public offering (appel public a l’épargne) in France as defined in Article L. 411-1 of the French Code Monétaire et Financier. In accordance with Article 211-4 of the General Regulations (Règlement Général) of the French Autorité des Marchés Financiers, such qualified investors (investisseurs qualifiés) are informed that: (i) neither the Prospectus nor any other offering material in relation to the Offer Shares has been or will be lodged or registered with the French Autorité des Marchés Financiers; (ii) they must participate in the offering for their own account, in the conditions set out in Articles D.411-1, D.411-2, D.734-1, D.744-1, D.754-1 and D.764-1 of the French Code Monétaire et Financier; and (iii) the direct or indirect resale to the public in France of the Offer Shares can only be made in accordance with Articles L.411-1, L.411-2, L.412-1 and L.621-8 to L.621-8-3 of the French Code Monétaire et Financier.

United Kingdom

This prospectus has not been approved under Section 21 of the Financial Services and Markets Act 2000 (“FSMA”) by a person authorised under the FSMA in the United Kingdom. This prospectus is being distributed in the United Kingdom only to, and is directed only at, (i) investment professionals, as defined in Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion Order) 2005 (the “FSMA Order”), and (ii) persons falling within Article 49 of the FSMA Order (all such persons together being referred to as “relevant persons”). This prospectus must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this prospectus relates is available only to relevant persons and will be engaged in only with relevant persons. Persons of any description, including those who do not have professional experience in matters relating to investments should return this document to the Global Coordinator and take no further action.

The Offer Shares may not be offered or sold in the United Kingdom except to persons who are qualified investors within the meaning of Section 86 of the FSMA as amended by the Prospectus Regulations 2005 or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom for the purposes of the FSMA or the Prospectus Regulations 2005.
INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

In addition, no person may issue or pass on to any person in the United Kingdom any documents received by him in connection with the issue or sale of any Offer Shares or communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) in relation to the Offer Shares unless the recipient is a relevant person.

European Economic Area

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive 2003/71/EC (“Prospectus Directive”) (each a “Relevant Member State”), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”), the Offer Shares have not been and will not be offered to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Offer Shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive and any relevant implementing measures in the Relevant Member State, except for the Offer Shares that have been or will be offered to the public, with effect from and including the Relevant Implementation Date, in that Relevant Member State at any time: (a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities; (b) to any other legal entity or individual considered as “qualified investors” under the Relevant Member State regulations implementing the Prospectus Directive; or (c) in any other circumstances which do not require the publication by the Company of a prospectus under article 3 of the Prospectus Directive and any relevant implementing measures in the Relevant Member State. The expression “offered to the public” in relation to the Offer Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Offer Shares so as to enable an investor to decide to purchase or subscribe for the Offer Shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive.

Canada

This Prospectus has not been filed with a securities regulatory authority in any province or territory of Canada. The Offer Shares may not be offered or sold, directly or indirectly, in any province or territory of Canada or to, or for the benefit of, any resident of any province or territory of Canada except pursuant to an exemption from the requirement to file a prospectus in the province or territory of Canada in which such offer or sale is made and only by a dealer duly registered under the applicable securities laws of that province or territory in circumstances where any exemption from the applicable registered dealer requirements is available.

Japan

The Offer Shares which are being offered hereby have not been or will not be registered under the Securities and Exchange Law of Japan (Law No. 25 of 1948, as amended, the “Securities and Exchange Law”). None of the Offer Shares may be offered, re-offered, sold or re-sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except: (i) in compliance with the registration requirements of the Securities and Exchange Law or pursuant to any exemption available from such registration requirements; and (ii) in compliance with any other applicable requirements of Japanese law, regulations and ministerial guidelines. Such other applicable requirements may include (a) the reporting or other regulations under the
Foreign Exchange and Foreign Trade Law of Japan (Law No. 228 of 1949, as amended) and the regulations promulgated thereunder, (b) restrictions on transferability under the Securities and Exchange Law, and (c) regulations of the Japan Dealers Association. As used in this paragraph, a “resident of Japan” means any individual residing in Japan and business offices in Japan, including any corporation or other entity established under the laws of Japan.

United States

The Offer Shares have not been and will not be registered under the US Securities Act or with any securities regulatory authority of any state or territory of the United States and, accordingly, may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of, US Persons, except in the United States to QIBs in reliance on Rule 144A or outside the United States pursuant to Regulation S.

The Offer Shares are being offered and sold outside the United States to non-US Persons pursuant to Regulation S and within the United States to QIBs in reliance on Rule 144A. In addition, until 40 days after the later of the commencement of the Global Offering and the date of closing of the Global Offering, an offer or sale of the Offer Shares within the United States by any dealer (whether or not participating in the Global Offering) may violate the registration requirements of the US Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A. Terms used above have the meanings set forth in Regulation S and Rule 144A.

Neither the US Securities and Exchange Commission nor any state securities commission in the United States or any other US regulatory authority has approved or disapproved of the Offer Shares or passed upon or endorsed the merits of the Global Offering or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

PRC

This Prospectus may not be circulated or distributed in the PRC and the Offer Shares may not be offered or sold directly or indirectly to any resident of the PRC, or offered or sold to any person for re-offering or re-sale directly or indirectly to any resident of China except pursuant to applicable PRC laws and regulations.

South Africa

This Prospectus has not been registered as a prospectus in accordance with the Companies Act, 1973 (as amended) of the Republic of South Africa. The offer of the Offer Shares is not an offer to the public in the Republic of South Africa in that it is made only to existing shareholders of CITIC Pacific in the Republic of South Africa and it is only capable of acceptance by existing shareholders of CITIC Pacific in the Republic of South Africa. It is the responsibility of a prospective purchaser who is resident in the Republic of South Africa to ensure that it has the necessary approvals to acquire any Offer Shares under the Exchange Control Regulations, 1961 (as amended) promulgated under the Currency and Exchange Act, 1933 (as amended).
APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Application has been made to the listing committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this Prospectus (including the Capitalisation Issue and the Global Offering).

No part of the share or loan capital of the Company is listed or dealt in on any other stock exchange and, at present, no such listing or permission to deal is being or is proposed to be sought on any other stock exchange in the near future.

Under section 44B(1) of the Companies Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the Offer Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to the Company by the Stock Exchange.

HONG KONG REGISTER AND STAMP DUTY

The Company’s register of members will be maintained by the Company’s Share Registrar in Hong Kong. All Shares issued pursuant to applications made in the Public Offer and the International Placing will be registered on the Company register of members to be maintained in Hong Kong.

Dealings in the Shares registered in the register of the Company in Hong Kong will be subject to Hong Kong stamp duty.

Unless determined otherwise by the Company, dividends payable in HK$ in respect of Shares will be paid to the Shareholders on the share registers of the Company, by ordinary post, at the Shareholders’ risk, to the registered address of each Shareholder.

PROFESSIONAL TAX ADVICE RECOMMENDED

Applicants for the Offer Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of holding and dealing in the Shares. It is emphasised that none of the Vendor, the Company, the Underwriters, the Sponsor, any of their respective directors, agents or advisers or any other person involved in the Global Offering accepts responsibility for any tax effects or liabilities of holders of Shares resulting from the subscription, purchase, holding or disposal of Shares.

STABILISATION AND OVER-ALLOTMENT OPTION

In connection with the Global Offering, BNP Paribas or any person acting for it may over-allocate or effect transactions with a view to stabilising or maintaining the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on BNP Paribas or any person acting for it to do this. Such stabilisation action, if taken, may be discontinued at any time, and is required to be brought to an end after a limited period.
In connection with the Global Offering, the Vendor has granted to BNP Paribas the Over-allotment Option, which will be exercisable in full or in part by BNP Paribas no later than 30 days from the last day for the lodging applications under the Public Offer. Pursuant to the Over-allotment Option, the Vendor may be required to sell at the Offer Price up to an additional 122,388,000 Sale Shares, representing 15% of the total number of Offer Shares initially available under the Global Offering, in connection with over-allocations in the International Placing, if any.

Further details with respect to stabilisation and the Over-allotment Option are set out in the section headed “Structure and conditions of the Global Offering — Over-allotment and stabilisation” in this Prospectus.

PROCEDURE FOR APPLICATION FOR THE PUBLIC OFFER SHARES

The procedure for applying for the Public Offer Shares is set out under the section headed “How to apply for Public Offer Shares and Reserved Shares” in this Prospectus and on the relevant application forms.

ROUNDING

Any discrepancies in any table between totals and sums of amounts listed herein are due to rounding.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out under the section headed “Structure and conditions of the Global Offering” of this Prospectus.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the Shares on the Stock Exchange and compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or on any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Shares to be admitted into CCASS. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence on or about Tuesday, 3 April 2007. Shares will be traded in board lots of 1,000 Shares each.
# DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

## EXECUTIVE DIRECTORS

<table>
<thead>
<tr>
<th>Name</th>
<th>Residential Address</th>
<th>Nationality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shi Cuiming</td>
<td>Flat B, 28th Floor, Hing On Mansion, On Shing Terrace, 5 Tai Yue Avenue, Tai Koo Shing, Hong Kong</td>
<td>Chinese</td>
</tr>
<tr>
<td>Yuen Kee Tong</td>
<td>House 101, Palm Drive, The Redhill Peninsula, 18 Pak Pat Shan Road, Tai Tam, Hong Kong</td>
<td>British</td>
</tr>
<tr>
<td>Li Bin</td>
<td>Flat A, 37th Floor, Block 1, Harbourfront Landmark, 11 Wan Hoi Street, Hunghom, Kowloon</td>
<td>Chinese</td>
</tr>
<tr>
<td>Chan Tin Wai, David</td>
<td>Flat B3, 4th Floor, Flora Garden, 50 Cloud View Road, North Point, Hong Kong</td>
<td>Chinese</td>
</tr>
</tbody>
</table>

## NON-EXECUTIVE DIRECTORS

<table>
<thead>
<tr>
<th>Name</th>
<th>Residential Address</th>
<th>Nationality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lee Chung Hing</td>
<td>Flat B, 12th Floor, 31 Braemar Hill Road, Hong Kong</td>
<td>British</td>
</tr>
<tr>
<td>Kwok Man Leung</td>
<td>Flat B, 11th Floor, Block 8, Island Harbourview, Hoi Fai Road, Olympian City, Kowloon, Hong Kong</td>
<td>Chinese</td>
</tr>
<tr>
<td>Name</td>
<td>Residential Address</td>
<td>Nationality</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>--------------------------------------------------------------------------------------</td>
<td>-------------</td>
</tr>
<tr>
<td>Yang Xianzu</td>
<td>2-401, 402, Building 4, No. 1, Cui Hua Street, Xicheng District, Beijing</td>
<td>Chinese</td>
</tr>
<tr>
<td>Liu Li Qing</td>
<td>Room 301, Unit 2, Building 4, Guanyuan Apartments, 1 Cuihua Street, Xicheng District, Beijing</td>
<td>Chinese</td>
</tr>
<tr>
<td>Kwong Che Keung, Gordon</td>
<td>House 2, Palm Cove Villas, 28 Ng Fai Tin, Hang Hau, Wing Lung Road, Clearwater Bay, Kowloon, Hong Kong</td>
<td>Chinese</td>
</tr>
</tbody>
</table>
CORPORATE INFORMATION

International Underwriters

Global Coordinator, Bookrunner, Lead Manager and Sponsor

BNP Paribas Capital (Asia Pacific) Limited
59th-63rd Floor, Two International Finance Centre
8 Finance Street
Central
Hong Kong

Co-Lead Managers

CITIC Securities Corporate Finance (HK) Limited
26th Floor, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

Macquarie Securities Limited
19th Floor, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

Co-Managers

Daiwa Securities SMBC Hong Kong Limited
Level 26, One Pacific Place
88 Queensway
Hong Kong

Mitsubishi UFJ Securities (HK) Capital, Limited
11th Floor, AIG Tower
1 Connaught Road
Central
Hong Kong

Nomura International (Hong Kong) Limited
30th Floor Two International Finance Centre
8 Finance Street
Central
Hong Kong

Shenyin Wanguo Capital (H.K.) Limited
28th Floor, Citibank Tower
Citibank Plaza
3 Garden Road
Central
Hong Kong
Public Offer Underwriters

Global Coordinator,
Bookrunner, Lead Manager
and Sponsor

BNP Paribas Capital (Asia Pacific) Limited
59th-63rd Floor, Two International Finance Centre
8 Finance Street
Central
Hong Kong

Co-Lead Managers

CITIC Securities Corporate Finance (HK) Limited
26th Floor, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

Macquarie Securities Limited
19th Floor, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

Co-Managers

Daiwa Securities SMBC Hong Kong Limited
Level 26, One Pacific Place
88 Queensway
Hong Kong

Mitsubishi UFJ Securities (HK) Capital, Limited
11th Floor, AIG Tower
1 Connaught Road
Central
Hong Kong

Nomura International (Hong Kong) Limited
30th Floor Two International Finance Centre
8 Finance Street
Central
Hong Kong

Shenyin Wanguo Capital (H.K.) Limited
28th Floor, Citibank Tower, Citibank Plaza
3 Garden Road
Central
Hong Kong
CORPORATE INFORMATION

Legal advisers to the Company

As to Hong Kong law:

Johnson Stokes & Master
16-19th Floors, Prince’s Building
10 Chater Road
Central
Hong Kong

As to PRC law:

Jingtian & Gongcheng
15th Floor Union Plaza
20 Chaoyangmenwai Dajie
Beijing 100020, China

Legal advisers to the Sponsor and the Underwriters

As to Hong Kong law:

Richards Butler
20th Floor, Alexandra House
16-20 Chater Road
Hong Kong

As to US law:

Paul, Hastings, Janofsky & Walker
22nd Floor, Bank of China Tower
1 Garden Road
Central, Hong Kong

Auditors and reporting accountants

KPMG
8th Floor, Prince’s Building
10 Chater Road
Central, Hong Kong

Property valuer

Knight Frank Petty Limited
4th Floor, Shui On Centre
6-8 Harbour Road
Wanchai, Hong Kong

Receiving banker

Bank of China (Hong Kong) Limited
Hang Seng Bank Limited
The Bank of East Asia, Limited

Registered office

8th Floor, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong
CORPORATE INFORMATION

Company’s website
www.citic1616.com (information contained in this website does not form part of this Prospectus)

Company secretary
Tso Mun Wai (ACIS, MA)

Qualified accountant
Chan Tin Wai, David (ACA, FCCA, FCPA)

Compliance adviser
BNP Paribas Capital (Asia Pacific) Limited

Authorised representatives
Chan Tin Wai, David
Flat B3, 4th Floor, Flora Garden
50 Cloud View Road
North Point, Hong Kong

Tso Mun Wai
18A, Block 7
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Kwong Che Keung, Gordon (Chairman)
Yang Xianzu
Liu Li Qing

Remuneration committee
Yang Xianzu (Chairman)
Liu Li Qing
Kwong Che Keung, Gordon

Principal bankers
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Bank of Tokyo-Mitsubishi UFJ

Share registrar and transfer office in Hong Kong
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Wanchai, Hong Kong
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OVERVIEW OF THE GLOBAL TELECOMS MARKET INDUSTRY

Overview

Total revenue in the global telecoms services (namely fixed line and mobile services revenue) grew by 5% reaching US$1.2 trillion (equivalent to approximately HK$9.36 trillion) in 2005. IDC forecasts that by 2010, the global telecoms market will reach US$1.4 trillion (equivalent to approximately HK$10.92 trillion) in annual revenue. The graphs below set forth the worldwide revenue trend of mobile and fixed line telecoms services.

The global mobile telecoms market has grown significantly since its inception as wireless services have become increasingly available and affordable. Considerable attention is being focused on the potential growth of mobile telecoms services. With the introduction of 3G and other value-added services, the Directors believe that mobile data revenue is expected to become an important growth driver for mobile telecoms operators. According to IDC, worldwide mobile telecoms services revenue will grow at a CAGR of 6% between 2004 to 2010.

Compared to the fast growing mobile telecoms market, the global fixed line telecoms market is estimated to grow at a relatively moderate rate. Data and Internet revenue are expected to generate higher growth than voice revenue in the fixed line telecoms market which has been impacted by increasing fixed-to-mobile substitution effect and competition from other technologies such as voice over broadband services.
Fixed-to-mobile substitutions

Continuous decline in mobile services prices, as a result of competition and falling equipment costs, is attracting traffic to the mobile network from fixed line. According to IDC, the mobile revenue share of the total global telecoms services revenue will increase from 44% in 2005 to 50% in 2010, indicating the growing importance of the mobile services market.

According to IDC, given the relatively low penetration rate and improving economy, Asia Pacific, Africa and the Middle East are estimated to be the fastest growing regions in the world in terms of mobile subscribers. The CAGR of mobile subscribers in Asia Pacific, Africa and the Middle East for the period of 2006 to 2010 are estimated to be 12.9% and 9.8% respectively, of which, Asia Pacific has emerged as one of the major markets and is expected to see its global market share increase from 39.7% in 2005 to 51.7% by 2010 in terms of the number of subscribers according to IDC.

### Worldwide mobile market subscribers CAGR by region, 2006-2010

<table>
<thead>
<tr>
<th>Region</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia/Pacific</td>
<td>12.9</td>
<td>9.8</td>
<td>5.9</td>
<td>5.1</td>
<td>4.0</td>
</tr>
<tr>
<td>Central and Eastern Europe</td>
<td>9.8</td>
<td>8.2</td>
<td>7.1</td>
<td>6.2</td>
<td>5.0</td>
</tr>
<tr>
<td>Western Europe</td>
<td>3.1</td>
<td>2.6</td>
<td>2.1</td>
<td>1.7</td>
<td>1.3</td>
</tr>
</tbody>
</table>

Source: IDC, 2006

### Asia Pacific mobile subscriber share 2005-2010

<table>
<thead>
<tr>
<th>Year</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>44.9</td>
</tr>
<tr>
<td>2006</td>
<td>48.1</td>
</tr>
<tr>
<td>2007</td>
<td>50.9</td>
</tr>
<tr>
<td>2008</td>
<td>53.2</td>
</tr>
<tr>
<td>2009</td>
<td>54.8</td>
</tr>
<tr>
<td>2010</td>
<td>55.8</td>
</tr>
</tbody>
</table>

Source: IDC, 2006

International calls and wholesale services

**International calls**

International voice traffic grew dramatically in the early years of the market liberation wave of the late 1990s. According to TeleGeography Research, aggregate international voice traffic growth in the late 1990s and 2000 exceeded 20% on an average annual basis. Traffic growth slowed to 13% in 2001 and has remained at approximately that level since then. Aggregate international voice traffic in 2005 reached 265 billion minutes, a 14% increase relative to that of 2004 and TeleGeography Research projects that the growth will continue at a healthy 12–15% annual rate over the next two to three years. At that pace, international traffic would exceed 430 billion minutes by 2009 according to TeleGeography Research.
Despite healthy growth of the voice traffic, the total retail revenue actually decreased during 2000-2003 as the price decreases outstripped the volume increase. However, the continuous increase in voice traffic and the slower pace of price drop led to an upward trend of the total retail revenue since 2003. The graphs below set forth the voice international traffic growth trend and projection and the global retail revenues from international calls during 1999-2006.

**Voice international traffic growth trends**

**Global retail revenues from international calls**

---

**Notes**: Data include both switched and VoIP traffic.

**Source**: TeleGeography Research 2007

International calls can be routed via 2 major ways: switched (including standard public switched call, refile, international simple resale) and VoIP. Switched international traffic increased 9%, from 201 billion minutes in 2004 to 219 billion minutes in 2005. VoIP traffic grew 42%, increasing from 32 billion minutes in 2004 to 45 billion minutes in 2005. Given the lower cost for call termination, VoIP is expected to outpace switched traffic in terms of growth. A growing number of telecoms operators have substituted public or private IP networks or transit for traditional TDM networks. However, their underlying business models have not changed. Irrespective of means of transport, international traffic is originated and terminated on the switched telephone network, and telecoms operators or wholesale service providers provide the bridge between domestic networks worldwide.
**INDUSTRY OVERVIEW**

**Wholesale services**

Many operators rely on wholesale operators (including hub operators (like the Group) and brokers which help to route traffic) to transport and terminate their customers’ international calls as it is not feasible to maintain direct and economical relationships with every operator in the world. TeleGeography estimated that around 45% of the total international traffic in 2005 was sent via wholesale service providers, emphasizing the importance of their role in the international telecoms arena.

The table below sets forth the total international wholesale traffic and destination in 2005.

<table>
<thead>
<tr>
<th></th>
<th>Total international voice traffic terminating (billion minutes)</th>
<th>Total international wholesale voice traffic terminating (billion minutes)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fixed</td>
<td>Mobile</td>
</tr>
<tr>
<td>Northern Africa</td>
<td>2.0</td>
<td>1.9</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>2.6</td>
<td>2.7</td>
</tr>
<tr>
<td>Central Asia &amp; Caucasus</td>
<td>0.7</td>
<td>0.3</td>
</tr>
<tr>
<td>East Asia</td>
<td>12.1</td>
<td>15.6</td>
</tr>
<tr>
<td>Middle East</td>
<td>4.9</td>
<td>5.5</td>
</tr>
<tr>
<td>Oceania</td>
<td>3.8</td>
<td>1.9</td>
</tr>
<tr>
<td>South Asia</td>
<td>4.8</td>
<td>4.8</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>6.6</td>
<td>5.4</td>
</tr>
<tr>
<td>Western Europe</td>
<td>43.7</td>
<td>28.9</td>
</tr>
<tr>
<td>Caribbean &amp; Atlantic</td>
<td>3.0</td>
<td>2.4</td>
</tr>
<tr>
<td>Central America</td>
<td>12.6</td>
<td>9.3</td>
</tr>
<tr>
<td>South America</td>
<td>6.1</td>
<td>4.1</td>
</tr>
<tr>
<td>U.S. &amp; Canada</td>
<td>30.5</td>
<td>2.5</td>
</tr>
</tbody>
</table>

|                      |                       |                    |                     |
|                      | 133.7                 | 85.4               | 219.1               | 11%                 |
|                      | 53.1                  | 45.5               | 98.6                | 3%                  |

*Note:* Subregions may not equal to world totals due to rounding

*Source:* TeleGeography Research 2007
OVERVIEW OF ASIA TELECOMS MARKET INDUSTRY

Asia Pacific is a fast growing telecoms market with much attention focused on the mobile market due to its relatively low penetration rate and increasing affordability. Especially in the developing markets, consumers who did not previously have access to telecoms services are opting for a mobile phone as their first phone. The low barriers to entry and prepaid plans with low monthly commitments make mobile phones a convenient option. In 2005, Asia Pacific’s (excluding Japan) total mobile subscribers rose by 21% compared to that of 2004. IDC projects Asia Pacific’s (excluding Japan) will experience a CAGR of 13.7% in mobile subscribers for the period between 2006 and 2010. Compared to the mobile telecoms market, Asia Pacific’s fixed line telecoms market is expected to grow only moderately with some of the countries in the region seeing a decline in the fixed line penetration rate mainly due to the fixed-to-mobile substitutions.

The figure below sets forth the telecoms market landscape of some selected Asia countries/locations.

<table>
<thead>
<tr>
<th>Country</th>
<th>2005A</th>
<th>2010E</th>
<th>Fixed Line Penetration (%)</th>
<th>Mobile Penetration (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed Line</td>
<td>20.4</td>
<td>23.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mobile</td>
<td>28.8</td>
<td>55.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hong Kong</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed Line</td>
<td>30.7</td>
<td>32.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mobile</td>
<td>112.4</td>
<td>120.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>India</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed Line</td>
<td>3.3</td>
<td>2.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mobile</td>
<td>6.9</td>
<td>30.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Thailand</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed Line</td>
<td>11.8</td>
<td>13.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mobile</td>
<td>46.5</td>
<td>61.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Malaysia</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed Line</td>
<td>11.5</td>
<td>8.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mobile</td>
<td>75.2</td>
<td>100.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Singapore</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed Line</td>
<td>25.4</td>
<td>24.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mobile</td>
<td>99.4</td>
<td>115.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>South Korea</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed Line</td>
<td>21.0</td>
<td>19.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mobile</td>
<td>75.9</td>
<td>87.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed Line</td>
<td>34.7</td>
<td>22.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mobile</td>
<td>71.6</td>
<td>82.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taiwan</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed Line</td>
<td>45.0</td>
<td>43.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mobile</td>
<td>97.6</td>
<td>92.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Philippines</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed Line</td>
<td>2.9</td>
<td>2.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mobile</td>
<td>38.0</td>
<td>59.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed Line</td>
<td>35.6</td>
<td>31.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mobile</td>
<td>95.5</td>
<td>101.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed Line</td>
<td>3.2</td>
<td>3.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mobile</td>
<td>13.0</td>
<td>36.2</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: IDC, 2006

Note: Penetration (in term of percentage) reflects connections per population
OVERVIEW OF THE CHINA TELECOMS INDUSTRY

Overview

China is one of the largest telecoms markets in the world for both mobile and fixed line telecoms in terms of number of subscribers and connections respectively. In China, only holders of the appropriate licenses granted by the MII may engage in the provision of telecoms services. Only a limited number of providers have obtained licenses to provide the key telecoms services in China. As at the Latest Practicable Date, there were two licensed mobile telecoms services providers, China Mobile and China Unicom, and four fixed line service providers in China, China Telecom, China Netcom, China Unicom, and China Railcom.

China mobile telecoms services

The China mobile telecoms market is the largest in the world in terms of number of subscribers. It also has a fairly high growth rate given the size of the market. In 2005, the number of mobile subscribers reached 376 million, representing an increase of 18% from 2004 and a penetration rate of 29% according to IDC. IDC expects that China mobile subscribers will reach 681 million by 2010, representing a CAGR of 13% for the period of 2006 to 2010. As at the Latest Practicable Date, there were only two mobile operators, China Mobile and China Unicom. Fixed line operators such as China Telecom and China Netcom offer a limited wireless service called “Personal Access System” which provides some competition to the mobile services.

Prepaid subscribers account for the majority of the total number of mobile subscribers in China. According to IDC, the number of prepaid subscribers in China will reach 406 million in 2010, representing a CAGR of 12% for the period of 2006 to 2010.

China mobile service revenue trend

China mobile service revenue trend

Source: IDC, 2006

China mobile subscribers trend

Source: IDC, 2006
China fixed line telecoms services

The China fixed line telecoms market increased by 44 million connection lines (including Public Switched Telephone Network, Internet and PHS) in 2005 reaching 428 million connection lines, representing an increase of 12% from 2004. IDC expects that China fixed connection lines will reach 506 million by 2010, representing a CAGR of 3.4% for the period of 2006 to 2010. As at the Latest Practicable Date, the market was dominated by four fixed line operators, namely China Telecom, China Netcom, China Unicom and China Railcom.

China’s fixed line telecoms market is heavily dependent on voice which accounted for around 88% of the total revenue in 2005. Voice revenue is bolstered by the growth of wireless local loop, a limited mobility service that is expected to decline in the future if the fixed line operators are licensed to provide full mobile services. The growth of voice revenue will continue to fall in future as a result of fixed-to-mobile substitution and the increasing threat from Voice over Internet Protocol (VoIP). Internet access services is expected to be one of the major business drivers and is expected to increase its share of the total fixed line telecoms revenue.

China international long distance calling market and potential increase in mobile roaming activities

The Directors believe that the increase in affordability and demand for international long distance calling has a direct impact on China’s international long distance calling market. According to MII’s statistics, the fixed line international long distance outbound call duration increased from 999 million minutes in 2003 to 1,196 million minutes in 2006, the mobile international long distance call duration increased from 588 million minutes in 2003 to 821 million minutes in 2006, and IP international long distance call duration increased from 2,022 million minutes in 2003 to 2,297 million minutes in 2006. The table below sets forth the outbound international call duration in China.
Outbound international long distance call duration in China

(Million minutes)  2003  2004  2005  2006

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional Fixed-line Long Distance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Call Duration (Total)</td>
<td>999</td>
<td>1,041</td>
<td>1,159</td>
<td>1,196</td>
</tr>
<tr>
<td>Mobile International Call Duration (Total)</td>
<td>588</td>
<td>630</td>
<td>669</td>
<td>821</td>
</tr>
<tr>
<td>IP International Call Duration (Total)</td>
<td>2,022</td>
<td>2,147</td>
<td>2,559</td>
<td>2,297</td>
</tr>
</tbody>
</table>

Source: Ministry of Information Industry

Note: The above call duration data includes calls from the PRC to Hong Kong, Macao and Taiwan

The Directors believe that the continued growth in the Chinese economy, the continued increase in Chinese mobile subscribers; the increasing affordability for international calling, the increase in the number of visitors to China and the increasing affordability of travel abroad to Chinese nationals will continue to drive the demand for international long distance calling.

The graphs below set forth the total number of international tourists entering China and the total number of China domestic residents travelling outside China in terms of number of visits.

Total number of international tourists entering China

Source: China Statistics Yearbook 2006

Total number of domestic resident outbound

Source: China Statistics Yearbook 2006
Mobile data market in China

Mobile data revenue is an important growth driver of the total mobile telecoms revenue. Currently, a large portion of such revenue is driven by SMS. Apart from SMS, operators have also launched other data services like Multimedia Messaging Service (MMS). Although the uptake of MMS is still low primarily due to high service charges and lack of interoperability among operators, the Directors believe such growth along with other value added services is expected to be an important future growth driver especially with the introduction of 3G services.

According to IDC, China mobile SMS and MMS services revenue reached US$3.4 billion (equivalent to approximately HK$26.52 billion) and US$368 million (equivalent to approximately HK$2.87 billion) respectively in 2005, representing an increase of 37% and 43% respectively, from 2004. IDC expects that the China mobile SMS and MMS services revenue will grow at a CAGR of 12.8% and 33.7% respectively for the years between 2006 and 2010.

China mobile SMS and MMS services revenue trend

3G development in China

The PRC government has been actively promoting 3G development in the PRC and commenced TD-SCDMA related development in 1997. TD-SCDMA was one of the 3G technologies which was adopted by ITU as a widely accepted 3G standard in 2000. Currently China Telecom, China Mobile, and China Netcom are conducting field testing of TD-SCDMA in a number of cities including Baoding, Xiamen and Qingdao. In addition to TD-SCDMA, research and development of other 3G technologies such as WCDMA and CDMA2000 were also commenced. Thousands of testing projects involving parties such as telecoms operators, telecoms equipment manufacturers, universities, and approximately 10,000 engineers have been completed or are in progress since the beginning of the 3G development.
In 2006, Mr. Wang Xudong, Minister of MII, stated that the MII would actively promote the issuance of 3G licenses after further testing of 3G technologies. At this stage, the three major technologies (namely, TD-SCDMA, WCDMA and CDMA2000) have gone through a series of testing. Further testing will continue to take place. However, there was no clear official indication as to when and what 3G licenses will be granted to Chinese operators as at the Latest Practicable Date.

The most significant new features of 3G mobile technology are its large data capacity and broadband capabilities which will support a greater amount of voice and data traffic. The Directors believe that the introduction of 3G services in China will further drive up the demand for data related services such as MMS, video streaming, and downloading activities.

OVERVIEW OF TELECOM HUB BASED SERVICE PROVIDER

The growth in the number of both mobile and fixed line subscribers, the volume of mobile roaming telephone calls, and the volume of SMS and MMS messages has driven a significant increase in telecoms traffic volume. This also resulted in an increase in inter-operator traffic and international calls and messages. For mobile data, according to GSM Association, more than a trillion text messages were sent on a global basis in 2005 and the sustained growth of text messaging services globally is expected to continue.

This growth has placed pressures on telecoms operators in the following areas:

(i) Quality assurance;

(ii) Technology and operation costs to maintain interoperability with other telecoms operators; and

(iii) Time and effort spent in setting up bi-lateral inter-working arrangements between each other.

Because of the different platforms and technologies used by different telecoms operators, the level of technological complexities and operational challenges faced by telecoms operators will continue to grow as the volume of international and inter-network transmissions increases. No single telecoms operator can economically maintain direct connections with every telecoms operator in the world. In general, a telecoms operator only tends to maintain direct connections with other telecoms operators where there are significant and frequent amounts of bilateral traffic between them. As such, the role of hubbing service provider has become increasingly important as the number of telecoms operators increases.
The diagram below sets forth a pictorial representation of the difficulties and inefficiencies faced by telecoms operators separately negotiating numerous bi-lateral agreements to handle inter-operator connections:

![Diagram of inefficient bi-lateral agreements.

The diagram below sets forth a pictorial representation of the efficient one-stop-shopping service offered by a hub-based service provider:

![Diagram of efficient one-stop-shopping service.

A hub based service provider provides telecoms operators with the ability to connect once to a hub to reach all the other operators connected to that hub. Through interconnectivity between the operator and the hub, it saves the time consuming process of setting up bi-lateral inter-working arrangements among the telecoms operators. It also allows telecoms operators connected to the hub to maintain a high level of service quality with low maintenance costs.
INDUSTRY OVERVIEW

SMS Hubbing

Voice hubbing services (e.g. wholesale international long distance services) have been in existence for a long time. With the continuing development of the telecoms industry, especially in the mobile services, hubbing services have extended to cover data related exchanges such as SMS. With the increasing role of hub based service providers, GSMA has initiated the GSMA Open Connectivity project, a full-scale pan-continental open SMS hubbing trial involving major hub based service providers and 29 operators globally.

Below is a list of hub based service providers who participated in the GSMA Open Connectivity project according to the GSMA:

- Aicent
- Belgacom ICS
- Clickatell
- CITIC 1616
- Comfone/BSG, Ltd
- Radius-ED
- MACH/End2End
- Mobile 365
- Syniverse Technologies, Inc
- Telecom Italia Sparkle S.p.A
- TeliaSonera
- Tyntec
- VeriSign

CDMA operators have likewise been upgrading technologies relating to 3G data applications and voice capacity enhancements. Capitalising on the high-speed data capabilities and CDMA2000 technologies, operators have introduced a variety of applications for consumers and enterprises to access information, download content such as music, video, pictures and games.

Because of the continuing development in mobile telecoms services, including the use of different technology standards such as GSM, CDMA, PHS and the launch of 3G services, the Directors believe that the role of a hub based service provider will continue to increase. This trend could include functions such as MMS, video call and content download to further capture revenue.
OVERVIEW

Hong Kong has one of the most sophisticated and competitive telecoms market in the world. The regulatory regime is pro-competition and pro-consumer and the objectives are to provide a level playing field in the telecoms market and ensure that consumers get the best services in terms of capacity, speed and price.

All sectors of Hong Kong’s telecoms market have been liberalised with no foreign ownership restrictions. The Government’s telecoms policy aims to facilitate the development of the telecoms industry and enhance Hong Kong’s position as an international telecoms hub. Broadly speaking, the government’s policies emphasise:

• a technology neutral approach to licensing and regulation;
• an open licensing policy (with few exceptions);
• the promotion and mandating, if necessary, of interconnection across all networks and services; and
• a comprehensive system of competition principles and regulation.

The TA is the statutory body responsible for regulating the telecoms industry in Hong Kong. OFTA, the executive arm of the TA, was established as an independent government department in 1993. OFTA oversees the regulation of the telecoms industry in Hong Kong and administers the ordinances and subsidiary legislation governing the establishment and operation of telecoms services.

The regulatory framework of the telecoms industry in Hong Kong is principally based on the Telecommunications Ordinance, together with subsidiary legislation such as the Telecommunications Regulations and various guidelines and codes of practice issued by the TA. The Telecommunications Ordinance provides for the licensing and control of telecoms, telecoms services and the telecoms apparatus and equipment.

The TA from time to time issues guidance notes and statements outlining the implementation or interpretation of new policy initiatives, which are formulated by the Communications and Technology Branch of the CITB of the Hong Kong Government. The CITB is responsible for:

• formulating policies on the development of telecoms, including policy options to promote competition and to respond to technological changes and convergence;
• monitoring the regulatory regime in telecoms to develop it further in keeping with an open and competitive telecoms market;
• formulating policies to tackle the problem of unsolicited electronic message; and
• house-keeping for OFTA.
REGULATIONS AND LICENCES

REGULATION IN THE HONG KONG TELECOMS MARKET

Local fixed telecoms network services

The local fixed telecoms network services, or FTNS, market has been fully liberalised as from 1 January 2003. Under the full liberalisation policy, there is no pre-set limit on the number of licences to be issued, nor deadline for submission of applications for licences.

As at August 2006, ten companies were licensed to provide local wireline-based FTNS on a competitive basis.

As a result of the liberalisation of the local FTNS market, 71% of residential households are now able to enjoy an alternative choice of local FTNS suppliers through direct customer access networks. As at June 2006, there were about 3.8 million exchange lines. The telephone density was 92 lines per 100 households or 54.5% by population, which was among the highest in the world.

Public mobile phone services

Competition in public mobile phone services continues to be vibrant. As at June 2006, there are 14 digital networks in total, 4 of which operate in the 800/900 MHz bands, 6 networks in the 1700-1900 MHz bands and the remaining networks in the UMTS bands.

The introduction of mobile number portability service, which allows customers to retain their telephone numbers when they switch to another mobile network operator, in March 1999 has further promoted competition among mobile network operators. By June 2006, the number of mobile service subscribers was boosted to 8.9 million, representing one of the highest penetrations in the world at about 127%.

Other than the basic voice service, data services, such as short messaging, mobile Internet service, various other download services and video call services are commonly available and are very popular among consumers. As at September 2006, there were 2.1 million high speed mobile data service (including 2.5G and 3G) customers, out of which over 1,145,000 were 3G service customers.

In October 2001, the Hong Kong Government issued four 3G licences under an innovative royalty scheme. The Hong Kong Government also introduced an open network access requirement whereby 3G network operators are required to make available 30% of the network capacity for interconnection to, or access by, non-affiliated Mobile Virtual Network Operators, or Mobile Virtual Network Operator, and/or content providers on a non-discriminatory basis. 3G services were launched in Hong Kong in January 2004 and there are four operators providing 3G mobile services in Hong Kong at present.

IDD services and external telecoms services

The external services market has been liberalised from January 1999. As at August 2006, there were 242 external telecoms services, or ETS licensees in Hong Kong.
On 1 January 2000, the external facilities market was also liberalised. Any operator that brings in new submarine or overland cables, or uses non-cable based means of transmission (primarily satellite) to provide external telecoms facilities-based service may apply for a licence. By November 2006, there were 21 licensees providing cable-based external telecoms facilities and 6 providing satellite based external telecoms facilities.

Competition in the external telecoms services and facilities market has led to significant drop in International Direct Dialing, or IDD, call rates. IDD services are now available to most countries and regions of the world. For the 12-months ended 31 March 2006, the volume of outgoing and incoming traffic for telephone calls were approximately 5,909 million minutes and approximately 2,122 million minutes, respectively.

LICENSING REQUIREMENTS IN HONG KONG

The licensing framework

The Telecommunications Ordinance sets out the overall licensing framework for the Hong Kong telecoms market. Essentially, no person may establish or maintain any means of telecoms in Hong Kong without an appropriate licence. The Telecommunications (Amendment) Ordinance 2000 introduced a new licensing regime. As at the Latest Practicable Date, there were four types of licences in Hong Kong:

- **Carrier licence**

  A “carrier licence” authorises the operation of telecoms facilities and the provision of telecoms services to the public, and allows the licensee to operate telecoms transmission facilities across unleased government land.

- **Exclusive licence**

  A licence issued on an exclusive basis for operation or provision of telecoms networks, systems, installations or services is referred to as “exclusive licence”. The Telecommunications Ordinance provides that the Chief Executive in Council may determine the conditions of the licence including the period of validity, the payment of fees and royalty, the frequency of any payments, and grant the licence. However, given the government’s pro-competition approach in regulating the telecoms industry, to date no exclusive licence has been issued.

- **Class licence**

  Class licences may be created by the TA, in consultation with the telecoms industry, covering a variety of telecoms networks, systems, installations or services. No individual licence application nor approval process is required for the grant of a class licence. Applicants meeting the specified eligibility criteria and conditions automatically receive a class licence. As at the Latest Practicable Date, there were two types of class licences, Class Licence for In-Building Telecommunications Systems and Class Licence for the Provision of Public Wireless Local Area Network Services.
• **Licence which falls outside the former three categories**

“Other licences” are those licences that are not carrier licences, exclusive licences or class licences. An example of licence falling into this category is the PNETS licence that is granted to an MVN or an ISP. The licences currently held by the Group belong to this class of licences.

**The PNETS licence**

A PNETS licence is required for the provision of public telecoms services using the transmission facilities provided by licensed carriers or establishing or maintaining transmission facilities which does not cross public streets or unleased Government land, that is, confined within the boundary of a building or property.

There are a variety of public telecoms services licensed under the PNETS licence. The most common PNETS licences include:

– **PNETS licence for IVANS**

Under the PNETS (IVANS) licence, International Value-Added Network Services, or IVANS, may be operated by service providers over public switched telecoms networks or, under specified conditions, over international private leased circuits, or IPLCs. Service providers are required to pay the normal flat-rate rentals for IPLCs used for the operation of IVANS without any surcharge for the conveyance of the customers’ traffic.

Access to IVANS by subscribers in Hong Kong may be made via the public switched telephone network, public switched data networks, public telex network and/or dedicated circuits. For access using the public switched telephone network, an IVANS service provider has to pay the interconnection charges to the network provider for use of the network. For access using public switched data networks or the public telex network, an IVANS service provider and/or its subscribers have to pay the normal charges applicable to all users of the networks. For access using dedicated circuits, an IVANS service provider and/or its subscribers have to pay the normal flat-rate charges for the circuits concerned.

Equipment connected to the public switched telephone network, public switched data network, public telex network and dedicated circuits has to meet certain prescribed specifications concerning the prevention of technical harm to the network and electrical hazards to network personnel.

– **PNETS licence for ETS**

Following the early termination of the exclusive licence of Hong Kong Telecoms International Limited, or HKTIL, further liberalisation of the market for the provision of ETS was introduced on 1 January 1999. ETS had to be operated over the external facilities of HKTIL in 1999. However, ETS may be operated over the facilities of any one of the fixed telecoms network services (FTNS) licensees which provide external FTNS as of 1 January 2000.
Under the PNETS (ETS) licence, the service to be licensed is an external public communications service (which may be voice, facsimile, data or any combination of them) operated over external leased circuits supplied by an FTNS licensee or over other external switched telecoms services lawfully operated in Hong Kong.

The technology used for the external telecoms service is not restricted. The service may be operated through international simple resale (ISR) of external leased circuits, Internet services, call-back services, other ISR services, or other public switched data communication services, provided that these services are operated in compliance with their licence conditions.

Under the PNETS (ETS) licence, “external” means communications with places outside Hong Kong. The service does not include the provision to customers of a telecoms circuit between a point in Hong Kong (including, without limitation, a radiocommunications facility or cable termination facility) and one or more points outside Hong Kong, and any means of telecoms capable of facilitating such a circuit.

The above restriction means that the operator may not establish and maintain physical facilities, such as earth stations, or cables to and from Hong Kong for the supply of external circuits to customers. However, resale of bandwidth or circuits provided by licensed facilities operators, that is, the external carriers, is permitted under the PNETS (ETS) licence.

Customers at the Hong Kong end and/or at the distant end may be connected to the service facilities through any public switched telecoms network or dedicated circuit. The operation of such public switched telecoms networks or dedicated circuits must be in compliance with the relevant licences. For example, a public switched telecoms network operated under a mobile carrier licence may not be used for the connection of fixed line customers to the facilities for the service.

The licensee is required to provide to the TA, at such intervals and on or before such deadlines as may be specified by the TA from time to time, statistics of the volume of incoming and outgoing traffic handled by the licensee under the PNETS (ETS) licence, with such breakdown on a route-by-route basis or other classification methods as may be specified by the TA.

There are some requirements imposed on the ETS licensee of the PNETS (ETS) licence in relation to local access charge, interconnection charge and delivery fee.

Value-added facsimile and data communication services have traditionally been licensed as IVANS. The scope of the IVANS licence does not cover the provision of real-time telephonic or real-time facsimile services. Therefore, licensees authorised for the provision of IVANS have to apply for the PNETS (ETS) licence if they wish to provide external telecoms services for real-time voice and facsimile transmission.
If an Internet service provider, or ISP, wishes to provide an external gateway for customers using ordinary customer premises equipment designed for operation over the public switched telephone network to gain access to the external telecoms services, they have to obtain the PNETS (ETS) licence and be regulated on an equal basis as the other licensees for external telecoms services. However, if the ISP is merely offering a licensed Internet access service which is a data communication service based on the Internet protocol, and provided that the service operates within the permitted IVANS scope and the ISP is not in a position to screen the real-time voice and facsimile messages from the data messages to or from the customers, the ISP will not be considered as providing external telecoms services which are required to be licensed under the PNETS (ETS) licence.

– **PNETS licence for mobile virtual network operator services**

A mobile virtual network operator, or MVNO, is an operator who provides a public radiocommunications service to customers through interconnection with, and access to, the radiocommunications infrastructure of an operator licensed under a public mobile radiotelephone services (PMRS) licence, a personal communications services (PCS) licence or a mobile carrier licence and assigned with the radio spectrum through which the public radiocommunications service is provided.

The conditions of the PNETS (MVNO) licence mirror those under a PMRS licence, a PCS licence or a mobile carrier licence, with the exception that the mobile virtual network operator will not be assigned radio spectrum under the PNETS licence and will therefore not be allowed to operate any radio station under that licence.

Under the PNETS (MVNO) licence, the mobile virtual network operator shall fulfill the following general obligations:

(a) the mobile virtual network operator shall provide customer statistics to the TA;

(b) the mobile virtual network operator shall be subject to payment of licence fees; and

(c) the mobile virtual network operator will be required to pay the same interconnection charges as a mobile network operator or MNO, for direct interconnection with fixed networks.

In accordance with a special condition of the mobile carrier licence for an MNO operating in the 1.9-2.2 GHz band for 3G services, the MNO is obliged to open 30% of its network capacity to mobile virtual network operators who are not affiliated to any MNOs.
**OFTA licences held by the Group**

The Group has been granted with four licences by OFTA:

<table>
<thead>
<tr>
<th>Group companies</th>
<th>OFTA licences</th>
<th>Scope of services covered by the licences held by the Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>CITIC Telecom 1616</td>
<td>– Public Non-Exclusive Telecommunications Service Licence</td>
<td>– voice exchange under the Fixed-Line/Hybrid Carrier Voice Hubbing Services and the Mobile Carrier Voice Hubbing Services</td>
</tr>
<tr>
<td></td>
<td>– External Telecommunications Service (ETS) issued on 29 December 1998 (Licence No. 441), renewable on 1 January 2008</td>
<td></td>
</tr>
<tr>
<td></td>
<td>– Mobile Virtual Network Operator Service (MVNO) issued on 2 December 2002 (Licence No. 1015), renewable on 1 January 2008</td>
<td>– data services (data center facilities, local loop and IPLC facilities, HKIX 2) under the Fixed-Line/Hybrid Carrier Voice Hubbing Services</td>
</tr>
<tr>
<td></td>
<td>– International Value-Added Network Services (IVANS) issued on 8 March 2006 (Licence No. 1274), renewable on 1 April 2007</td>
<td>– SMS Hubbing Services</td>
</tr>
<tr>
<td>CITIC Data 1616</td>
<td>– International Value-Added Network Services (IVANS) issued on 9 August 2000 (Licence No. 712), renewable on 1 September 2007</td>
<td>– data services (data center facilities, local loop and IPLC facilities, HKIX 2) under the Fixed-Line/Hybrid Carrier Voice Hubbing Services</td>
</tr>
<tr>
<td></td>
<td>– Public Non-Exclusive</td>
<td>– SMS Hubbing Services</td>
</tr>
</tbody>
</table>

*Note:* All the requisite OFTA licences and permits for the Group’s operations are set out above. Revocation or non-renewal of such licenses may affect the continued provisions of the corresponding services. The Company has not encountered any difficulties in renewing the licenses in the past and does not anticipate any difficulties in seeking renewal when they expire in 2007 and 2008.
All the licences are renewable on an annual basis, subject to compliance of the terms and conditions of the licences, at the discretion of the TA. The licensee shall pay the fees applicable to PNETS licence as determined and published by the TA from time to time. At present, the annual licence fee for the PNETS licence is $750 and shall be payable on the issue or renewal of the licence.

The industry itself also plays a role in the development of the regulatory regime. OFTA regularly issues consultation papers to solicit the views of the public in respect of proposed guidelines and regulations.

**LICENSING REQUIREMENTS OUTSIDE HONG KONG**

**Operations in China**

As the Group’s representative office only carries out the liaison and the administrative matters for the Group, and as the Group’s telecoms hubbing services to its customers in China are conducted by connecting its network with the international gateway of these customers, which are telecoms operators in China approved by the Ministry of Information Industry, the Group’s hubbing operations therefore do not require any licence or permit from the Chinese authorities and are in compliance with the relevant laws of China.

**POPs**

The Group has established 5 POPs in the following countries/regions: 2 POPs in Los Angeles, 2 POPs in London, and 1 POP in New York. These are network connection facilities co-located in the data centres of certain telecoms operators which do not require any licence or permit from the relevant government authorities and are in compliance with the relevant laws.
BUSINESS

The financial information in this section principally relates to the telecoms operations of the Group during the Track Record Period, unless specified otherwise.

OVERVIEW

The Group is a provider of connectivity and value-added services to telecoms operators with a focus on the China and Hong Kong telecoms markets. The Group owns and operates an independent telecoms hub that provides interoperability, interconnections and value-added services to approximately 240 customers (mainly telecoms operators) around the globe. During the Track Record Period, the Group handled a substantial volume of China’s in-bound and out-bound international voice traffic and a large majority of the in-bound and out-bound international messages for one of the largest mobile telecoms operators in China. The Group’s services include transmission of traditional international voice calls, roaming voice, SMS and provision of advanced Mobile VAS.

Most of the Group’s Mobile VAS are designed to be utilised by the subscribers of the mobile telecoms operators that connect to the Group’s telecoms hub. To the extent these Mobile VAS are utilised, they increase traffic flow of the telecoms operators and help enhance their revenue. The Group in turn benefits from the increase in traffic flow. The availability of Mobile VAS also makes the Group’s hub more attractive to telecoms operators.

The Group is a neutral intermediary, bridging the often incompatible communication standards, protocols, network interfaces and systems between telecoms operators that must successfully interoperate in order to provide global voice and data services. These incompatibilities have become increasingly difficult to manage as new wireless technologies and services are introduced and deployed. Telecoms operators simply have to connect to the Group’s service hub, and the Group’s technology platforms will then translate the communication standards of the voice or data messages from the originating telecoms operators to that of the receiving telecoms operators’ networks, and route the calls or data messages to their chosen networks. This allows telecoms operators connected to the Group’s hub to reduce costs and increase speed in establishing connectivity with other telecoms operators, enabling them to focus their resources on other areas such as expanding their business and customer base, which in turn, drives the growth of the Group’s business.
The following diagrams illustrate (i) the connections between telecoms operators which are not connected through a telecoms hub, i.e. having a web-like configuration of connections, and (ii) the connections through the Group's telecoms hub.

Building on the Group's advanced and well-established technology platform, the Group has developed the following core services to telecoms operators worldwide: Fixed-Line/Hybrid Carrier Voice Hubbing Services; Mobile Carrier Voice Hubbing Services; SMS Hubbing Services; as well as Mobile VAS and Enterprise Solutions. These services are supported by the Group's application development skills and its established extensive connectivity network which support both TDM and IP telecoms traffics.

COMPETITIVE STRENGTHS

The Group operates an international telecoms hub which is one of the leading independent telecoms hubs in Asia, providing interoperable connections between approximately 240 customers (mainly telecoms operators) in approximately 50 countries/areas.

According to TeleGeography Research, the Group handled approximately 14.8% of Asia's independent voice hubbing traffic and over 3.1% of the world's independent voice hubbing traffic in 2005. The Group's inter-standard and inter-vendor services can satisfy the needs of different telecoms operators with different network standards in various countries and areas, and provide them with tailored and advanced services which can be subscribed as individual services or as combined services. These services range from basic international voice and SMS transit services to advanced Mobile VAS, such as SIMN, Prepaid Roaming Card service, Mobile Roaming Call Back service and SCCP Roaming Signaling Transit service.
Set out below is a summary of the number of customers (mainly telecoms operators) and the number of countries/areas connected to the Group’s telecoms hub as at 31 December 2004, 2005 and 2006:

<table>
<thead>
<tr>
<th>As at 31 December</th>
<th>No. of customers</th>
<th>No. of countries/areas¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>170</td>
<td>26</td>
</tr>
<tr>
<td>2005</td>
<td>194</td>
<td>33</td>
</tr>
<tr>
<td>2006</td>
<td>237</td>
<td>49</td>
</tr>
</tbody>
</table>

Note 1: Areas include but not limited to Hong Kong and Macao

As at the Latest Practicable Date, the Group’s telecoms hub offers interoperability services interconnected through both TDM and IP networks and provides integrated solutions directly to around 240 customers (mainly telecoms operators) in approximately 50 countries/areas.

The Group believes that the number of telecoms operators connected to the Group’s telecoms hub, the infrastructure, hardware and software required to operate a telecoms hubbing business, and the corresponding sales, financial resources, customisation and ongoing maintenance needed to develop carrier-grade interoperability solutions and to achieve substantial customer acceptance all create entry barriers for potential new competitors in the telecoms hubbing market.

The Directors believe that the substantial increase in the number of telecoms operators connecting to the Group’s hub in 2006 is partly attributable to the introduction of the Group’s Mobile VAS, including SIMN, Prepaid Roaming Card service and Mobile Roaming Call Back service and SCCP Roaming Signaling Transit service.

The Group is strategically positioned to capitalise on the expected strong growth of the Chinese economy and China’s telecoms market

China is the largest telecoms market in the world in terms of the number of subscribers and fixed line connections. As China’s inbound and outbound telecoms traffic volume continues to grow (whether in international voice, roaming voice, international SMS or other mobile data), the Group believes that it will benefit from its strategic position as one of the main international telecoms hubs connected to Mainland China.

The Group has established close business relationships and direct network connections with all the major telecoms operators in China, connecting them to approximately 240 customers (mainly telecoms operators) around the globe. This unique position gives the Group an invaluable opportunity to further expand its business.

The Group has strong customer relationships, especially with major China telecoms operators

The Group has long-standing relationships with the Group’s major customers, including most of the major telecoms operators in China and Hong Kong. The Directors believe that the Group’s long-standing customer relationships enhance the stability of the Group’s revenues. Coupled with the quality of the basic services which the Group has been providing, these relationships also facilitate the Group’s introduction of its other value-added services to these customers. The Group takes pride in its high quality and reliable services. The technical solutions and the application of solution products offered by the Group are tailor-made to meet customers’ needs. Service upgrade and enhancement are also offered to match customers’ implementation needs.
The Group has the ability to develop innovative and customised applications and services by utilising its internal development team to respond to and anticipate customers’ needs. The Group focuses not only on providing quality conventional telecoms services but also on developing new telecoms applications and services through leading technology development. The Group has its own telecoms application development team, which customises and develops innovative applications and services. Examples of these applications and services include some of the latest Mobile VAS. The Group’s experience as a main international telecoms hub allows it to shorten service development cycles, provide attractive pricing and deliver highly reliable and tailor-made services to its customers, which in turn heighten entry barriers against competitors.

In February 2006, the Group was recognised by GSMA as one of the five main SMS hub providers. The Group also participated in GSMA’s interconnection and interoperability trials on mobile video share between different mobile networks, to develop inter-working models and network architecture for the next generation multimedia services. The Group views new communication models such as PC to mobile communication, IP based solutions, GRX and 3G applications as drivers to develop next generation hub based telecoms services. For further details of the Group’s application development activities, please refer to the paragraph headed “Application development” below.

The Group has a strong senior management team with extensive experience in the telecoms industry

Most of the Group’s senior management have over 10 years experience in the telecoms industry and have in-depth knowledge of various aspects of telecoms business development. Mr. Shi Cuiming, the Chairman of the Company, and Mr. Yuen Kee Tong, the Chief Executive Officer of the Company both have over 20 years of experience as members of top management in major telecoms companies in China and Hong Kong.

Mr. Shi has over 40 years of extensive experience in the China telecoms industry. He held senior positions in various departments of the MII and had served as either the Chairman, an executive director or the chief executive officer of several China telecoms operators, including China Telecom (Hong Kong) Limited (later known as China Mobile (Hong Kong) Limited) and China Unicom Limited.

Mr. Yuen has more than 20 years of extensive experience in various aspects of the telecoms industry, including sales and marketing, engineering, operations and management at the senior level. Mr. Yuen was the Deputy Chief Executive of Hong Kong Telecommunication Ltd. and later, Pacific Century CyberWorks Ltd. His areas of responsibilities/responsible areas covered Hong Kong, China and the Asia Pacific region. He had also been seconded by Hong Kong Telecommunication Ltd. on full time basis for one and a half years to the Central Policy Unit of the Hong Kong Government.

Mr. Shi and Mr. Yuen are supported by a senior management team with strong experience from other telecoms operators and telecoms equipment vendors. For details of the experience of Mr. Shi, Mr. Yuen and the other members of the Group’s senior management, please refer to the section headed “Directors, senior management, staff and Compliance Adviser” below.
BUSINESS

BUSINESS STRATEGIES

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

- further develop and strengthen the Group’s established, long-standing relationships with major telecoms operators, in particular, its relationships with telecoms operators in China;
- maintain and expand the Group’s leadership in hub based telecoms services by providing interoperable interconnections for multiple types of traffic between multiple types of networks;
- maintain growth in core business, in particular by expanding the scale of the Group’s interoperability capabilities and providing an increasing amount of Mobile VAS so as to enhance its network coverage and telecoms traffic and to expand its global customer base;
- selectively expand into high potential new businesses, such as 3G applications, and enhance its existing service portfolio through continuous technology improvements developed in cooperation with existing customers;
- maintain leadership and growth in rolling out time-to-market integrated solutions for customers, which keep pace with the rapid and new technology development in the telecoms market;
- aggressively pursue expansion opportunities; and
- leverage on the Group’s existing customer base by marketing additional services to existing customers.

HISTORY AND BUSINESS DEVELOPMENT

In 2000, CITIC Pacific acquired the Group from Mr. Chan Kwong Choi. The Group had been granted a Public Non-Exclusive Telecommunications Service (External Telecommunications Services) licence, or PNets (ETS) licence, by OFTA and the international access code “1616”, and was then engaged in the provision of international voice services to telecoms operators. Mr. Chan Kwong Choi was an Independent Third Party when CITIC Pacific acquired the Group from him, and the consideration for the acquisition was determined after arm’s length negotiation between CITIC Pacific and Mr. Chan Kwong Choi with reference to the future prospects of the Company’s business. There is no current relationship between Mr. Chan Kwong Choi and the Group.

After the acquisition, the Group commenced trading under the brand “CITIC Telecom 1616”. In 2002, the Group obtained another licence from OFTA, the Public Non-Exclusive Telecommunications Service (International Value-Added Network Services) licence, or PNets (IVANS) licence. In 2001, the Group completed the construction of its principal operation centre, a 14,000 sq. ft. world-class equipment facility room, at CITIC Tower, Central, Hong Kong, and focused on providing international voice hubbing services.
In 2002, the Group was granted a Public Non-Exclusive Telecommunications Service (Mobile Virtual Network Operator Services) licence, or PNETS (MVNO) licence, by OFTA to further enhance its mobile telecoms service in Hong Kong.

With the anticipated increase in the demand of telecoms services, the Group developed a new mobile data communications platform with the capability to support both SS7 and IP interconnections, so that the Group could then be equipped with strong mobile telecoms service functions to provide customers with Mobile VAS in addition to basic telecoms services. The Group pilot-launched its first SMS hubbing service in 2002, providing momentum for the development of SMS business for China and Hong Kong mobile operators.

Beginning in September 2002, the Group started to expand its software team with additional recruitment of professionals in order to enhance its IT applications development. The team developed real time billing and data mining applications which provide efficient real time management information analysis systems for both the Group and its customers.

In 2003, the Group became one of the few providers of international SMS hubbing services for the major telecoms operators in China and, in the same year, started to provide inter-operator SMS exchange service between local Hong Kong telecoms operators.

In October 2003, with a view to further strengthening its position in Mobile VAS in the region, the Group acquired further application development resources, including hardware and software source codes, as well as a team of professional Mobile VAS developers. With the strong support of this specialised team of developers, the Group has been able to accelerate its launches of key strategic Mobile VAS.

Recent developments

In 2004, the Group launched its roaming signaling service to mobile operators. The roaming signaling service offers mobile operators roaming services by providing SCCP transport over SS7 signalling protocol to overseas mobile operators. The provision of roaming signaling services to telecoms operators around the globe enables the Group to increase its market share in mobile telecoms services in the Greater China Region.

In July 2003, the PRC introduced the “Individual Visit Scheme”, which enabled residents of Guangdong province, Beijing and Shanghai to visit Hong Kong on an individual basis. In July 2004, the scheme was extended to cover residents in nine other cities in China, including the provinces of Zhejiang, Jiangsu and Fujian. The number of Chinese residents visiting Hong Kong increased as a result. In mid-2004, the Group launched its Prepaid Roaming Card service to one mobile operator in China and three mobile operators in Hong Kong to capitalise on the revenue opportunities from these individual visits.

In 2004, the Group formed a joint venture with the Chinese University of Hong Kong to establish a mirror site of HKIX, the HKIX 2. This mirror site ensures the smooth and complete exchange and interconnection for local Internet traffic, and enhances the connectivity of Hong Kong ISPs to international Internet gateways.

In response to the Chinese government’s announcement on the further extension of the Individual Visit Scheme to permit China residents to visit Macao on an individual basis, the Group provided the same Prepaid Roaming Card service to one of the telecoms operators in Macao in October 2005.
BUSINESS

In December 2005, the Group launched its SIMN service to the largest mobile operator in China, enabling Hong Kong, Macao and Mainland mobile users to subscribe overseas mobile phone numbers on the same SIM card. This provides convenience to mobile users and at the same time enhances the Group’s leadership position in the Mobile VAS market.

In 2006, the Group participated in GSMA’s interconnection and interoperability trials on mobile video share, to develop the next generation mobile data application services. In February 2006, the Group was recognised by GSMA as one of the five main SMS hub providers in the market.

In mid-2006, the Group completed the first phase construction of its second data centre, located in the central business district of Hong Kong, which has an equipped floor area of about 45,000 sq.ft.

Discontinued property leasing business

During the Track Record Period, the Group acquired two companies from the CITIC Pacific group which engaged in the leasing of a single property. To prepare for the Group’s listing, the Group disposed these companies to CITIC Pacific at carrying values. For information on the discontinued operations, please refer to notes 9 and 12 of the Accountants’ Report as set out in Appendix I to this Prospectus.

Proposed spin-off of the Group from CITIC Pacific

CITIC Pacific has concluded that the Group’s business has grown to a size sufficient to command a separate listing and that such listing will also be beneficial to the Group for the following reasons:

• it provides flexibility to the Group in raising future funds from the capital markets to support its growth through continuing organic expansion as well as acquisitions; and

• it enables the Group to take advantage of the significant global growth potential by attracting new investors who are seeking investment opportunities in a pure-play international telecoms hubbing service provider.

The proposed spin-off by CITIC Pacific has complied with the requirements of Practice Note 15 of the Listing Rules.
BUSINESS

CORPORATE AND SHAREHOLDING STRUCTURE

The chart below illustrates the corporate and shareholding structure of the Group immediately following the completion of the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised):

Notes:

1. CITIC Pacific’s equity interest in the Company is held through its subsidiaries:

   a. Ease Action Investments Corp. will be the registered holder of 1,064,080,000 Shares, representing approximately 56.6% of the entire issued share capital of the Company upon completion of the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised). If the Over-allotment Option is exercised in full, Ease Action Investments Corp. will hold 941,692,000 Shares, representing approximately 50.09% of the entire issued share capital of the Company upon completion of the Global Offering.

   b. Ease Action Investments Corp. is a wholly-owned subsidiary of Ferretti Holdings Corp., which in turn is wholly-owned by Douro Holdings Inc.

   c. Douro Holdings Inc. is a wholly-owned subsidiary of CPC, which in turn is wholly-owned by Effectual Holdings Corp.

   d. Effectual Holdings Corp. is a wholly-owned subsidiary of Crown Base International Limited, which in turn is wholly-owned by CITIC Pacific.
2. The remaining 25% of APIX is owned by HKIX Co., an Independent Third Party.

3. For the purpose of this chart, "BVI" means British Virgin Islands.

4. Principal operating subsidiaries which are also holders of the relevant OFTA licenses.

**SERVICES**

Since 2000, the Group has pursued a strategy to become one of the leading telecoms hub-based service providers in the world.

In 2003, the Group focused on enhancing its quality of services after having already established a satisfactory scale in international telecoms services in the following four core business divisions, namely, Fixed-Line/Hybrid Carrier Voice Hubbing Services, Mobile Carrier Voice Hubbing Services, SMS Hubbing Services, Mobile VAS and Enterprise Solutions.

Different telecoms operators rely on different sets of communications standards, technical protocols, network interfaces, systems and technologies for their operations. The technical complexities and commercial negotiations involved in standardising these inconsistencies are inevitable in the telecoms industry. Before a telecoms operator can put through voice or data from its end-user to the terminating end-user of another telecoms operator, a telecoms operator has to establish connection to the network of, and translate its communication standards to match, each corresponding telecoms operator. This will require telecoms operators to directly negotiate separate bi-lateral arrangements with each different networking partner, which may be time consuming and inefficient.

The Group’s hubbing services serve to simplify these complexities, by providing neutral interoperability between these incompatible communication standards, protocols, network interfaces and systems, thereby reducing costs and increasing the speed of telecoms operators in establishing connectivity with each other.

The Group has established good customer relationships with certain major telecoms operators, particularly with those in China and Hong Kong. To date, about 240 customers (mainly telecoms operators) in approximately 50 countries/areas are directly connected to the Group’s telecoms hub, including China’s largest international telecoms operators.

The following diagram illustrates the types of hubbing services currently provided by the Group:
In 2006, the Group handled:

(a) over a total of 4,698.2 million minutes of voice traffic, of which 3,651.1 million minutes were China in-bound and out-bound voice traffic; and

(b) over a total of 1,228.7 million SMS, of which 349.2 million were messages in and out of China.

The Group handled a substantial portion of China's in-bound and out-bound international voice traffic and a large majority of the in-bound and out-bound international messages for one of the largest mobile telecoms operators in China. Set out below are the Group’s share of China’s in-bound and out-bound international voice traffic for the three years ended 31 December 2004, 2005 and 2006:

**China’s out-bound international voice traffic**

<table>
<thead>
<tr>
<th>Year</th>
<th>China total (Notes) minutes ('million)</th>
<th>The Group minutes ('million)</th>
<th>% of China total</th>
</tr>
</thead>
<tbody>
<tr>
<td>For the year 2004</td>
<td>3,818</td>
<td>611</td>
<td>16.0</td>
</tr>
<tr>
<td>For the year 2005</td>
<td>4,387</td>
<td>475</td>
<td>10.8</td>
</tr>
<tr>
<td>For the year 2006</td>
<td>4,314</td>
<td>654</td>
<td>15.2</td>
</tr>
</tbody>
</table>

*Source:* MII

*Notes:*

1. Includes VoIP calls, out-bound fixed line long distance calls and out-bound mobile calls
2. Includes international calls from Mainland China to Hong Kong, Macao and Taiwan

**China’s in-bound international voice traffic**

<table>
<thead>
<tr>
<th>Year</th>
<th>China total (Notes) minutes (million)</th>
<th>The Group minutes (million)</th>
<th>% of China total</th>
</tr>
</thead>
<tbody>
<tr>
<td>For the year 2004</td>
<td>N/A</td>
<td>1,774</td>
<td>N/A</td>
</tr>
<tr>
<td>For the year 2005</td>
<td>4,972</td>
<td>1,745</td>
<td>35.1</td>
</tr>
<tr>
<td>For the year 2006</td>
<td>N/A</td>
<td>2,997</td>
<td>N/A</td>
</tr>
</tbody>
</table>

*Source:* TeleGeography Research

*Notes:*

1. No published data available from MII for in-bound international voice traffic
2. No published data available from TeleGeography Research for the years ended 31 December 2004 and 2006
The following table shows the turnover of each type of service of the Group, expressed as a percentage of the total turnover for the three years ended 31 December 2006:

<table>
<thead>
<tr>
<th></th>
<th>For the year ended 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004</td>
</tr>
<tr>
<td></td>
<td>HK$’million</td>
</tr>
<tr>
<td>Fixed-Line/Hybrid Carrier</td>
<td></td>
</tr>
<tr>
<td>Voice Hubbing Services</td>
<td>440.0</td>
</tr>
<tr>
<td>Mobile Carrier Voice Hubbing</td>
<td>503.5</td>
</tr>
<tr>
<td>SMS Hubbing Services</td>
<td>48.2</td>
</tr>
<tr>
<td>Mobile VAS and Enterprise</td>
<td>55.5</td>
</tr>
<tr>
<td>Solutions (Note)</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1,047.2</td>
</tr>
</tbody>
</table>

Note: Mobile VAS are also complementary services which boost in part the overall traffic volume of the Group’s business, in particular, Mobile Carrier Voice Hubbing Services and SMS Hubbing Services.

1. Fixed-Line/Hybrid Carrier Voice Hubbing Services

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

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

<table>
<thead>
<tr>
<th></th>
<th>For the year ended 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004</td>
</tr>
<tr>
<td>Voice calls minutes carried (in million)</td>
<td>2,425.0</td>
</tr>
<tr>
<td>Turnover (HK$’ million)</td>
<td>440.0</td>
</tr>
<tr>
<td>Percentage of the Group’s total turnover</td>
<td>42.0%</td>
</tr>
</tbody>
</table>

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

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

<table>
<thead>
<tr>
<th>Features</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality</td>
<td>• Connected through the Group’s POPs and partners (including telephone operators and telecoms service providers), the Group provides quality voice hubbing services to telecoms operators through TDM and other networks. At the same time, the Group can also deliver voice transit at different priority classifications according to different customers’ requirements.</td>
</tr>
<tr>
<td>Reports and Performance Monitoring</td>
<td>• The Group’s network operation centre provides 7x24 support, voice service quality analysis and close-to-real time call routing statistics to ensure quality and optimal traffic balance across networks.</td>
</tr>
<tr>
<td>Flexibility</td>
<td>• The Group’s voice services support interconnections over both traditional TDM and IP networks.</td>
</tr>
<tr>
<td>Customer Service</td>
<td>• Inquiry calls from telecoms operators which are the Group’s customers are promptly answered by the Group’s staff to address customers’ inquiries and to solve their problems.</td>
</tr>
<tr>
<td>Billing and Statistics</td>
<td>• The Group’s billing system and statistics on network performance enable the Group to closely monitor the status and quality of its services to customers.</td>
</tr>
</tbody>
</table>

2. Mobile Carrier Voice Hubbing Services

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

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

<table>
<thead>
<tr>
<th></th>
<th>For the year ended 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004</td>
</tr>
<tr>
<td>Voice calls minutes carried (in million)</td>
<td>818.3</td>
</tr>
<tr>
<td>Turnover (HK$’million)</td>
<td>503.5</td>
</tr>
<tr>
<td>Percentage of the Group’s total turnover</td>
<td>48.1%</td>
</tr>
</tbody>
</table>
The overall increase in turnover for Mobile Carrier Voice Hubbing Services during the Track Record Period was largely due to the increase in the volume of mobile voice traffic, which the Group believes was boosted in part by the Group’s Mobile VAS offered to its customers and in part by natural growth in tandem with the growth in the global telecoms market during the period as wireless services have become increasingly available and affordable. The effect of Mobile VAS has yet to be ascertained given its recent launch. However, as mobile calls stimulated by the Mobile VAS may be channelled via the Group’s hub, the Group expects that the effect of Mobile VAS on the Group’s Mobile Carrier Voice Hubbing Services will grow over time. The slight decrease in turnover in 2005 was mainly due to a reduction of price charged by the Group.

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

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

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

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

<table>
<thead>
<tr>
<th>Features</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>CLI Services</td>
<td>• Calling Line Identification (CLI) enables the person being called to identify the number from which a call has been made.</td>
</tr>
<tr>
<td>Intelligent Routing and Conversion</td>
<td>• In providing the Group’s premium Mobile Carrier Voice Hubbing Services, the Group uses optimised CLI management and superior routing features to ensure the quality of the Group’s services such as Answer Seizure Ratio, Post Dial Delay and other services for management of fail-over routing, least-cost routing, premium routing, and customised individual routing plans in accordance with customers’ requirements.</td>
</tr>
</tbody>
</table>
3. SMS Hubbing Services

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

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

<table>
<thead>
<tr>
<th>For the year ended 31 December</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>SMS carried (in millions)</td>
<td>638.9</td>
<td>1,105.7</td>
<td>1,228.7</td>
</tr>
<tr>
<td>Turnover (HK$ millions)</td>
<td>48.2</td>
<td>75.2</td>
<td>117.1</td>
</tr>
<tr>
<td>Percentage of the Group’s total turnover</td>
<td>4.6%</td>
<td>7.7%</td>
<td>8.6%</td>
</tr>
</tbody>
</table>

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

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

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

<table>
<thead>
<tr>
<th>Features</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inter-operator SMS (IOSMS)</td>
<td>The Group’s IOSMS capabilities enable its Hong Kong customers to provide to their subscribers the flexibility of sending SMS to local mobile subscribers of other telecoms operators through their own handsets or over the Internet. This is achieved as the Group's IOSMS</td>
</tr>
</tbody>
</table>
service supports SS7 and IP connectivity. In addition, the Group’s IOSMS service also has the following characteristics:

- blacklisting of originating and terminating addresses for SMS
- scalable architecture and high throughput infrastructure to handle peak traffic message delivery
- online access to traffic reports
- billing system that can generate hourly call details reports
- supports delivery of mobile terminated SMS to subscribers visiting other countries
- fraud detection control
- performance monitoring

International SMS (ISMS)

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

This service also offers the following:

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

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

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

A breakdown of the contribution of Mobile VAS and Enterprise Solutions to the Group’s total turnover for the three years ended 31 December 2006 is as follows:

<table>
<thead>
<tr>
<th></th>
<th>For the year ended 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004</td>
</tr>
<tr>
<td>Mobile VAS</td>
<td>0.8</td>
</tr>
<tr>
<td>Enterprise Solutions</td>
<td>54.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>55.5</td>
</tr>
<tr>
<td><strong>Percentage of the Group’s total turnover</strong></td>
<td>5.3%</td>
</tr>
</tbody>
</table>

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

(i) Mobile VAS

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

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

The Group’s current main Mobile VAS include:

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

A number of the Group’s Mobile VAS were first developed by the Group in response to the needs of major telecoms operators in China. The Group offered its first commercially launched CAMEL based Prepaid Roaming Card service in 2004 to capture the business opportunities generated from the increase in the number of Chinese prepaid roamers, following the introduction of the Individual Visit Scheme by the Chinese government permitting residents in a number of cities in China to visit Hong Kong or Macao on an individual basis. The Group pilot-launched its SIMN service for China’s largest mobile operator in December 2005. The Group is extending many of its Mobile VAS to other countries and regions.
The development of these Mobile VAS helps the Group in attracting additional customers and traffic and expanding the business scale of its telecoms hub. In addition to receiving service fees from telecoms operators when providing these Mobile VAS, the Group believes that Mobile VAS has positive effects on traffic volume and turnover of its overall voice hubbing services. The Group’s provision and development of Mobile VAS also strengthen the Group’s competitiveness particularly in the high end international and roaming telecoms traffic areas, which require constant product development.

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

SIMN or Single IMSI  
Multiple Number service

Allows mobile operators’ subscribers to hold multiple overseas mobile phone numbers on their existing SIM cards, providing frequent travellers and mobile roamers the choice of saving roaming charges in SIMN-enabled regions to increase customer satisfaction and loyalty.

As such, SIMN could enable an increase of international and roaming mobile voice traffic.

Postpaid SIMN

The postpaid SIMN service was commercially launched in January 2006. Set out below is the cumulative number of subscribers to the service (offered by the Group’s customers) in 2006 since the service was launched. As at 31 December 2006, there were approximately 172,874 subscribers to such service:

<table>
<thead>
<tr>
<th>No. of subscribers</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0</td>
<td>50,000</td>
<td>100,000</td>
<td>150,000</td>
<td>200,000</td>
<td>250,000</td>
<td>300,000</td>
<td>350,000</td>
<td>400,000</td>
<td>450,000</td>
<td>500,000</td>
<td>550,000</td>
</tr>
</tbody>
</table>

Countries/areas: Hong Kong, Macao, Beijing, Shanghai and 4 provinces in China, namely, Guangdong, Fujian, Jiangsu and Zhejiang.

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

The prepaid SIMN service was only commercially launched in August 2006. Set out below is the cumulative number of subscribers to the service (offered by the Group’s customers) in 2006 since the service was launched. As at 31 December 2006, there were 6,576 subscribers to such service:

Countries/areas: Hong Kong, Macao and China.

The Group is rolling out its prepaid SIMN service to Taiwan prepaid subscribers.

Mobile Roaming Call Back service

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

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

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

PRS or Prepaid Roaming Card service

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

PRS also enables telecoms operators to segregate their prepaid roaming service from their existing postpaid roaming service to minimize the risk of affecting an existing revenue generating business.
By broadening the roaming subscriber base for both prepaid and postpaid connections, PRS could increase the overall traffic volume as well as the potential revenue of telecoms operators which in turn boost the Group’s Sales Margins.

The Group’s PRS was commercially launched in 2005 to telecoms operators in Hong Kong, Macao and China. Set out below is the cumulative number of subscribers to the service (offered by the Group’s customers) in the past 18 months:

<table>
<thead>
<tr>
<th>No. of subscribers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jul-05</td>
</tr>
<tr>
<td>Aug-05</td>
</tr>
<tr>
<td>Sep-05</td>
</tr>
<tr>
<td>Oct-05</td>
</tr>
<tr>
<td>Nov-05</td>
</tr>
<tr>
<td>Dec-05</td>
</tr>
<tr>
<td>Jan-06</td>
</tr>
<tr>
<td>Feb-06</td>
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<tr>
<td>Mar-06</td>
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<tr>
<td>Apr-06</td>
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<tr>
<td>May-06</td>
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<tr>
<td>Jun-06</td>
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<td>Jul-06</td>
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<tr>
<td>Aug-06</td>
</tr>
<tr>
<td>Sep-06</td>
</tr>
<tr>
<td>Oct-06</td>
</tr>
<tr>
<td>Nov-06</td>
</tr>
<tr>
<td>Dec-06</td>
</tr>
</tbody>
</table>

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

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

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

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

As at the Latest Practicable Date, this service is being provided to 23 customers (amongst them, a majority of the mobile telecoms operators of the Greater China Region) and signaling transit peering partners. The Group is rolling out this service to other customers in the region and in Asia.
In addition to the above Mobile VAS, there are also various other offerings, which have yet to generate revenue but which increase the attractiveness of the Group’s overall package of services, including:

- **GPRS Roaming Exchange (GRX)**

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

- **Customer service portal**

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

(ii) **Enterprise Solutions**

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

**Data Services**

(a) **IPLC services**

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

(b) **Local private leased circuit services**

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

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

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

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

Facility management and system integration services

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

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

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

Licences to operate

As set out in the sub-paragraph headed “OFTA licences held by the Group” under the paragraph headed “Licensing requirements in Hong Kong” and the paragraph headed “Licensing requirements outside Hong Kong” in the section headed “Regulations and licences” of this Prospectus, the Company has obtained all licences and permits necessary for its operations.
According to the Company’s legal advisers, the revocation or non-renewal of the licences required for the Group’s operations of the services may affect the continued provisions of all the corresponding services of the Group. The Company has not encountered any difficulties in renewing the licences in the past and does not anticipate any difficulties in seeking renewal when they expire in 2007 and 2008.

CITIC Telecom 1616 has been providing SMS Hubbing Services and data services since mid-2003. However, the relevant licence for such operation was only obtained on 8 March 2006 due to a misunderstanding during the interim period that the Group may utilise the licence held by another group member, CITIC Data 1616 Limited. Although OFTA has confirmed that they are not minded to take any enforcement action against CITIC Telecom 1616 in respect of this irregularity, according to the Company’s legal adviser, there is no assurance that OFTA will not take any future action against CITIC Telecom 1616 or further investigate into this matter. Please refer to the paragraph headed “Irregularity in the Group’s licensing issues may cause some of the Group’s services to be suspended in the future” in the section headed “Risk factors” of this Prospectus for further details.

NETWORK

The physical network infrastructure through which the Group provides its services consists primarily of (i) the Group’s hub based in Hong Kong, (ii) five points of presence, or POPs — two located in Los Angeles, two in London and one in New York, through which telecoms operators can connect to the Group’s Hong Kong based hub, and (iii) transmission capacity on certain undersea and underground telecommunications cables which the Group leases to transmit traffic among its POPs, the hub based in Hong Kong and the networks of the major telecoms operators which are its customers.

The data centres

The Group’s hub is located in two data centres in Hong Kong, the first is a 10,000 square feet high-tech facility located in CITIC Tower and the second is a 45,000 square feet state-of-the-art facility completed in mid-2006 and located in the central business district of Hong Kong. These data centres house switches and network equipment which run the sophisticated software applications that permit the Group to provide interoperability, interconnection and additional value-added services to its customers.

The Group monitors its data centres by employing key card and finger print security access control, closed circuit TV monitoring systems and around-the-clock physical security. The data centres are equipped with computer controlled air conditioning systems to maintain temperature and humidity levels, fire and water leakage detection systems, raised flooring, and a gas-based fire suppression system. In addition, the data centres at the Group’s hub are connected to the Hong Kong electric company through direct electricity supply cables and maintain back-up generators sufficient to supply at least two hours of power to safeguard against power interruptions.

The POPs

The Group’s POPs are connection facilities co-located in the data centres of other telecoms operators. Telecoms operators who are the Group’s customers may connect to the Group’s hub either by connecting directly to the Group’s hub in Hong Kong or by connecting to any one of the Group’s five POPs, depending on which location is most convenient for routing traffic to and
from such telecoms operators’ networks. The Group’s POPs consist primarily of transmission
equipment with which the Group routes calls and data to and from the Group’s hub. Typically,
the Group pays a monthly fee to cover the rental of the co-location spaces as well as the
maintenance and services provided by the telecoms operators that own the data centres in
which the Group’s POPs are located. The Group also collects similar co-location fees from
telecoms operators that maintain POPs in its data centres in Hong Kong.

The cable network

The Group leases from various providers of leased circuits transmission capacity in undersea
and underground telecommunications cables that connect Hong Kong to the PRC, United
Kingdom, US and a number of other countries in Asia. The Group uses the capacity on these
leased circuits to transmit traffic among the Group’s POPs, its hub and the networks of most
telecoms operators that are the Group’s customers. Typically, the Group leases a specified
amount of transmission capacity in undersea and underground cables for which the Group
pays. The Group has not experienced and does not expect that there will be difficulties for the
Group to continue to lease such capacity in view of the abundant supply of transmission
capacity.

The Group also maintains local loops in Hong Kong which connect the Group’s customers
in Hong Kong to the data centres in the Group’s hub and connects the two data centres
together. The Group’s local loop consists of transmission capacity in telecoms cables in Hong
Kong that the Group leases.

The Group’s transmission capacity and the destinations of the Group’s leased circuits are
listed below:

<table>
<thead>
<tr>
<th>submarine cables</th>
<th>Circuit Type</th>
<th>Quantity</th>
<th>Connecting destinations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>STM-1</td>
<td>2</td>
<td>London,</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>United Kingdom</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1</td>
<td>Taiwan</td>
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<td></td>
<td></td>
<td>1</td>
<td>New York, US</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2</td>
<td>Los Angeles, US</td>
</tr>
<tr>
<td></td>
<td>DS3</td>
<td>1</td>
<td>South Korea</td>
</tr>
<tr>
<td></td>
<td>E1</td>
<td>1</td>
<td>Singapore</td>
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<tr>
<td></td>
<td></td>
<td>1</td>
<td>Philippine</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1</td>
<td>Malaysia</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2</td>
<td>Japan</td>
</tr>
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<td></td>
<td></td>
<td>6</td>
<td>Thailand</td>
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<tr>
<td></td>
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<td></td>
<td>Taiwan</td>
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<tr>
<td>underground</td>
<td>10G</td>
<td>1</td>
<td>PRC</td>
</tr>
<tr>
<td>local loop</td>
<td>10GE</td>
<td>2</td>
<td>telecoms</td>
</tr>
<tr>
<td></td>
<td>STM-16</td>
<td>1</td>
<td>operators</td>
</tr>
<tr>
<td></td>
<td>STM-4</td>
<td>1</td>
<td>and customers</td>
</tr>
<tr>
<td></td>
<td>STM-1</td>
<td>16</td>
<td>in Hong Kong</td>
</tr>
<tr>
<td></td>
<td>GE</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td></td>
<td>FE</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td></td>
<td>T1/E1 (various)</td>
<td>440</td>
<td></td>
</tr>
</tbody>
</table>
Circuit diversity, preservation measures and redundancy facilities

The integrity of the Group’s network and facilities is important to the provision of its services. As such, the Group has maintained cable diversity, preservation measures and redundancy facilities to safeguard its infrastructure.

The international network of the Group is set up with diversified paths to most of the destinations where it has major business volume. The Group uses more than one submarine cable system to connect to its POPs in US and United Kingdom. For other destinations where the Group’s business partners locate, the Group and its business partners also deploy diversified IPLC for connections. In some cases, the Group also uses public internet as back-up in some destinations.

During the Track Record Period, the Group did not experience any major systems failures, delay or other problems which led to substantial interruption to the operations of the Group. Although the Group did experience a reduction in the direct voice and SMS traffic to US, Japan and Taiwan at the occurrence of the earthquake near Taiwan in December 2006 and normal traffic was only restored after all the undersea cables were repaired in January 2007, critical voice traffic to these areas was maintained given one of the Group’s leased undersea cables remained operative and the Group diverted traffic via other undersea cables, though the transmission time of those traffic increased. The overall voice and SMS traffic handled by the Group in December 2006 remained stable when compared with that of November 2006.

Critical data and information, including correspondence with customers and management information of the Group’s hub are safeguarded by the SAN disaster recovery system, the backup system for critical data and information. SAN disaster recovery system performs real time replication of all mission critical data with two different storage media (including tape or hard drive of SAN storage). The Group also conducts periodic offline backup, including monthly tape backup or weekly automatic tape backup. Backup drill is carried out and reviewed periodically to ensure data integrity in the backup media is valid and recoverable.

Both data centres of the Group are equipped with SAN disaster recovery system, which is provisioned with active and redundant configurations. In case the active configurations of the local site are down, the redundant/back up configurations will continue service without affecting the backup activities. Backup data stored in SAN can be used for data recovery. In case both active and redundant configurations of the SAN equipment in a local site fail, the data can be restored from the SAN equipment located in the backup data centre of the Group.

The Disaster Recovery Plan includes the SAN disaster recovery system currently in operation. Other items of the Disaster Recovery Plan include a complete mirror site of the operation (including hardware, software and operation data), the installation and implementation of which are expected to be completed in mid-2007, at the earliest. The Group is currently exploring the possibility of implementing backup facilities in respect of some of its services such as its SCCP Roaming Signaling Transit service.
BUSINESS

MARKETING AND SALES

Since the Group’s customers are telecoms operators, the Group has adopted a direct selling strategy. The Group approaches its customers directly, which enables the Group to build close relationships with its customers and to maintain first-hand communication that permits the Group to understand its customers’ current needs and future plans to better promote the Group’s products.

To strengthen the Group’s industry presence, meet and maintain existing customers and identify new quality customers, the Group actively participates in major international telecoms events, conferences and exhibitions. Specifically, the Group takes part in events organised by the main international telecoms organisations and institutions, such as the Pacific Telecom Conferences, the International Telecom Union Conferences, the Global Traffic Meetings and the GSM Conferences, which the Group believes can best allow it to promote its services and strengthen its market presence.

In connection with the Group’s direct selling strategy, the Group utilises a dedicated account management team. This enables the Group’s customers to have dedicated points of contact with the Group to ensure that their needs are timely addressed. The Group’s senior management is also actively involved in enhancing and strengthening relationships with key customers. This sales model has proven to be successful in building and maintaining long-standing relationships with the Group’s customers. The Group has a total of nine different top-five customers (in terms of turnover for the three years during the Track Record Period), six of which have had a business relationship with the Group for over five years.

To strengthen the Group’s position as one of the main international telecoms hubs to China, the Group established a representative office in Beijing in 2005, enabling the Group to strengthen its customer support and liaise with key customers in China.

CUSTOMERS

For the years ended 31 December 2004, 2005 and 2006, total turnover attributable to the Group’s five largest customers accounted for approximately 48.0%, 51.5% and 47.7% of the Group’s total telecoms operations turnover, respectively. The Group’s largest customer, China Mobile Communications Corporation, accounted for approximately 33.1%, 35.3% and 30.6% of the Group’s total telecoms operations turnover for the years ended 31 December 2004, 2005 and 2006, respectively. The Group’s five largest customers are all Independent Third Parties. None of the chief executives of the Company, nor any of the Group’s Directors or their respective associates, nor any Shareholder, who, to the knowledge of the Directors, owns more than 5% of the total issued Shares immediately after completion of the Global Offering, has any interest in the Group’s five largest customers during the Track Record Period.

As at the Latest Practicable Date, there was no long-term contract of over one year duration under the category of Fixed-Line/Hybrid Carrier Voice Hubbing Services, Mobile Carrier Voice Hubbing Services and SMS Hubbing Services. Nevertheless, there were 13 long term contracts of over one year duration in respect of Mobile VAS with a total annual minimum charge of approximately HK$11.5 million.

Credit terms and payment

As the operational and financial positions of existing and new customers may affect the overall performance and financial position of the Group, the Group generally does not render any further services to particular customers if there is any evidence of risk in collecting payment from them. The finance department of the Group conducts regular reviews and evaluations on the credit status of all customers.
The Group employs credit agencies to perform credit checks on its customers. These credit checks aid the Group in determining whether to commence or continue business relationships with particular customers. For existing customers, the Group also evaluates their settlement compliance.

Subject to foreign exchange control of the relevant jurisdictions and the result of the credit checks, new customers may be required to make interest-free deposits, advance payments or provide bank guarantees for their use of the Group’s services. The credit period calculated from the date of invoice issued by the Group to the date of payment generally ranges from 7 to 180 days depending on the credit status of the relevant customers.

For customers having business relationships with the Group for over one year and with good credit ratings, the normal credit period assigned to them would be 30 days from the date of the invoice. For strategic customers (including major customers and customers whose usage of the Group’s hub would attract other customers to use the Group’s hubbing services), the Group offers an extended credit term.

Customers which fail to pay within the credit period would be served with warning letters which would stipulate a date for payment before any further credit will be granted.

Customers will also be subject to traffic monitoring (based on weekly traffic) and payment monitoring (based on monthly monitoring for new customers and bi-monthly monitoring for existing customers). Customers with exceptionally high traffic and/or delay in payments would be closely monitored. The finance department of the Group also conducts periodic review on customers to see whether they have performed in accordance with their service contracts with the Group.

The Group does not have any general policy for provision for its trade receivables. The Group reviews its trade receivables on a case-by-case basis. As at 31 December 2004, 2005 and 2006, provision of impairment loss on trade debtors were HK$9,528,000, HK$2,599,000 and HK$6,312,000, respectively.

**Recovery proceedings**

As part of its credit control and credit risk management, the Group will initiate legal proceedings against customers who have failed or have repeatedly failed to honour their payment obligations on time. Given the Group’s timely management information system, account managers are required to keep close scrutiny of their respective customers’ payments and report to the chief financial officer of the Company who reviews and monitors the payment schedules of the Group’s customers. The segregation of duties of the business and marketing team from the enforcement team ensures that the Group’s credit policy is adhered to.

The major litigation proceedings currently instituted by the Group are as follows:

(i) The Group instituted a civil claim against one of its customers for the invoice amount of approximately US$591,000 (equivalent to approximately HK$4,609,800) on 18 June 2001 in relation to the Group’s provision of telecoms services. The Company is pursuing this action.

(ii) On 16 December 2004, the Group also instituted a civil claim against one of its customers for the invoice amount of approximately HK$4.3 million in relation to the Group’s provision of telecoms services as well as against the guarantors of this customer for the guaranteed amount of US$300,000 (equivalent to approximately HK$2,340,000). The Company is actively pursuing this action.

(iii) On 6 January 2005, the Group instituted a civil claim against one of its customers for the estimated sum of HK$280,000, being the outstanding balance of the price of
goods sold and delivered and/or services rendered pursuant to an End User Purchase and Licence Agreement dated 20 February 2003 and a Sales Agreement dated 2 July 2003 both signed between the Group and the customer. A summary judgment has been applied for to see if the customer would raise any sustainable or triable defence before the parties going through a full trial, which is costly and time consuming.

Prior to the hearing of the summary judgment, the customer has counterclaimed against the Group for an estimated sum of HK$4.4 million for its loss of revenue due to the alleged defects in the software function and telecoms services provided by the Group. Nevertheless, the Group’s lawyers had advised the Group that they did not consider such counterclaim meritorious and recommended the Group to object to such counterclaim. As such, no provision has been recognized in financial statements for these years in relation to such counterclaim as the Group’s management considers that loss as a result of such counterclaim is unlikely.

**Pricing strategy and policies**

The Group provides its customers with high quality, readily available telecoms services in order to stay competitive.

1. **Fixed-Line/Hybrid Carrier Voice Hubbing Services and Mobile Carrier Voice Hubbing Services**

   As an inter-connection hub, the Group conveys a customer’s voice traffic from the customer’s point of connection with the Group’s system to the third party telecoms operator at the customer’s specified destination. The Group charges its customers for its services in conveying such traffic. The Group’s charges are calculated on a usage-basis (measured in terms of duration of the voice calls).

   The Group takes into account market prices and the needs and requirements of the customers in designing customised services at competitive prices.

   The Group also offers customers various discount plans and commitment arrangements to attract and secure their traffic. Most of the Group’s customers and suppliers are telecoms operators. Telecoms operators, as customers, place voice and/or data routing through the Group’s hub. When the telecoms operators are at the terminating end of the routing of voice or data, they charge the Group for telecoms services provided in directing calls to the recipients (being their customers). Since most of the Group’s suppliers are also its customers, commitment arrangements are in terms of traffic commitment in general.

2. **SMS Hubbing Services**

   Like the Group’s Voice Hubbing Services, the Group charges its customers for using the Group’s SMS Hubbing Services to route their traffic. The Group’s charges are calculated on a per short message basis and according to the destination of the SMS.

   The Group also uses complimentary services for intra-operator services and commitment arrangements to attract traffic. Since most customers of the Group are also suppliers of carrier services to the Group, commitment arrangements are in terms of traffic commitment in general.
3. **Mobile VAS and Enterprise Solutions**

The Group offers packaged Mobile VAS features to allow the Group flexibility in premium pricing on a stand-alone basis and in respect of its telecoms hubbing services.

The Group also adopts commitment arrangements for some of its Mobile VAS, such as Mobile Roaming Call Back service, whereby minimum fees will be charged against customers.

The Group’s pricing on Enterprise Solutions is generally based on cost but is ultimately subject to negotiations with customers and market rate.

**Cost management**

The Group's telecoms hubbing services benefit from economies of scale. To support the Group's strategy in providing quality services to customers at competitive prices while maintaining satisfactory Sales Margins, the Group manages its unit cost at a low level by:

- negotiating down cost of sales with major business partners through traffic aggregation;
- managing circuit costs by means of bandwidth aggregation and optimisation of circuit utilisation;
- making use of management information systems for real-time traffic routing and monitoring, utilising management decision support and customer behaviour tracking to optimise traffic routing;
- monitoring all capital expenditures through regular review by the Group’s capex review board;
- monitoring all operating expenditures in accordance with the Group’s financial authority control policy; and/or
- adopting IT tools to automate repetitive but time-consuming tasks.

**COMPETITION**

**General**

The markets for the Group’s services are highly competitive. The most influential factors in the competition of the business of the Group’s customers include the following:

- price;
- quality of services;
- capacity;
- attractiveness and breadth of portfolio of products and services offered;
BUSINESS

— quality of customer support; and
— ability to timely develop new and/or customised services to meet customers’ needs.

There is virtually no regulatory barrier in Hong Kong where the hub of the Group is based. The establishment of a fully equipped data centre and networking infrastructure takes approximately six months and will be constrained by factors such as capital availability, location, telecoms connection networking and electricity supplies.

The telecoms industry is subject to rapid and significant changes in technology, frequent introduction of new services and evolving industry standards. Competitors have to cope with emerging and future technological changes and it may take longer for new entrants not familiar with the market conditions to establish themselves. The Group’s experience as an international telecoms hub allows it to shorten service development cycles, provide attractive pricing and deliver highly reliable and tailor-made services to its customers, which in turn heightens entry barriers against competitors.

*Competition in Hubbing Services.* In providing Fixed-Line/Hybrid Carrier Voice Hubbing Services, Mobile Carrier Voice Hubbing Services and SMS Hubbing Services, the Group faces competition both from other neutral and independent providers of hubbing services and, particularly with respect to fixed line hubbing, from telecoms operators that perform hubbing services for themselves while also providing such services to third parties. Furthermore, existing customers may decide to provide hubbing services themselves, rather than using the Group’s hubbing services.

The Group faces competition from local, regional and international competitors. Neutral and independent providers of hubbing services who compete with the Group include local or regional providers and international providers. Locally, the Group faces competition from the affiliate of Hong Kong’s largest telecoms operator which provides similar services as the Group. Regional telecoms operators which compete with the Group by providing hubbing services to third parties include the largest telecoms operators in China and Singapore. North American and European telecoms operators who compete with the Group by providing hubbing services to third parties include a Dow 30 company which delivers broadband and other wireline and wireless communication services and a Belgian national telephone operator.

Certain competitors, particularly telecoms operators that compete with the Group by providing hubbing services to third parties, are larger and have significantly greater resources than the Group. Several of the Group’s competitors have stronger network infrastructure, more extensive product portfolios and have established connections with more telecoms operators than the Group.

North American and European providers of hubbing services currently primarily focus on markets different from the Group. Nonetheless, some of these North American and European providers also provide hubbing services in Asia or have plans to expand their operations to Asia. One of the Group’s strengths, however, is the Group’s established relationships with its major customers whose business and needs are well-understood by the Group. The Group closely cooperates with its major customers in developing of new products and services that are customized to these customers’ strategic requirements.
Based on available market information (as more particularly set out in the section headed “Industry overview” of this Prospectus), according to TeleGeography Research, the Group handled approximately 3.1% of the world’s wholesale traffic and 14.8% of wholesale traffic in Asia in 2005. In addition, the Group handled around 15.2% of China’s outbound international voice calls and a large majority of the international traffic for one of China’s mobile telecoms operators in 2006.

**Competition in Value Added Services.** The market for the Group’s value-added products and services is extremely competitive.

Certain of the Group’s competitors with respect to hubbing services described above also provide products and services that compete with some or all of the Mobile VAS that the Group offers, and may also offer a greater range of value-added services than the Group does. In addition, certain companies that do not provide hubbing services compete with the Group in providing value-added services.

There is no readily available market information for the Group to compare its performance against that of its competitors with respect to value-added services.

Although there is no market information in this regard, the development of these Mobile VAS places the Group in a competitive position which helps to expand the business scale of its telecoms hub. The Group considers that, in addition to receiving service fees from telecoms operators for the provision of these Mobile VAS, Mobile VAS has positive effects on the traffic volume and turnover of the overall voice hubbing services of the Group. Mobile VAS also strengthen the Group’s competitiveness particularly in the high-end international and roaming telecoms traffic areas, which require constant product development.

**Competition in Enterprise Solutions Services.** Enterprise solutions services, including co-location services at the Group’s data centres, leased line rentals and system integration services, are also subject to intense competition from some of the providers described above. In addition, data centre operators, telecoms operators, software developers and smaller entrepreneurial companies may be focusing or may in the future focus significant resources on developing and marketing products and services that may compete directly with the Group’s Enterprise Solutions. Furthermore, customers may deploy internally-developed communications technologies and services which may reduce the demand for technologies and services from third party providers such as the Group and further increase the pressures for competitive pricing. Market information is generally not available with respect to the development of enterprises solutions services.

**PURCHASES**

Major purchase costs of the Group relate to carrier costs, including the fees charged by telecoms operators’ against the Group. For the years ended 31 December 2004, 2005 and 2006, the top-five largest suppliers of the Group accounted for approximately 32.3%, 33.8% and 31.1% of the Group’s total costs for network, operations and support expenses, respectively. During the same periods, the largest supplier accounted for approximately 11.4%, 13.6% and 10.3% of the Group’s total costs of network, operations and support expenses, respectively. The Group’s five largest suppliers are all Independent Third Parties. None of the chief executives of the Company, the Group’s Directors nor any of their respective associates nor any Shareholder who, to the knowledge of the Directors, will own more than 5% of the total issued Shares immediately after completion of the Global Offering, had any interest in the Group’s five largest suppliers during the Track Record Period.
BUSINESS

As at the Latest Practicable Date, the Group has established stable business relationships with the Group’s top-five largest suppliers. A majority of the top-five suppliers to the Group during the Track Record Period have had a business relationship with the Group for over five years. Although the Group has not entered into long-term supply contracts with many of its major suppliers, the Group does not foresee any major problems in the future related to obtaining components required for its operations.

APPLICATION DEVELOPMENT

The Group places strong emphasis on the development of applications for its hubbing services in order to keep up with the latest needs of its customers. The Directors strive to ensure that the Group has the leading engineering skills necessary to secure the Group’s success and the Group’s ability to constantly provide suitable, high quality services to meet customers’ requirements.

Although the Group does not form any collaboration arrangements with other parties for research and development, the Group has been recruiting and expanding its software and application development team since 2002. The Group’s strong application development team, equipped with the necessary engineering skills, enables the Group to continue upgrading its existing services in response to the sophistication of the telecoms industry. The Group’s in-house application development team develops customised services and platforms and provide timely solutions to meet market demand.

The Group leverages its application development workforce and traditional service expertise to add new dimensions in developing and implementing new applications. It positions itself as a partner, rather than a mere supplier, in order to assist its customers in handling the growing complexity of networks and in providing the services they need to offer or use. The Group differentiates itself through innovation and flexibility by offering customers value-added services and solutions capable of generating new revenue streams for these customers or optimising the cost of running their networks. The products that the Group has developed mainly focus on mobile services with core design based on hubbing architecture rather than on a stand-alone or point-to-point basis. The Group believes that this approach enables it to retain its customers.

However, given the confidential nature of the software applications and technologies developed, it is commercially not viable to register for patents (if applicable) for such software applications and technologies. All the Group’s employees are required to keep confidential all information in relation to the software applications and technologies developed by the Group.

For the years ended 31 December 2004, 2005 and 2006, a portion of the application development costs amounting to approximately HK$6.1 million, HK$5.1 million, and HK$3.9 million, respectively, were capitalised into other property, plant and equipment, and the remaining balance of the application development costs were charged to the profit and loss accounts as part of staff costs to the Group.

INSURANCE

The Group maintains insurance policies with various insurance providers, covering losses or damages to properties, machinery, equipment, motor vehicles and other fixed assets. The Group also maintains public liability insurance. The Group has taken out various types of insurance for its employees, including employees’ compensation insurance, medical insurance and group business travel accident insurance.
For the years ended 31 December 2004, 2005 and 2006, the insurance premiums paid by the Group were HK$490,000, HK$530,000 and HK$531,000, respectively. No significant claims under these insurance policies have been made by the Group during the Track Record Period.

The property “all risks” insurance and public liability insurance taken out by the Group do not cover certain damages or losses and contain a number of liability exclusion clauses including cyber risk exclusions. The Directors are of the view that it is not commercially practicable to accept the prevailing premium rate to cover such items. Further, the Directors consider that the insurance coverage of the Group is adequate and in line with industry norms.

INTELLECTUAL PROPERTY RIGHTS

The Group owns, possesses, or has the right to use the following intellectual property rights:

Trade marks

The Group has registered a trade mark with the Trade Marks Registry of the Intellectual Property Department of the Government of Hong Kong for its “Hong Kong Internet Exchange 2” trademark.

CITIC Pacific has granted the Group a royalty-free non-exclusive right to use the trademark until the expiration of the current trademark registration. The current trademark registration will expire on 26 July 2014.

Domain name

The Group has registered various domain names with different combinations of the words “citic”, “telecom”, “1616”, “ct”, “中信”, “電訊” and domain servers “.cn”, “.com”, “.net” and “.net.cn”. The domain names are registered with the China Internet Network Information Centre.

Internet keywords

The Group has registered the following Internet keywords: (i) 中信電訊; (ii) 1616; and (iii) 中信電訊 1616 in respect of URL www.citic1616.com.

Software Licences

The Group has been granted software licences for the Group’s application development and/or telecoms operations by Nortel, HP and Oracle.

INTERNAL AUDIT

Being a wholly owned subsidiary of CITIC Pacific, the Group has been audited by the group internal audit department of the CITIC Pacific group, which provides independent reviews to monitor the adequacy and effectiveness of the Group’s internal control systems. Upon Listing, the Group will engage the group internal audit department of the CITIC Pacific group to perform internal audits for the Group. For details of the terms, please refer to the section headed “Connected Transactions” of this Prospectus.
The Audit Committee of the Group is composed of three independent non-executive Directors. It has a clear scope of responsibilities and is accountable to the Board. The risk assessment methodology and the audit schedule need to be approved by the Audit Committee on an annual basis. Special reviews will be performed on any areas of concern identified by the Audit Committee or the Group’s senior management upon request. The scope of the internal audit includes the reviews on:

- internal control systems of major business operations which generate significant revenue for the Group;
- internal control systems which safeguard the Group’s assets; and
- accounting and reporting procedures and financial statements.

The audit result is discussed and agreed with the management of the Group subsequent to each review. A summary of major audit findings together with the actions to be taken by the Group’s management for rectifying the control weaknesses is also submitted to the Audit Committee. The implementation of the remedial actions will then be followed up and the implementation progress will be reported to the Audit Committee on a semi-annual basis.

**INTERNAL CONTROL**

In order to maintain the integrity of the Group’s business and financial operations and to safeguard against business risks which may result from inadequate internal processes and systems, the Group has adopted and has been implementing a series of internal controls, some of which are as follows:

- defined *segregation of roles and responsibilities* between the Board and the Group’s senior management;
- *checks and balances within the management team* — provided by the Company’s management team and is comprised of personnel with diverse and in-depth knowledge of the telecoms industry;
- *Risk Management Committee Guidelines* — define the requirements and processes for identifying, managing and mitigating key business, financial and operational risks by the Risk Management Committee, which comprises six members from the management team, who will meet every quarter or at such shorter intervals as required to review the risks that are identified and to discuss the action plans to eliminate or mitigate such risks;
- *Code of Conduct* — as a member of the CITIC Pacific group, the Group adopts the code of conduct of the CITIC Pacific group to ensure that the code of the Group’s staff is in compliance with ethical standards as well as to maintain the Group’s best practices for staff integrity in protecting the commercial interests of the Group. Upon Listing, the Group will establish its own code of conduct with terms substantially the same as those it is currently adopting;
- *Financial Authority Control Policy* — defines the financial authority delegated by the Board to the different levels of management on day-to-day operations;
• *Projects and Products Development Framework* — defines the processes for the approval of new products and/or their development;

• *Procedures and Guidelines for Capex Review Board* — reviews proposed material capital expenditure based on the defined procedure and guidelines for the Capex Review Board;

• *Credit Control Policy* — defines the financial control procedure, including service suspension or termination, to manage the credit risks posed by the Group's customers;

• *Regulatory Compliance* — the head of the legal department of the Group is responsible for overseeing the Group's compliance with the rules and regulations of relevant regulatory bodies (including OFTA and the Stock Exchange);

• *Business Plan Guidelines* — used for the preparation of the Group's annual operating plan. They define the information that is required for budgeting, performance management in terms of revenues, capital and operating expenses, and manpower planning. A monthly performance meeting is held by the management team to keep track of the Group's business performance and to recommend actions for improvement; and

• *Real Time Management Information System* — this system is developed by the Group for the timely collection and distribution of information in order to facilitate management decisions and performance management.

**PROPERTIES**

The Group does not own any real property. Set out below are the properties currently occupied by the Group.

**Principal office and data centres in Hong Kong**

The principal office of the Group is approximately 19,000 sq.ft. and the CITIC Tower data centre is approximately 10,000 sq.ft. Both are located in CITIC Tower, Hong Kong. Both are also under leases from Goldon Investment Limited, a 40% investment of CITIC Pacific, for a term of three years commencing from 16 November 2006 at an aggregate monthly rental of approximately HK$1.8 million.

The Group’s principal office and CITIC Tower data centre are ordinary office premises with no specific technological setup relevant to the Group's business provided by the landlord.

The rents for the properties were agreed after arm's length negotiation with reference to market rentals and the independent valuer, Knight Frank Petty Limited, has confirmed that the rents are comparable to market level. The Company does not consider acquiring its own properties as a commercially justifiable option because leasing would allow more flexible use of its capital to develop its other technological facilities and business.

Compared to the Company's management expertise, equipment, know-how and customer-base, the locality of the properties in which the Company operates in Hong Kong is not a crucial aspect to the operation of the Company.
The Company does not consider relocation of its premises (if and when required) would create undue burden to the operations of the Company. Nevertheless, in the event that the Company decides to relocate its data centre, the relocation will be taken in different stages to ensure that services will not be interrupted and it is estimated that relocation would take less than six months with minimal disruption to its business, and the relocation cost would not be significant. The engineers of the Company are fully capable of setting up the data centre and no external specialty is expected to be required. The Company’s office is no different from normal office and as such, no special skill set is required in case of relocation. The Company’s office is no different from normal office and as such, no special skill set is required in case of relocation. As there is no unilateral termination right or termination notice period on the part of the landlord under the subsisting tenancy agreements, the Company considers that it would have sufficient time to plan for relocation if required when the leases are about to expire.

There is no option to renew granted in favour of the Company. However, based on the reasons as set out above, the Company does not consider it necessary to obtain such option to extend the lease term under the existing lease agreements.

As set out in the paragraph headed “Recent developments” in the section headed “Business” of this Prospectus, the Group completed its setting up of the second data centre in mid-2006. As such, the properties rented from CITIC Pacific has become less crucial to the operation of the Group.

In addition, given the availability of office premises for rental, the Company does not see any reasons why the tenancies referred to above should affect the Group’s operational independence.

The Group’s second data centre is located in Central pursuant to a licence to occupy granted by an Independent Third Party pursuant to which the Group has to reimburse the licensor all outgoings and expenses in respect of the 45,000 sq. ft. equipped floor area.

For details of the tenancy of the Group’s principal office and the CITIC Tower data centre, please refer to the valuation report set out in Appendix III to this Prospectus. The occupation of the second data centre of the Group is pursuant to a licence with is not a property interest and accordingly the valuation report will not cover such licence.

Representative office in Beijing

The Group has a representative office in Beijing and the premises are under a tenancy agreement with 神州風采 (北京) 網絡科技有限公司 (Shenzhen Fengcai (Beijing) Network Technology Co., Ltd.), an Independent Third Party, for a term of 13 months commencing from 1 January 2007 and expiring on 31 January 2008 at a monthly rental of RMB38,025 (equivalent to approximately HK$37,911).

For details of the tenancy of the representative office in Beijing, please refer to the valuation report set out in Appendix III to this prospectus. The occupation of the second data centre of the Group is pursuant to a licence with an Independent Third Party and accordingly the valuation report will not cover such licence.

Staff quarters in Hong Kong

The Group also rents eight residential premises as staff quarters. For details of the tenancy of the staff quarters, please refer to the valuation report set out in Appendix III to this Prospectus.
RELATIONSHIP WITH CITIC PACIFIC

As of the Latest Practicable Date, CITIC Pacific owned 100% of the issued share capital of the Company. Immediately following the completion of the Global Offering, CITIC Pacific will own 56.6% of the issued share capital of the Company (assuming that the Over-allotment Option is not exercised) or approximately 50.09% of the issued share capital of the Company (assuming that the Over-allotment Option is exercised in full) and the Company will remain a subsidiary of CITIC Pacific.

CITIC Pacific's business includes manufacturing of special steel, property development and investment, infrastructure (such as power generation, aviation, civil infrastructure and communications), marketing and distribution. The Company's operation is one distinct business amongst the range of diversified businesses of CITIC Pacific group and represents a substantial part of CITIC Pacific's telecoms business.

INDEPENDENCE FROM THE RETAINED GROUP

The Board is satisfied that the Company can carry on business independently of the Retained Group and its associates after the Listing on the basis of the following:

• Independence of boards and management

The Company and CITIC Pacific have boards of directors that function independently of each other. There are no common executive directors between the Company and CITIC Pacific upon Listing, except that the two non-executive Directors (namely, Mr. Lee Chung Hing and Mr. Kwok Man Leung) are also directors of CITIC Pacific or its subsidiaries.

Mr. Yuen Kee Tong, the Chief Executive Officer and an executive Director, will under an agreement with CITIC Pacific spend some of his time on the business of CITIC Pacific but will cease to act as director of all subsidiaries or associated companies of CITIC Pacific upon Listing. CITIC Pacific will pay Mr. Yuen for his such services separately. Mr. Yuen's role in the Retained Group after the Listing will facilitate the continued operation and oversight of the remaining non-core telecoms businesses of CITIC Pacific.

Mr. Yuen’s continued involvement in CITIC Pacific will be on a non-executive and part-time basis and CITIC Pacific will not engage his time more than the time he would spend with the Group. He is expected to maintain an advisory role with CITIC Pacific which is expected to occupy less than 5% of his time. With this advisory role, Mr. Yuen is expected to provide strategic guidelines and advices to the Chairman and managing director of CITIC Pacific as and when required on issues relating to CITIC Pacific's remaining non-core telecoms investments, including virtual private networks business, on-line game related business, call center and e-commerce business. These retained businesses of CITIC Pacific are managed and operated separately by their own management teams independent from the Company. Mr. Yuen will not be required to involve in day-to-day management of the retained businesses and Mr. Yuen’s consultancy will only be at a strategic level.
During the Track Record Period, Mr. Yuen participated in making all the Company’s major decisions and strategy settings including deciding on the strategic inter-connection at the international gateway with China telecoms operators, reviewing and approving the submitted annual budget and capital expenditure plan, and being involved in issues like recruitment of directors and senior management to cope with the Group’s development. Mr. Yuen reviewed monthly management reports and had regular discussions with the Company’s senior management. He was also responsible for representing and reporting the Group’s business and performance to CITIC Pacific on a regular basis. Mr. Yuen maintained regular contacts with senior executives of various major global telecoms operators with a view to enhancing the Group’s business development. Mr. Yuen had been instrumental in advising the Company’s management in licensing and regulatory matters. He was also responsible for liaison with the major regulatory authority. Mr. Yuen has thorough knowledge of the Company’s operations and is familiar with the recruitment market from which the Company employed its senior staff. Mr. Yuen, on behalf of the Company, also participated in various special projects with other parties, e.g. HKIX2 which is a project for mainly providing interconnection among Internet access providers in Hong Kong.

The Company considers that the following observations and measures adequately deal with any potential conflict arising from Mr. Yuen’s part-time advisory role with CITIC Pacific:

- CITIC Pacific’s stated strategy is to pursue development of its core businesses, which it actively manages to leverage off its expertise, such as special steel manufacturing, property development and investment, and power generation.

- CITIC Pacific will maintain a significant stake in the Company.

- Indeed, the businesses of CTM and CITIC Guoan which may compete with the Group are not businesses controlled, operated or managed by the Retained Group. The Retained Group only has passive investment interests in CTM (20%) and in CITIC Guoan (50%) which has an indirect interest in 41.63% in Guoan Information.

- To avoid any concerns, Mr. Yuen has already resigned/will resign upon Listing from his directorship with all subsidiaries and associated companies of CITIC Pacific, including CTM. In any event, CITIC Pacific only has one out of nine board seats in CTM.

- Mr. Yuen does not have any role in CITIC Guoan. Furthermore, Guoan Information is a PRC listed company (in which CITIC Guoan has only 41.63% interest) and CITIC Pacific has no board representation at all in Guoan Information.

- Besides CTM and CITIC Guoan, none of the businesses of the Retained Group (including those business areas of CITIC Pacific expected to require Mr. Yuen’s advisory services) will nor are they capable of competing with the Company’s business.
In case of any issues of conflict being decided by the Board, Mr. Yuen (and other conflicting Directors, e.g. Mr. Lee Chung Hing and Mr. Kwok Man Leung, if any) will, apart from abstaining from voting, also physically leave the relevant board meeting.

The Directors believe that the Company operates independently of the Retained Group and in the interests of the Shareholders.

• **Separate lines of business**

Operations of the Company are independent of and separate from the businesses of the Retained Group.

The Group is principally engaged in provision of global interconnection platform and telecoms network with a focus on China, namely, Fixed-Line/Hybrid Carrier Voice Hubbing Services, Mobile Carrier Voice Hubbing Services, SMS Hubbing Services and Mobile VAS and Enterprise Solutions. On the other hand, the Retained Group's business includes manufacturing of special steel, property development and investment, infrastructure (such as power generation, aviation, civil infrastructure and communications), marketing and distribution. Telecoms business of CITIC Pacific is just one distinct business amongst the range of diversified businesses of CITIC Pacific.

After the separate listing of the Group, the Retained Group's telecoms business is expected to include the provision and operation of virtual private networks business, on-line game related business, call center and e-commerce business. The nature of the telecoms businesses of the Retained Group is very different from the business in which the Company operates, namely, telecoms hub based service providers, except that CITIC Pacific may retain the following interest:

• 50% investment in CITIC Guoan. CITIC Guoan’s primary business is its 41.63% interest in Guoan Information, a Shenzhen Stock Exchange listed company. CITIC Pacific does not have any board representation in Guoan Information, which has 15 directors. Guoan Information operates cable television networks in 18 cities and one province in China serving approximately 6.1 million subscribers. Guoan Information also has interests in systems integration, software development, hotel management, salt lake consolidated resources development and property development. Mr. Lee Chung Hing, a non-executive Director, is the Vice Chairman of CITIC Guoan. Mr. Kwok Man Leung, a non-executive Director, is a director of CITIC Guoan; and

• 20% investment in CTM, a full telecoms service provider. The other shareholders of CTM are Cable and Wireless plc (51%), Portugal Telecom International, SGPS, SA (28%) and The Macau Post (1%). CITIC Pacific only has the right to nominate one out of the nine board members in CTM. CTM is Macao’s only full telecoms service provider with comprehensive telecoms services ranging from international and domestic telephone services, mobile telephone services, value-added services to Internet and network services and includes provision of international hubbing services, leased circuits, data centre and co-location services that are similar to the Group’s relevant business.
Guoan Information’s system integration services and CTM’s international hubbing services, leased circuits, data centre and co-location services are the only areas of the Retained Group’s telecoms business which may compete with the Company’s business.

For the three years ended 31 December 2004, 2005 and 2006, the revenue contribution of system integration of the Group were HK$16.0 million, HK$7.8 million and HK$11.7 million, representing approximately 1.5%, 0.8% and 0.9% of the Group’s turnover respectively and the revenue contribution of co-location, data centre and leased circuits services of the Group were HK$18.6 million, HK$13.6 million and HK$23.7 million, representing approximately 1.8%, 1.4% and 1.7% of the Group’s turnover respectively.

As CITIC Pacific does not have detailed management information on Guoan Information, the disclosure made herein is based on information publicly available. Based on the published annual report for the year ended 31 December 2005 and the published interim report for the six months ended 30 June 2006, Guoan Information’s main business is cable television networks. The system integration services provided by Guoan Information appeared to be related to system control in respect of transportation, property management, hotel management, electricity, civil aviation, customs and social security rather than system integration services provided to telecoms operators for connections between telecoms networks.

The Group’s system integration services are provided to telecoms operators for connections between telecoms networks via the hub operated by the Group which differ from that of Guoan Information which the Company believes to be provided for systems control. The Company has not come across Guoan Information as a competitor in the course of its system integration business as Guoan Information concentrates in the PRC local market while the Group’s system integration business is conducted in Hong Kong.

Again, CITIC Pacific does not have management information on CTM’s hubbing and co-location, data centre and leased circuit business. Nevertheless, based on the understanding of the Directors of the Company, CTM is a full service telecoms provider with significant retail operation. CTM’s hubbing and co-location, data centre and leased circuit business is only incidental to its general services to retail customers.

On the basis set out below, the Directors do not envisage that the Retained Group will create any threat to the business operation of the Company nor any direct competition against the Group:

• As far as the Directors are aware, neither CITIC Guoan nor CTM focuses on hubbing services which are the main business of the Company.

• Neither CITIC Guoan nor CTM is a subsidiary of CITIC Pacific.

• They are not business operated by CITIC Pacific but are investment interests in which CITIC Pacific does not assert any direct and active management control.

• In the case of CTM, CITIC Pacific’s investment is a 20% interest. In the case of Guoan Information, the attributable interest (through the 50% interest in CITIC Guoan) is less than 21%.
Furthermore, the Company does not consider it beneficial to seek to purchase investment interest without direct and active management control in CTM or CITIC Guoan, which comprise only non-core operation relevant to the Group’s operation.

The businesses of the Company have always been carried on independently from the business of CITIC Guoan and CTM. There was no related party transactions between the Group and CITIC Guoan. Although CTM is a customer of the Group during the Track Record Period, it was not one of the top five customers of the Group. Accordingly, the Directors do not consider that there is any reason why the Group cannot continue to carry on its business independently from and at arm’s length from CITIC Guoan and CTM.

During the Track Record Period, CTM and CPC Group only accounted for insignificant share of the Group's turnover and expenses.

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<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
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<tr>
<td></td>
<td>% of total</td>
<td>% of total</td>
<td>% of total</td>
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<td></td>
<td>turnover</td>
<td>turnover</td>
<td>turnover</td>
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<tr>
<td>The Group’s total turnover</td>
<td>1,047,152</td>
<td>980,046</td>
<td>1,364,209</td>
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<tr>
<td>CTM</td>
<td>3,273</td>
<td>0.3</td>
<td>2,254</td>
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<tr>
<td>CPC</td>
<td>1,085</td>
<td>0.1</td>
<td>735</td>
</tr>
<tr>
<td>CPCNet Macau</td>
<td>—</td>
<td>0.0</td>
<td>751</td>
</tr>
<tr>
<td>CPCNet</td>
<td>642</td>
<td>0.1</td>
<td>777</td>
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|                      | % of total    | % of total    | % of total    |
|                      | network,     | network,     | network,     |
|                      | operations    | operations    | operations    |
|                      | and          | and          | and          |
|                      | support      | support      | support      |
|                      | expenses      | expenses      | expenses      |
| The Group’s total network, operations and support expenses | 747,151       | 688,113       | 944,860       |
| CTM                  | 1,445         | 0.2           | 2,066         | 0.3          | 3,957         | 0.4          |

As set out in the section headed “Connected transaction” of this Prospectus, these companies will account for immaterial share of the Group’s turnover and network, operations and support expenses in the coming three years.

• **Non-competition undertaking**

CITIC Pacific has executed a non-competition undertaking in favour of the Company to the effect that at any time during which the Shares are listed on the Stock Exchange and for so long as CITIC Pacific and its associates control, whether individually or taken together, 30% (or such other amount as may from time to time be specified in the Hong Kong Code on Takeovers and Mergers) or more of the issued share capital of the Company or are otherwise regarded as a controlling shareholder of the Company.
under the Listing Rules, (i) CITIC Pacific will not engage, and will procure its subsidiaries (excluding the Group) not to engage, on its own account or with each other or in conjunction with or on behalf of any person, firm or company, carry on or be engaged in, concerned with or interested in, directly or indirectly, whether as a shareholder (other than being a director or a shareholder of the Group or its associated companies), partner, agent or otherwise, in the provisions of telecoms hub based service globally, or in any other business that may compete, directly or indirectly, with such business (“Restricted Activity”); and (ii) in the event that any opportunity is made available to CITIC Pacific to invest in any independent third party business which is engaged in the Restricted Activity (an “Investment Opportunity”), CITIC Pacific will use its best efforts to procure that such Investment Opportunity is offered to the Group and the Group shall have a right of first refusal in respect of such Investment Opportunity.

In the event that the Company does not exercise such right of first refusal and CITIC Pacific otherwise takes up such Investment Opportunity, the Company shall then be granted an option to acquire CITIC Pacific’s interest in such Investment Opportunity at a price representing the cost of investment of CITIC Pacific, which is exercisable for a period of 1 month after CITIC Pacific intends to dispose of any of its direct or indirect interest in such Investment Opportunity. If the independent non-executive Directors resolve not to purchase the Investment Opportunity or the Company does not proceed with the acquisition of the Investment Opportunity within 1 month from the date of the Offer, CITIC Pacific shall then be entitled to dispose of the Investment Opportunity to a prospective purchaser only at a price higher than the price of the offer within 3 months from the earlier of such refusal or the expiry of such 3 months period. If such disposal does not occur within such 3 months period, CITIC Pacific shall not be entitled to dispose of the Investment Opportunity without giving the Company again an offer for such interest.

The restrictions which CITIC Pacific agreed to undertake in the above do not apply to:

(a) Restricted Activity conducted by Guoan Information and/or CTM so long as Guoan Information or CTM (as the case may be) is not accounted for as a subsidiary of CITIC Pacific; or

(b) CITIC Pacific or its associates holding or being interested in shares or other securities in any company which conducts or is engaged in any Restricted Activity (a “Subject Company”); provided that (i) such shares or securities are listed on a recognized stock exchange, (ii) the aggregate number of shares held by CITIC Pacific and its associates do not exceed 30% of the issued shares of the Subject Company and (iii) CITIC Pacific and its associates do not have board or management control of the Subject Company.

- Corporate governance measures regarding potential conflict of interest with the Retained Group

The Company is committed to the view that the Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors) so that there is a strong element on the Board which can effectively exercise independent judgment. The Company is also committed to the view that the independent non-executive Directors should be of sufficient caliber and number for their views to carry weight.
CITIC Pacific has also undertaken to use its best endeavors to provide an annual confirmation to the Company confirming that it has not breached the terms of the non-competition undertaking, and to provide all information necessary for the annual review by the independent non-executive Directors and the enforcement of the non-competition undertaking.

In addition to the non-competition undertaking, the following measures will be adopted by the Company in respect of the enforceability of the non-competition undertaking:

- the independent non-executive Directors will review, on an annual basis, the Retained Group’s compliance with the non-competition undertaking, including the options, pre-emptive rights or first rights of refusals provided by the controlling shareholder on its existing or future competing businesses;

- the Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to the enforcement of the non-competition undertaking (if any) in its annual report or, where the Board considers it appropriate, by way of an announcement; and

- the controlling shareholder will make an annual confirmation as to compliance with the non-competition undertaking in the annual report of the Company. Disclosure on how the non-competition undertaking was complied with and enforced is consistent with the principles of making voluntary disclosures in the Corporate Governance Report.

Further, any transaction that is proposed between the Group and the Retained Group will be required to comply with the then requirements of the Listing Rules, including, where applicable, the announcement, reporting and independent shareholders’ approval requirements.

- **Independent operations**

  Although the Company rented the premises of its registered office and one of its two data centres from an associate of CITIC Pacific, the Company does not share offices premises or facilities with the Retained Group. In addition, the Company has its own sources of supplies, customer base and sales and distribution channels. Such sources of supplies, customer base and sales and distribution channels are independent of the Retained Group. The Group has its own sales team separate from CITIC Pacific and negotiates sales contracts with its customers independently from CITIC Pacific.

  Please refer to the paragraph headed “Properties” in the section headed “Business” of this Prospectus for further information of the Company’s leased premises.

- **Independent financial viability**

  All amounts the Retained Group owes to the Group and all amounts the Group owes to the Retained Group (in both cases, other than accounts receivables incurred in the ordinary course of business) will be settled prior to Listing. The Directors believe that the Group has the ability to support its own operations following the Listing.
The Group’s treasury function is currently operated under the supervision of Mr. Chan Tin Wai, David, an executive Director. Mr. Chan oversees 2 full-time staff of the Company in the corporate finance department of the Company to take care the treasury activities of the Company, which operation is separate and independent of CITIC Pacific.

- **Independent administrative capability**

  Save for the purpose of aligning implementation of group corporate governance policy, the Company will continue to share certain administrative services, namely, company secretarial services and internal audit services with CITIC Pacific, all the other essential and substantive administrative functions which relate to the operation of the Group’s business including business administration, human resources, information technology, finance, legal and compliance will be handled by the Group. The Group will be administratively independent of the Retained Group.

**DIRECTORS’ NON-COMPETITION UNDERTAKINGS**

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

Mr. Lee Chung Hing, non-executive Director, is the Vice-Chairman of CITIC Guoan. Mr. Kwok Man Leung, a non-executive Director, is a director of CITIC Guoan. The business of CITIC Guoan and CTM is set out in the paragraph headed “Independence from the Retained Group” above.

Each of the executive Directors and non-executive Directors has undertaken to the Company that he will, in his capacity as director of the Company, from time to time and to the extent practicable, provide sufficient information to the Board in order for the Company to satisfy the above requirements.

Furthermore, each Director (except the independent non-executive Directors) has undertaken in favour of the Company to the effect that, save for those interests as disclosed in this Prospectus (please refer to the disclosure in this section above, the section headed “Directors, senior management, staff and Compliance Adviser” and the paragraph headed “Disclosure under Rule 8.10(2) of the Listing Rules” in the Appendix V to this Prospectus) or interest in any company which a Director together with any of his associates own less than 5%, at any time during which he is a Director, he will not engage, and will procure its associates not to engage, on its own account or with each other or in conjunction with or on behalf of any person, firm or company, carry on or be engaged in, concerned with or interested in, directly or indirectly, whether as a shareholder (other than being a director or a shareholder of the Group or its associated companies), partner, agent or otherwise, in the provisions of telecoms hub based service globally, or in any other business that may compete, directly or indirectly, with such business.
A. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

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

- The CPC Services Agreement dated 21 March 2007 between the Company and CPC whereby the Company would procure provision of various telecoms services in normal courses of business to CPC and its subsidiaries.

- Two tenancy agreements both dated 22 December 2006 between the Company and Goldon whereby the Company leased the Group’s office premises located at CITIC Tower in Hong Kong from Goldon. Goldon is a company in which CITIC Pacific has a 40% interest and is therefore an associate of CITIC Pacific.

- Pursuant to the HKIX2 Shareholders’ Agreement entered into between HKIX Co., CITIC Data 1616, The Chinese University of Hong Kong Foundation Limited and the Company on 18 August 2004, the parties have agreed to procure the support of HKIX for the day-to-day operation costs of HKIX Co by way of payment in the amount of HK$1,000,000 per year.

1. CPC Services Agreement

General terms

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

Under the CPC Services Agreement, the services to be provided by the Group to CPC Group include provision of private leased circuits, conveyance of telecoms traffic, equipment co-location and other available services which the Group offers to its customers.

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

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

Reason for the transaction

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

Pricing principles and annual caps

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

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

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

2. Tenancy Agreements

General terms

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

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

Term

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

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

Pricing principles and annual caps

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

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

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

3. Payment to HKIX Co

General terms

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

Pursuant to the HKIX2 Shareholders’ Agreement, APIX will provide various financial and operational support to HKIX Co which includes an annual payment of HK$1,000,000 to a wholly-owned subsidiary of HKIX Co. As a partner in the HKIX2 project, the Company’s tangible contributions are provisions of financial support and the location to host HKIX2 free of charge. HKIX Co remains the operator of HKIX. The Group has not entered into similar agreement before and APIX is the only joint venture of the Group.

Term

Under the HKIX2 Shareholders’ Agreement, the annual payment shall be for an initial period of 6 years until 17 August 2010 (which, subject to annual review by APIX, may be renewed on a yearly basis for no more than four years). The term and the annual payment was agreed as part of the overall arrangement concerning the governance and operation of APIX. Indeed, the term of six years (with an option to
renew for no more than four years) (instead of a 3-year term) is appropriate for contracts of a similar nature, i.e. shareholders’ agreement which relates to the continuous governance and operations of a company on a continuous basis. Shareholders’ agreement usually does not have a fixed term and terminates according to the commercial agreement of the shareholders (e.g. a particular party ceasing to be a shareholder or a fixed term). As the HKIX2 Shareholders Agreement relates to an unique service in Internet services, namely, a mirror site to the HKIX, there is no comparable joint venture in Hong Kong which can produce a reference to determine the standard/normal term of this type of joint venture agreements. The parties have considered that the term of 6 years (with an option to renew for no more than 4 years) is a reasonable period to build up the cooperation and the term was arrived at based on the arm’s-length negotiation between the parties, taking into account the operation and the development of such Internet exchange centre in order to provide a productive outcome.

Reason for the transaction

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

Pricing principles and annual caps

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

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

The Directors (including the independent non-executive Directors), having reviewed the relevant information (including the historical figures, the underlying agreements, the trend and the growth in demand generally in the market for the services rendered to CPC and the confirmations from the property valuer) provided by the Company relating to the continuing connected transactions set out in the sub-paragraphs headed “Reason for the transaction” and “Pricing principles and annual caps” under each of the transactions above, consider that the CPC Services Agreement, the Tenancy Agreements, and the annual payment to a wholly-owned subsidiary of HKIX Co have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms, and the proposed terms and the proposed annual caps are fair and reasonable and in the interest of the Shareholders of the Company as a whole. Under the Listing Rules, such transactions will, following the Listing, constitute non-exempt continuing connected transactions of the Company and will be subject to the disclosure and/or independent shareholders’ approval requirements provided for in the Listing Rules.
The Company has, pursuant to Rule 14A.42(3) of the Listing Rules, applied to the Stock Exchange for a waiver from strict compliance from the following upon the Listing:

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

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

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

B. EXEMPT CONTINUING CONNECTED TRANSACTIONS

The Company also expects to enter into the following continuing connected transactions which are exempt from reporting, disclosure and independent shareholders approval requirements under Chapter 14A of the Listing Rules:

- the Company will continue to share certain administrative services, namely, company secretarial services and internal audit services, with CITIC Pacific, being a substantial shareholder of the Company. This arrangement may be terminated if CITIC Pacific’s shareholding in the Company shall fall below 30% or by either party by giving a six month's notice in writing to the other. The charges payable by the Company under the relevant administrative services agreement will be calculated based on cost of the services which are identifiable and allocated on a fair and equitable basis. Charges paid by the Company for each of the three years ended 31 December 2006 were approximately HK$100,000 (comprising charges for company secretarial services only), HK$600,000 (comprising charges for both company secretarial services and internal audit services) and HK$100,000 (comprising charges for company secretarial services only) respectively. This transaction is exempt pursuant to Rule 14A.33(2) of the Listing Rules;

- the Company will continue to pay New Hong Kong Tunnel Co. Ltd., a company in which CITIC Pacific holds a 70.8% interest, tunnel passage fees on its usual tariffs for vehicles passing through the Eastern Harbour Crossing. The total annual consideration payable by the Group for such services shall be less than HK$1,000,000 and any such services shall be offered to the Group on terms that are no less favourable to the Group than those offered to Independent Third Parties. Annual consideration paid by the Company in each of the three years ended 31 December 2006 were less than HK$1,000,000 respectively. This transaction is exempt pursuant to Rule 14A.33(1) of the Listing Rules;

- the Company will continue to pay Western Harbour Tunnel Co. Ltd., a company in which CITIC Pacific holds a 35% interest, tunnel passage fees on its usual tariffs for vehicles passing through the Western Harbour Tunnel. The total annual consideration
payable by the Group for such services shall be less than HK$1,000,000 and any such services shall be offered to the Group on terms no less favourable to the Group than those offered to Independent Third Parties. Annual consideration paid by the Company in each of the three years ended 31 December 2006 were less than HK$1,000,000 respectively. This transaction is exempt pursuant to Rule 14A.33(1) of the Listing Rules;

• the Company entered into a trademark licence agreement on 21 March 2007 with CITIC Pacific, pursuant to which CITIC Pacific agreed to licence, on a non-exclusive basis, the trademark <trademark>, for use in connection with the Group’s business. The term of this agreement is from 21 March 2007 until the expiration of the current trademark registration on 26 July 2014. Either party may terminate the licence before the term by giving six month’s written advance notice. No consideration is payable by the Company to CITIC Pacific for the use of the trademark as the Company is an associate of CITIC Pacific and the trademark licence agreement was entered into on normal or better commercial terms. This transaction is exempt pursuant to Rule 14A.33(3) of the Listing Rules.

C. CONFIRMATION FROM THE SPONSOR

The Sponsor, having reviewed the relevant information (including the historical figures, the underlying agreements, the trend and the growth in demand generally in the business market for the services rendered to CPC and the confirmations from the property valuer) relating to the continuing connected transactions and the justifications set out in the sub-paragraphs headed “Reason for the transaction” and “Pricing principles and annual caps” as set out under each of the transactions, is of the view that the continuing connected transactions have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms or terms no less favourable than those offered by/to Independent Third Parties and the terms and the proposed annual caps set out above are fair and reasonable and in the interest of the Shareholders of the Company as a whole.
DIRECTORS

Executive Directors

Mr. Shi Cuiming, aged 67, is the Chairman of the Company and he joined the Group in February 2004. Mr. Shi, a senior economist, graduated from the Department of Management Engineering at the Beijing Posts and Telecommunications College in 1963. From 1981 to 1987, Mr. Shi served as Deputy Director of the Department of Postal Economic Research of the Ministry of Posts and Telecommunications and as Deputy Director General of the Bureau of Finance of the Ministry of Posts and Telecommunications. From 1987 to 1997, Mr. Shi served as Director General of the Bureau of Finance, Director General of the Department of Operations and Finance and Director General of the Department of Finance of the Ministry of Posts and Telecommunications. From 1997 to early 1999, Mr. Shi served as Chairman of the Board of Directors of China Telecom (Hong Kong) Group Limited and Chairman of the Board of Directors and Chief Executive Officer of China Telecom (Hong Kong) Limited, later known as China Mobile (Hong Kong) Limited (a company listed on the Main Board in Hong Kong). Since early 1999, Mr. Shi served as an Executive Director and Vice President of the Unicom Group and was re-appointed as a Director in September 2000. Mr. Shi was appointed in April 2000 as an Executive Director and the Executive Vice President of China Unicom Limited (a company listed on the Main Board) until February 2004. Since February 2004, Mr. Shi has acted as a consultant to CITIC Pacific and the Chairman of CITIC Telecom 1616 Limited. He is also an independent non-executive director of TCL Communication Technology Holdings Limited (a company listed on the Main Board) and China GrenTech Corporation Limited (a company listed on NASDAQ in the US), and an external director of CITS Group Corporation appointed by the State-owned Assets Supervision and Administration Commission. Mr. Shi has over 40 years of experience in China's telecoms industry and he has extensive knowledge and experience in telecoms operations, finance and management. During the Track Record Period, Mr. Shi was the key decision maker of the Group. He initiated and devised the Company's strategic and operational decisions in consultation with Mr. Yuen Kee Tong. Mr. Shi chaired the monthly management meeting of the Company. He reviewed monthly management reports and had regular discussions with the senior management of the Company. Specific matters discussed included employment of senior executives, sales performance and negotiation strategy with customers, etc. He was also responsible for following up on progress with the senior management team of the Company after management meetings. Relation with the Company's major customers in the PRC has been maintained by Mr. Shi.

Mr. Yuen Kee Tong, J.P. aged 58, is the Chief Executive Officer of the Company. Mr. Yuen studied accountancy at the Hong Kong Technical College from 1966 to 1969. He is a member of the Association of Chartered Certified Accountants of United Kingdom and also a member of the Hong Kong Institute of Certified Accountants. He joined CITIC Pacific in 2001 as the Deputy Managing Director and the Chairman of CPC managing all the telecoms businesses of CITIC Pacific. Mr. Yuen resigned from the Board of CITIC Pacific on 8 January 2007 and assumed the position of director and CEO of the Company on the same day. Mr. Yuen also resigned as Chairman of CPC on 16 March 2007. Mr. Yuen is a qualified accountant by training and has more than 20 years extensive experience in all aspects of telecoms industry covering sales and marketing; engineering and operations and senior management. Mr. Yuen was the Deputy Chief Executive of Hong Kong Telecommunications Ltd. (a company listed on the Stock Exchange at that time) and later, Pacific Century CyberWorks Ltd, a company listed on the Stock Exchange. His accountabilities covered Hong Kong, China and the Asia Pacific Region (including international hubbing business). Mr. Yuen served many public bodies and advisory committees. He had also
been seconded by Hong Kong Telecommunications Ltd. on full time basis for over a year to the Central Policy Unit of the Hong Kong Government. Mr. Yuen was the de facto overall person-in-charge of the Group’s operations during the Track Record Period.

Dr. Li Bin, aged 39, is the Chief Operating Officer of the Company. He joined CITIC Pacific in January 2006 and was transferred to the Company on 18 July 2006. Dr. Li obtained a Bachelor degree in Engineering of Industrial Electric Automation from Hua Zhong University of Science and Technology in Wuhan, PRC, in 1991. He also obtained a Master of Philosophy degree and a Doctor of Philosophy degree both in Electrical and Electronic Engineering from Hong Kong University of Science and Technology in Hong Kong in 1996 and 2003 respectively. He became the Member and the Senior Member of the Institute of Electrical and Electronic Engineer (IEEE) in 1996 and 2003 respectively. In 2005, Dr. Li was selected in the list in Marquis Who’s Who in Science and Engineering. Dr. Li joined China Telecommunications Corporation Guang Dong branch in 1991. Dr. Li joined China Motion Telecom International Limited, a dual listed company in Hong Kong and Singapore, since 1998. He was appointed as the Co-Chief Operating Officer overseeing the business operations, including the international telecommunications services business, mainly comprising wholesale and retail IDD services, in January 2004 and became an Executive Director in April 2004. He then became the Chief Executive Officer of China Motion Telecom International Limited in April 2005. Dr. Li also served as a Director of Comtech Group, Inc., a listed company in NASDAQ from December 2003 to February 2005. To date, Dr. Li has 15 years of experience in the telecoms industry.

Mr. Chan Tin Wai, David, aged 42, is the Chief Financial Officer and he joined the Company on 1 June 2006. Mr. Chan obtained a LLB (Hons) degree and a Master degree of Law from the University of London in UK and a Master degree of Accounting from Curtin University in Australia. He is a member of the Institute of Chartered Accountants of England & Wales and also a Fellow member of the Association of Chartered Certified Accountants, the Institute of Chartered Secretary and Administrators, the Hong Kong Institute of Certified Public Accountants, the Taxation Institute of Hong Kong and the Hong Kong Institute of Chartered Secretaries. Mr. Chan worked in CITIC Pacific during the period from 1994 to 2000 and he was the Deputy General Manager — Financial Control at his departure. He had worked in several multi-national and Hong Kong blue chip companies (including Jardine Matheson group and PCCW group) and has over 18 years of experience in overseeing corporate finance, merger and acquisition activities, accounting, company secretarial, administration, human resources and legal matters prior to joining the Company. He was the former Chief Financial Officer of Frasers Property (China) Limited (a company listed on the Stock Exchange and a subsidiary of Singapore-listed Frasers & Neave Limited) and the General Manager — Finance of Sino Land Company Limited, a company listed on the Stock Exchange.

Non-executive Directors

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

Mr. Kwok Man Leung, aged 37, has been a director of the Company since May 2000. Mr. Kwok obtained a Master degree in Business Administration (EMBA) from the Chinese University of Hong Kong. He is a Chartered Financial Analyst. Mr. Kwok is the Director of Business
Independent non-executive Directors

Mr. Yang Xianzu, age 67, joined the Company as an Independent Non-Executive Director on 12 March 2007. Mr. Yang, a senior engineer, graduated in 1965 from the Department of Telephone and Telegraph at the Wuhan College of Posts and Telecommunications. From 1983 to 1990, Mr. Yang served as Deputy Director General of the Posts and Telecommunications Administration of Hubei Province and as Director General of the Posts and Telecommunications Administration of Henan Province. From 1990 to early 1999, Mr. Yang served as Vice Minister of the Ministry of Posts and Telecommunications and later as Vice Minister of the Ministry of Information Industry. In 1999, Mr. Yang was appointed Chairman of the Board of Directors and President of Unicom Group. During 2000 to August 2003, Mr. Yang was the Chairman of the Board of Directors and Chief Executive Officer of China Unicom Limited, a company listed on the Main Board of the Stock Exchange. Mr. Yang is currently a member of the Chinese People's Political Consultative Conference, Vice-Chairman of China Commerce Association and China Entrepreneurs Association, Chairman of China Federation of Industrial Economics, Head of Strategic Development Consultation Committee of China Unicom, an external director of Shanghai Baosteel Group and China Electronics Corporation appointed by the State-owned Assets Supervision and Administration Commission, and an independent director of Dongfeng Motor Group Company Limited and China Wireless Technologies Limited (both of which are listed companies in Hong Kong).

Mr. Liu Li Qing, aged 66, joined the Company as an Independent Non-Executive Director on 12 March 2007. Mr. Liu, as a senior economist, graduated from Management Engineering in Beijing University of Posts and Telecommunications in 1963. He was a Deputy Director of Department of Statistics of the Planning Bureau, a Deputy Director of Planning Bureau, the Deputy Director General of the Office, the Deputy Division Head of the Planning Division of Ministry of Posts and Telecommunications from 1982 to 1990. Mr. Liu served as the Division Head of the Planning Division of Ministry of Posts and Telecommunications from 1990 to 1996, a Vice Minister of Ministry of Posts and Telecommunications from 1996 to 1998 and the Head of State Postal Bureau from March 1998 to April 2003. Mr. Liu is currently the Chairman of Sino French Life Insurance Company, a member of the Chinese People's Political Consultative Conference (CPPCC), a Deputy Director of the Economic Committee of the CPPCC, and the Chairman of China Association of Communication Enterprises.

Mr. Kwong Che Keung, Gordon, aged 57, joined the Company as an Independent Non-Executive Director on 12 March 2007. He also serves as the chairman of the Audit Committee and committee member of the Remuneration Committee of the Board. Mr. Kwong is also an Independent Non-executive Director of 16 companies listed on the Stock Exchange, namely:

- COSCO International Holdings Limited
- Tianjin Development Holdings Limited
- Beijing Capital International Airport Company Limited
- Frasers Property (China) Limited
- NWS Holdings Limited
- China Oilfield Services Limited
DIRECTORS, SENIOR MANAGEMENT, STAFF AND COMPLIANCE ADVISER

- Concepta Investments Limited
- China Chengtong Development Group Limited
- Global Digital Creations Holdings Limited
- Ping An Insurance (Group) Company of China, Ltd.
- Quam Limited
- TOM Online Inc.
- China Power International Development Limited
- Henderson Land Development Company Limited
- Henderson Investment Limited
- Agile Property Holdings Limited

He has a Bachelor of Social Science degree from the University of Hong Kong and is a fellow member of the Institute of Chartered Accountants in England and Wales. From 1984 to 1998, Mr. Kwong was a partner of Price Waterhouse and was a council member of the Stock Exchange from 1992 to 1997. Mr. Kwong previously served as a non-executive director of a number of companies listed on the Stock Exchange: COSCO Pacific Limited until his resignation in January 2006 and Henderson China Holdings Limited (which was privatised in July 2005) until his resignation in June 2006. He also served as an independent non-executive director of New World Mobile Holdings Limited until his resignation in February 2007.

SENIOR MANAGEMENT

Mr. Yap Foo Loy, aged 44, is the Director of Commercial of the Company. He joined the Company on 15 March 2003. Mr. Yap obtained a Bachelor degree in Mathematics and Computer Science in the University of Winsor in 1983 and a Master degree in Computer Science of the Simon Fraser University in 1989. Mr. Yap previously held senior position in the Nortel Networks Corporation (a company listed on the New York Stock Exchange) during 1993 to 2003. To date, Mr. Yap has around 17 years of sales and operational experience in the telecoms industry.

Mr. Wong Chi Yin Jimmy, aged 41, is the Director of Technical of the Company. He joined the Company on 17 October 2005. Mr. Wong obtained a Bachelor of Science degree in Electrical Engineering from the University of Texas at Austin in 1988 and a Postgraduate Certificate of Multimedia and Internet Technology from the Open University of Hong Kong in 2004. Mr. Wong has been a member of The Institute of Engineering and Technology since 2005. Mr. Wong held various technical positions in Northern Telecom (Asia) Limited, Hong Kong Telecommunications Ltd., (then, a company listed on the Stock Exchange), Hong Kong CSL Limited and Hutchison Telecommunications International Limited (a company listed on the Stock Exchange and the New York Stock Exchange), during 1988 to 2005, responsible in overseeing the technical operations of Hutchison's overseas businesses including the provision of mobile telephone services, 3G mobile multimedia services, fixed line communications, paging services and radio broadcasting. To date, Mr. Wong has around 18 years of operational experience in the telecoms industry.

Mr. Chan King Shing Joseph, aged 45, is the Director of International Business of the Company. He joined the Company on 1 March 2004 responsible for the international voice and data business. Before joining the Company, Mr. Chan held various senior positions in New World Telecommunications Limited, SUNDAY Communications Limited, (then, a company listed on the Stock Exchange), Teleglobe Canada ULC and Hong Kong Telecommunications Ltd. (then, a company listed on the Stock Exchange). To date, Mr. Chan has over 20 years of operational experience in the telecoms industry.
Mr. Cheung Yuet Pun, aged 34, is the Director of Product Marketing of the Company. He joined the Company on 1 February 2002. Mr. Cheung obtained a Bachelor of Science degree of Electrical Engineering from Queen’s University at Kingston, Canada 1995. He was granted the Professional Engineer Licence of Ontario, Canada in 1999. Mr. Cheung previously worked in various departments within the Nortel Networks Corporation (a company listed on the New York Stock Exchange) during 1996 to 2002. To date, Mr. Cheung has over 10 years of operational experience in the telecoms industry.

Mr. Leung Che Ming, aged 45, is the Director of Research and Development of the Company. He joined the Company on 1 October 2003. Mr. Leung obtained a Master degree in Engineering Business Management of the University of Warwick in the United Kingdom in 1994. Mr. Leung joined Mini Micro Methods Limited as a Computer Engineer in 1982 and had been a director of the company from 1986 to 1996. He started and operated his own company Advanced Telesoft Limited for software development from 1994 to 2003. To date, Mr. Leung has 20 years of operational and management experience in telecoms and technology development.

Mr. Ho Kai Leung, aged 48, is the Director of Network Operations of the Company. He joined the Company on 18 April 2005. Mr. Ho obtained a Bachelor degree in Electronic Science of the Chinese University of Hong Kong in 1982 and a Master degree in Business Administration of the Hong Kong Polytechnic University in 1983. Mr. Ho has been a member of the Institute of Electrical Engineers and Chartered Engineer of the Engineering Council in the United Kingdom since 1988. Mr. Ho held various positions in Hong Kong Telecommunications Ltd. (then, a company listed on the Stock Exchange), Hutchison Telecommunications International Limited (a company listed on the Stock Exchange and the New York Stock Exchange) and New World Telecommunications Limited during 1982 to 2002, responsible in network operations, field installation and maintenance activities. To date, Mr. Ho has 20 years of operational experience in the telecoms industry.

Ms. Lee Yin Ming, Rosanna, aged 37, is the Associate Director of Finance. She joined the Company on 1 January 2005. Prior to joining the Company, she worked in the Finance department of CITIC Pacific Group since 18 April 1995 and Tse Sui Luen Jewellery Company Limited (a company listed on the Stock Exchange) during 1992 to 1995. Ms. Lee is a member of the Association of Chartered Certificated Accountants in the United Kingdom and the Hong Kong Institute of Certified Public Accountants in Hong Kong. To date, Ms. Lee has around 14 years of experience in accounting and finance operations.

Mr. Lee Lik Keung, aged 34, is the Accounting Manager. Mr. Lee joined the Company on 1 December 2003. Mr. Lee obtained a Bachelor degree in Business of the Monash University in Australia and a Master degree in Finance of the Curtin University of Technology in Australia. Mr. Lee is a Fellow member of the Association of Chartered Certificated Accountants in the United Kingdom and a member of the Hong Kong Institute of Certified Public Accountants in Hong Kong. From 1995 to 2003, he held various accounting positions in Moores Rowland and CITIC Pacific. To date, Mr. Lee has around 11 years of experience in accounting and finance operations.

Ms. Tso Mun Wai, aged 45, is the Company Secretary of the Company. Ms. Tso joined CITIC Pacific in 1990 and is currently Assistant Director, Company Secretariat Department of CITIC Pacific. She has been an associate member of the Hong Kong Institute of Chartered Secretaries since 1987 and has obtained a Master of Arts from the City University of Hong Kong in 1996. She has over 20 years of experience in company secretarial field.
QUALIFIED ACCOUNTANT

Mr. Chan Tin Wai, David. Please refer to information set out in the paragraph headed “Executive Directors” above.

AUDIT COMMITTEE

The Company established an audit committee pursuant to a resolution of the Directors passed on 16 March 2007 in compliance with Rules 3.21 to 3.23 and Appendix 14 of the Listing Rules. The primary duties of the audit committee are to oversee the financial reporting process and internal control procedure of the Group, to review the financial information of the Group and to consider issues relating to the external auditors. The audit committee consists of three independent non-executive Directors and Mr. Kwong Che Keung, Gordon is the Chairman of the audit committee.

REMUNERATION COMMITTEE

The Company established a remuneration committee pursuant to a resolution of the Directors passed on 16 March 2007 in compliance with Appendix 14 of the Listing Rules. The primary duties of the remuneration committee are to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration. The remuneration committee consists of three independent non-executive Directors and Mr. Yang Xianzu is the Chairman of the remuneration committee.

DIRECTORS' REMUNERATION

During the Track Record Period, the total remuneration (comprising fees, salaries and allowances, discretionary bonuses and pension scheme contributions) and benefits in kind of the Directors were about HK$3,000, HK$272,000 and HK$3,212,000, respectively. The aggregate remuneration and benefits in kind payable to the Directors for the year ending 31 December 2007 are estimated to be about HK$11,880,000.

In respect of the three years ended 31 December 2006, no remuneration was paid to the Directors as an inducement to join or upon joining the Group. No compensation was paid to, or receivable by, the Directors or past Directors for the loss of office as director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group. None of the Directors has waived any emoluments.

Further information about the service agreements entered into between the Company and the Directors is set out in the paragraph headed “Particulars of service contracts and Directors’ remuneration” in Appendix V to this Prospectus.
EMPLOYEES

General

During the Track Record Period, in order to cope with the mission and expansion plan, the Group recruited engineers and software developers as well as marketing personnel on a continuous basis. Set out below is a breakdown of employees of the Group as at 31 December 2004, 2005, and 2006 and as at the Latest Practicable Date by functions.

<table>
<thead>
<tr>
<th></th>
<th>As at 31 December</th>
<th>As at the Latest Practicable Date</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004</td>
<td>2005</td>
</tr>
<tr>
<td>Management</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Sales and marketing</td>
<td>32</td>
<td>37</td>
</tr>
<tr>
<td>Finance and administration</td>
<td>28</td>
<td>35</td>
</tr>
<tr>
<td>Research and development</td>
<td>22</td>
<td>20</td>
</tr>
<tr>
<td>Engineering and operations</td>
<td>56</td>
<td>64</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>144</strong></td>
<td><strong>161</strong></td>
</tr>
</tbody>
</table>

Amongst the 168 full-time employees as at the Latest Practicable Date, approximately 51% of them were university graduates and 15% held master degree or doctorate degree.

The following table shows a breakdown of employees of the Group as at the Latest Practicable Date by functions and locations.

<table>
<thead>
<tr>
<th></th>
<th>PRC</th>
<th>Hong Kong</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management</td>
<td>–</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Sales and marketing</td>
<td>3</td>
<td>26</td>
<td>29</td>
</tr>
<tr>
<td>Finance and administration</td>
<td>2</td>
<td>26</td>
<td>28</td>
</tr>
<tr>
<td>Research and development</td>
<td>1</td>
<td>21</td>
<td>22</td>
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<tr>
<td>Engineering and operations</td>
<td>8</td>
<td>77</td>
<td>85</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>14</strong></td>
<td><strong>154</strong></td>
<td><strong>168</strong></td>
</tr>
</tbody>
</table>

For the years ended 31 December 2004, 2005 and 2006, the Group incurred staff cost of HK$36.0 million, HK$51.4 million and HK$67.4 million respectively, representing approximately 3.4%, 5.2% and 4.9% respectively of the Group’s total turnover. Analysis of staff costs during the Track Record Period is contained in the subsection headed “Management’s discussion and analysis of financial condition and results of operations” under the section headed “Financial information” of this Prospectus.
Relationship with staff

The Group has not experienced any significant problems with the employees or disruption to the Group’s operations due to labour disputes nor has the Group experienced any difficulties in the recruitment and retention of experienced staff. The Directors are of the view that the Group has good working relations with its employees. The Group has also complied with all the relevant requirements of fair labour standards, working environment and code of conduct for the Group’s employees and have never been penalised in this regard during the Track Record Period.

Training

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

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

Benefit schemes

In compliance with the applicable regulations of the PRC, the Group participates in the State-sponsored retirement plan operated by the local government in the PRC and makes mandatory contributions to the State-sponsored retirement plan to fund the retirement benefits of the employees in the PRC. The retirement contributions paid by the Group in the PRC are calculated based on a certain percentage of the relevant portion of the payroll of all qualified employees in accordance with the relevant regulations in the PRC and are charged to the combined income statement as incurred. The Group discharges its retirement obligations upon payment of the retirement contributions to the State-sponsored retirement plan operated by the local government in the PRC. The Beijing representative office of the Company was established on 1 July 2005. The contributions paid for the two years ended 31 December 2006 were approximately RMB78,000 (equivalent to approximately HK$72,868) and RMB224,000 (equivalent to approximately HK$218,437) respectively.

In Hong Kong, the Group has set up a retirement scheme (the “MPF Scheme”) in accordance with the mandatory provident fund requirements prescribed by the Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the Laws of Hong Kong. Hong Kong based employees and the Group are required to contribute 5% of the relevant employee’s monthly wage (up to a maximum contribution of HK$1,000 by the Group) on a monthly basis to the fund, respectively. Employees may contribute more than 5% or HK$1,000 into the fund. Prior to the establishment of the above statutorily required retirement scheme, the Group’s employees are entitled to
participate in the ORSO Scheme. A certain amount of employees have been members under both the ORSO Scheme and MPF Scheme. The ORSO Scheme has been frozen since 1 August 2003 and will eventually be dissolved by 1 August 2008 subject to the entire fund having been transferred out of the ORSO Plan. The contributions paid in respect of continuing operations for the three years ended 31 December 2006 were HK$1,354,473, HK$1,522,019 and HK$1,678,451 respectively. The Group has provided medical and dental benefit to qualified employees based on the schemes which are currently in force.

Share option scheme

Currently, the Group does not have any share option scheme in place. However, it is the intention of the Group to adopt a share option scheme after the Listing.

COMPLIANCE ADVISER

The Company has, pursuant to Rule 3A.19 of the Listing Rules, appointed BNP Paribas to act as its compliance adviser. The material terms of the compliance adviser’s agreement entered into between the Company and the Compliance Adviser are as follows:

(a) the Company appoints BNP Paribas as its compliance adviser for a period commencing on the date on which the Shares are listed on the Stock Exchange and ending on the date on which the Company complies with Rule 13.46 of the Listing Rules in respect of the financial results of the Group, or until the agreement is terminated, whichever is earlier;

(b) the Compliance Adviser shall provide the Company with services, including guidance and advice as to compliance with the requirements of the Listing Rules and other applicable laws, rules, codes and guidelines, and accompany the Company to any meetings with the Stock Exchange;

(c) the Company agrees to indemnify the Compliance Adviser for certain actions against and losses incurred by such Compliance Adviser arising out of or in connection with the performance by the such Compliance Adviser of its duties under the agreement, except where the loss occurs as a result of the gross negligence or wilful default of the Compliance Adviser; and

(d) the Company may terminate the appointment of any of the Compliance Adviser if the Compliance Adviser’s work is of an unacceptable standard or if there is a material dispute over fees payable to the Compliance Adviser (which cannot be resolved within 30 days) pursuant to the terms of the compliance adviser’s agreement. The Compliance Adviser will have the right to terminate its appointment as compliance adviser by giving written notice to the Company.
SHARE CAPITAL

Authorised share capital: HK$
5,000,000,000 Shares 500,000,000

Shares issued and to be issued, fully paid or credited as fully paid:

| Shares in issue at the date of this Prospectus | 1,692,000,000 | 169,200,000 |
| Shares to be issued pursuant to the Global Offering | 188,000,000 | 18,800,000 |

Total:
1,880,000,000 Shares 188,000,000

Assumptions

The above table assumes that the Global Offering becomes unconditional but does not take into account any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandate for the allotment and issue or repurchase of Shares granted to the Directors as described below.

Ranking

The Offer Shares will rank pari passu in all respects with all other Shares in issue and to be issued as mentioned in this Prospectus, and in particular, will rank equally for all dividends and other distributions declared, made or paid after the date of this Prospectus.

Issuing Mandate

Subject to the fulfilment of the conditions stated in “Structure and conditions of the Global Offering — Conditions of the Global Offering of this Prospectus”, the Directors have been granted a general unconditional mandate to allot, issue and deal with unissued Shares and to make all grant offers, agreements or options which might require such Shares to be allotted and issued or dealt with, subject to the requirement that the aggregate nominal value of the Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued, otherwise than pursuant to a rights issue, or script dividend scheme or similar arrangement, or a specific authority granted by shareholders, shall not exceed the sum of:

- 20% of the aggregate nominal value of the share capital of the Company in issue immediately following completion of the Global Offering; and
- the aggregate nominal value of the share capital of the Company repurchased by the Company, if any, pursuant to the general mandate to repurchase Shares referred to below.

The allotment and issue of Shares under a rights issue, scrip dividend scheme or similar arrangement, or any adjustment of rights to subscribe for Shares under options and warrants or a specific authority granted by the Shareholders do not generally require the approval of the Shareholders in general meeting. The aggregate nominal value of Shares which the Directors are authorised to allot and issue under this mandate will not be reduced by the allotment and issue of such Shares.
The Issuing Mandate will expire:

— at the conclusion of the next annual general meeting of the Company; or

— on the expiration of the period within which the next annual general meeting of the Company is required to be held by the Articles or any applicable laws of Hong Kong to be held; or

— when it is varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

For further details of this general mandate, see the sub-paragraph headed “Resolutions of the sole shareholder of the Company” under the paragraph headed “Further information about the Company” in Appendix V to this Prospectus.

Repurchase Mandate

Subject to the fulfilment of the conditions stated in “Structure and conditions of the Global Offering — Conditions of the Global Offering in this Prospectus”. The Directors have been granted a general unconditional mandate to exercise all the powers of and on behalf of the Company to repurchase Shares with an aggregate nominal value of not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of the Global Offering.

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed, and which is recognised by the SFC and the Stock Exchange for this purpose, and which are made in accordance with all applicable laws and requirements of the Listing Rules. A summary of the relevant Listing Rules regarding the repurchase of Shares is set out in the paragraph headed “Repurchase by the Company of its own securities” in Appendix V to this Prospectus.

The mandate will expire:

— at the conclusion of the next annual general meeting of the Company; or

— on the expiration of the period within which the next annual general meeting of the Company is required to be held by the Articles or any applicable laws of Hong Kong to be held; or

— when it is varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

For further details of this general mandate, see the sub-paragraph headed “Resolutions of the sole shareholder of the Company” under the paragraph headed “Further information about the Company” in Appendix V to this Prospectus.
SUBSTANTIAL SHAREHOLDERS

As far as the Directors are aware as at the Latest Practicable Date, the following persons (other than Directors) will, immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), have an interest or short position in the Shares or the underlying Shares of the Company which is required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Interests and short positions in Shares

<table>
<thead>
<tr>
<th>Name</th>
<th>Number of Shares</th>
<th>Approximate attributable interest (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ease Action Investments Corp. <em>(Note 1)</em></td>
<td>1,064,080,000</td>
<td>56.6%</td>
</tr>
<tr>
<td>Ferretti Holdings Corp. <em>(Note 1)</em></td>
<td>1,064,080,000</td>
<td>56.6%</td>
</tr>
<tr>
<td>Douro Holdings Inc. <em>(Note 1)</em></td>
<td>1,064,080,000</td>
<td>56.6%</td>
</tr>
<tr>
<td>CPC <em>(Note 1)</em></td>
<td>1,064,080,000</td>
<td>56.6%</td>
</tr>
<tr>
<td>Effectual Holdings Corp. <em>(Note 1)</em></td>
<td>1,064,080,000</td>
<td>56.6%</td>
</tr>
<tr>
<td>Crown Base International Limited <em>(Note 1)</em></td>
<td>1,064,080,000</td>
<td>56.6%</td>
</tr>
<tr>
<td>CITIC Pacific <em>(Note 1)</em></td>
<td>1,064,080,000</td>
<td>56.6%</td>
</tr>
<tr>
<td>Government of Singapore Investment Corporation Pte Ltd. (“GIC”) <em>(Note 2)</em></td>
<td>(Note 2)</td>
<td>(Note 2)</td>
</tr>
</tbody>
</table>

Notes:

1. CITIC Pacific is deemed to be interested in Ease Action Investments Corp.’s interest in the Company:
   a. Ease Action Investments Corp. is the registered holder of 1,064,080,000 Shares, representing approximately 56.6% of the entire issued share capital of the Company upon completion of the Global Offering (assuming the Over-allotment Option is not exercised). If the Over-allotment Option is exercised in full, Ease Action Investments Corp. will hold 941,692,000 Shares, representing approximately 50.09% of the entire issued share capital of the Company upon completion of the Global Offering.
   b. Ease Action Investments Corp. is a wholly owned subsidiary of Ferretti Holdings Corp., which in turn is wholly owned by Douro Holdings Inc.
   c. Douro Holdings Inc. is a wholly owned subsidiary of CPC which in turn is wholly owned by Effectual Holdings Corp.
   d. Effectual Holdings Corp. is a wholly owned subsidiary of Crown Base International Limited, which in turn is wholly owned by CITIC Pacific.

2. Assuming the mid-point Offer Price of HK$2.355 per Offer Share and the exchange rate adopted being US$1.00 to HK$7.80, GIC will be allocated Offer Shares representing approximately 6.1% of the issued share capital of the Company upon completion of the Global Offering pursuant to the cornerstone placing agreement dated 15 March 2007 between the Company, CITIC Pacific, GIC and the Global Coordinator.
SUBSTANTIAL SHAREHOLDERS

Interests in shares of other members of the Group

<table>
<thead>
<tr>
<th>Name of subsidiary</th>
<th>Name of shareholder</th>
<th>Percentage of issued share capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>APIX</td>
<td>HKIX Hong Kong Ltd.</td>
<td>25%</td>
</tr>
</tbody>
</table>

Save as disclosed above, the Directors are not aware of any other person who will, immediately following completion of the Global Offering (assuming of the Over-allotment Option is not exercised), have an interest or short position in the Shares or the underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

The Vendor has undertaken to the Stock Exchange and the Company that it shall not and shall procure that the relevant registered holder(s) shall not (except pursuant to or in connection with implementation of the Stock Borrowing Agreement and the Over-allotment Option):

(a) in the period commencing on the Latest Practicable Date and ending on the date which is six months from the Listing Date, dispose of, nor enter into agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of those Shares in respect of which it is shown by this Prospectus to be the beneficial owner; or

(b) in the period of six months commencing on the date on which the period referred to in (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in (a) above if, immediately following such disposal or upon the exercise of enforcement of such options, rights, interests or encumbrances, it would cease to be a controlling shareholder.

The Vendor has also undertaken to the Stock Exchange and the Company that within the period from the Latest Practicable Date and ending on the date which is 12 months after the Listing Date, it shall:

(1) when it pledges/charges any securities of the Company beneficially owned by it in favour of an authorised institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform the Company of such pledge/charge together with the number of Shares so pledged/charged; and

(2) when it receives indications, whether verbal or written, from the pledgee/chargee that any of the pledged/charged Shares will be disposed of, immediately inform the Company of such indications.

The Company will inform the Stock Exchange as soon as it has been informed of the matters referred to in (1) and (2) above by the Vendor and disclose such matters by way of a press announcement.
In order to facilitate the over-allocations in connection with the Global Offering, BNP Paribas may choose to borrow Shares from the Vendor under stock borrowing arrangements, or acquire Shares from other sources, including exercising the Over-allotment Option. For the purposes of these stock borrowing arrangements, BNP Paribas has applied to the Stock Exchange for a waiver from strict compliance with Rule 10.07(1)(a) of the Listing Rules which otherwise restricts the disposal of Shares by controlling shareholders following a new listing. Further details of such waiver are set out in the section headed “Structure and conditions of the Global Offering” in this Prospectus.
INDEBTEDNESS

Borrowings

As at the close of business on 31 January 2007, being the latest practicable date for ascertaining information for disclosure in this section, the Group had no outstanding borrowings.

Securities and guarantees

As at 31 January 2007, being the latest practicable date for ascertaining information for disclosure in this section, the Group had not made any pledge on or created any securities over its assets and had not provided any corporate guarantee.

Contingent liabilities

As at 31 January 2007, being the latest practicable date for ascertaining information for disclosure in this section, the Group did not have any contingent liabilities.

Amount due to related parties

As at 31 January 2007, an amount of HK$22,280,000 was outstanding and due to CITIC Pacific. The amount was repaid and settled in full on 16 February 2006.

Disclaimers

Save as aforesaid in the paragraph headed “Indebtedness” to which this paragraph forms part and apart from normal trade payables, the Group did not have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans, debt securities or other similar indebtedness or any finance lease commitments, hire purchase commitments, liabilities under acceptances (other than normal trade bills) or acceptance creditors or any guarantees or other material contingent liabilities outstanding as at the close of business on 31 January 2007, being the latest practicable date for ascertaining information for disclosure in this section.

No material changes

The Directors have confirmed that there have been no material changes in the indebtedness or contingent liabilities of the Group since 31 December 2006, being the date to which the latest financial statements of the Group were made up.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

The Directors confirmed that, as at the Latest Practicable Date, there was not any circumstances which would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.
MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Investors should read the following discussion and analysis in conjunction with the combined financial statements of the Group as at, and for the years ended, 31 December 2004, 2005 and 2006, which are set forth in the Accountants’ Report included as Appendix I to this Prospectus. Except for the Financial Information (as defined in the Accountants’ Report), the remainder of the Group’s financial information set out in this section, has been extracted or derived from the management accounts or other records of the Group. Investors should read the whole of the Accountants’ Report and not rely merely on the information contained in this section.

The financial information in this section principally relates to the telecoms operations of the Group during the Track Record Period unless specified otherwise.

OVERVIEW

The Group is a telecoms hub-based service provider and provides services in the following four core business divisions, namely Fixed-Line/Hybrid Carrier Voice Hubbing Services, Mobile Carrier Voice Hubbing Services, SMS Hubbing Services, Mobile VAS and Enterprise Solutions.

The Group’s aggregate turnover from the telecoms business was HK$1,047.2 million, HK$980.0 million and HK$1,364.2 million for the years ended 31 December 2004, 2005 and 2006, respectively. Profit attributable to the telecoms business was HK$91.1 million, HK$94.1 million and HK$181.8 million for the years ended 31 December 2004, 2005 and 2006, respectively. Profit attributable to the equity holders of the Company (which included the discontinued property holding business discussed under “Description of certain income statement items — Discontinued Operations” below) was HK$101.5 million, HK$97.8 million and HK$201.5 million for the years ended 31 December 2004, 2005 and 2006, respectively.

Critical Accounting Policies and Estimates

The Company has identified certain accounting policies that are significant to the preparation of the Group’s financial statements. The significant accounting policies, which are important for an understanding of the Group’s financial condition and results of operations, are set forth in detail in Note 1 to the Accountants Report included as Appendix I to this Prospectus. Some of the accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items such as revenue recognition and accounts receivable. In each case, the determination of these items requires management judgments based on information and financial data that may change in future periods. The Directors believe that the following critical accounting policies involve the most significant estimates and judgments used in the preparation of the Group’s financial statements.

(a) 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 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, fixed or determinable, and collectibility is probable.
(ii) Fees from the provision of other telecommunication services

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

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognised 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 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.

(b) Trade and other receivables

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

The Group does not have any general provisioning policy for its trade receivables. The Group reviews its trade receivables on a case-by-case basis.

(c) Impairment of assets

Current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases.

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

If any such indication exists, the asset’s recoverable amount is estimated. 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).
The Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as turnover and operating costs, impairment loss for bad and doubtful debts are assessed and provided based on the directors’ regular review of ageing analysis and evaluation of collectibility. A considerable level of judgement is exercised by the directors when assessing the credit worthiness and past collection history of each individual customer. An increase or decrease in the above impairment losses would affect the net profit in future years.

(d) 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.

(e) 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.

FACTORS AFFECTING THE GROUP’S RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The Group’s operations and financial condition have recently been, and are expected to be significantly affected, by the following factors:

(i) Change in services mix

The margins earned by the Group in respect of its provision of hubbing services vary significantly according to the services the Group provides. In general, turnover generated by providing SMS Hubbing Services, Mobile VAS and Enterprise Solutions earns higher Sales Margins than turnover derived from Fixed-Line/Hybrid Carrier Voice Hubbing Services and Mobile Carrier Voice Hubbing Services. Therefore, part of the Group’s business strategy is to expand its services from basic Fixed-Line/Hybrid Carrier Voice Hubbing Services and Mobile Carrier Voice Hubbing Services towards SMS Hubbing Services and Mobile VAS and Enterprise Solutions with the aim of improving the profitability of the Group.

(ii) SMS

The global mobile telecoms market has grown significantly since its inception as wireless services, including SMS, have become increasingly available and affordable. The overall market for SMS in China grew to US$3.4 billion (equivalent to approximately HK$26.5 billion) in 2005 representing an increase of 37% from 2004 according to IDC. IDC projects that the revenue for the overall SMS market in China will grow at an average CAGR of
12.8% between 2006 and 2010. During the Track Record Period, the Group’s turnover from SMS Hubbing Services doubled from HK$48.2 million in 2004 to HK$117.1 million in 2006. The Group believes it is strategically positioned to take advantage of the projected continued growth of the overall SMS market.

(iii) Mobile VAS and Enterprise Solutions


Turnover generated by Enterprise Solutions fluctuates with time as the Group’s Enterprise Solutions projects usually involve long-term negotiations with its customers. Two of the Group’s Enterprise Solutions projects, namely the provision of system integration services and the lease of transmission capacity of 2.5 giga-bytes to a major telecoms operator in China in 2006 contributed HK$2.1 million and HK$10.6 million, respectively to the turnover for the Group.

(iv) Growth in usage of hubbing services

During the Track Record Period, the Group experienced significant increases in its hubbing traffic. The Group’s fixed line voice call minutes carried increased from 2,425.0 million in 2004 to 3,659.9 million in 2006. The Group’s mobile voice call minutes carried increased from 818.3 million in 2004 to 1,038.3 million in 2006. The Group’s SMS carried increased from 638.9 million messages in 2004 to 1,228.7 million messages in 2006. The Directors believe that the Group’s advanced telecoms technology, in depth engineering capabilities, and flexible and efficient network will help attract additional traffic as well as ensure that the Group can carry such increased traffic efficiently.

(v) Stable Sale Margins

In general, the prices charged by the Group for its services, particularly its basic fixed line and mobile hubbing services, tend to decrease over time due to technological innovation and competition. However, the Group’s costs also tend to decrease correspondingly as a result of technological innovations and competition among suppliers. As a result, during the Track Record Period, the Group maintained a stable Sales Margins. For the years ended 31 December 2004, 2005 and 2006, the Group achieved Sales Margins of approximately 33.2%, 34.8% and 34.1%, respectively.

(vi) Customers’ sales

In general, customers’ sales affect their demands for the usage of the Group’s hubbing services. The growth in customers’ sales has translated into increasing orders for the Group’s hubbing services. During the Track Record Period, the Group’s number of customers increased from approximately 170 to 240. Most of the Group’s customers are market leaders in their respective telecoms industry and focus on producing high quality telecoms transmission. As a result, the Directors expect the Group’s customers’ sales to continue to grow and that the Group is in a position to benefit from such growth.
(vii) Capital expenditures

The Group expects to incur substantial capital expenditures as well as other expenses in the coming years in connection with its plan to develop next generation roam enabling services, strong 3G capabilities, IP packet exchange and mobile instant messaging applications.

DESCRIPTION OF CERTAIN INCOME STATEMENT ITEMS

Turnover

The Group generates turnover mainly from the provision of international telecoms hubbing services, including Fixed-Line/Hybrid Carrier Voice Hubbing Services and Mobile Carrier Voice Hubbing Services, SMS Hubbing Services and Mobile VAS and Enterprise Solutions. Turnover for Fixed-Line/Hybrid Carrier Voice Hubbing Services and Mobile Carrier Voice Hubbing Services, and SMS Hubbing Services are generated on a usage basis. During the Track Record Period, the turnover of the Group from telecoms business amounted to HK$1,047.2 million for 2004, HK$980.0 million for 2005 and HK$1,364.2 million for 2006. The fluctuations in turnover were mainly due to the changes in voice traffic handled by the Group, such traffic volume being 3,243.3 million minutes, 3,113.6 million minutes and 4,698.2 million minutes for the years ended 31 December 2004, 2005 and 2006, respectively and a general decline in the average selling price for voice hubbing services. Subsequent to the signing of the contract with a major customer in China towards the end of 2005 and coupled with the organic growth of the market, the volume of traffic increased in 2006. The Group believes its voice traffic volume will continue to increase along with the growth in the overall telecoms market, particularly in the China market. Accordingly, although the Group believes the declining trend in average selling prices for Fixed-Line/Hybrid Carrier Voice Hubbing Services and Mobile Carrier Voice Hubbing Services may continue, the Group expects continued growth in turnover attributable to Fixed-Line/Hybrid Carrier Voice Hubbing Services and Mobile Carrier Voice Hubbing Services.

As part of its overall strategy, the Group intends to focus on increasing turnover from its non-voice hubbing services businesses. Turnover from the Group’s SMS Hubbing Services has continued to grow since the Group introduced these services in 2003. The Group intends to expand the share of its turnover derived from SMS Hubbing Services in order to take advantage of the anticipated growth in SMS hubbing services in the market generally as well as the higher margins available for SMS. Turnover attributable to the Group’s Mobile VAS is also expected to continue to grow as the Group expands the number of customers to which it provides these services.

Network, operations and support expenses

The Group’s network, operations and support expenses consist of carrier costs, international leased circuits charges and other telecoms service costs. A majority of the costs in this category are fixed costs, except for carrier costs which are variable costs and represent the most significant component of the Group’s network, operations and support expenses. Carrier costs represent fees charged by the terminating telecoms operators to which the Group connects and passes traffic from its customers which use the Group’s hubbing services. The Group’s carrier costs generally increase with the volume of traffic it passes on to the relevant telecoms operator and these costs are generally recovered in the fees it charges its customers for its hubbing services. Leased circuits charges comprise both international and local leased circuits charges.
telecoms service costs mainly represent direct costs relating to Enterprise Solutions. The network, operations and supporting expenses as a percentage of turnover from continuing operations were 71.4%, 70.2% and 69.3% for the years ended 31 December 2004, 2005 and 2006, respectively.

Depreciation

Depreciation represents the depreciation charges of property, plant and equipment. The Group’s property, plant and equipment include telecoms equipment, other assets and construction in progress. Construction in progress represents property, plant and equipment under construction and equipment under installation and no depreciation is provided. The telecoms equipment and other assets are depreciated at a rate ranging from 7% to 33% per annum. Depreciation expenses as a percentage of turnover from continuing operations were 5.8%, 6.9% and 5.3% for the years ended 31 December 2004, 2005 and 2006, respectively.

Staff costs

Staff costs represent salaries, wages, other staff benefits and contribution to defined contribution retirement plan(s). Staff costs for continuing operations as a percentage of turnover from continuing operations were 3.4%, 5.2% and 4.9% for the years ended 31 December 2004, 2005 and 2006, respectively. Staff costs were mainly affected by changes in headcount, average staff salary, management staff positions and bonus payments.

Other operating expenses

Other operating expenses consist primarily of management fees paid to the ultimate holding company, operating lease charges, rates, impairment losses on trade and other receivables, utilities charges, entertainment expenses and traveling expenses. They also include legal and professional fees, repair and non network-related maintenance fees and staff quarter expenses. The other operating expenses as a percentage of turnover from continuing operations were 9.0%, 6.1% and 4.5% for the years ended 31 December 2004, 2005 and 2006. Such decreases were as a result of the Group’s continued efforts to tighten its credit control. For the years ended 31 December 2004, 2005 and 2006, management fees paid to the ultimate holding company amounted to HK$24.7 million, HK$26.5 million and HK$15.9 million, respectively, and were mainly for the provision of financial and administrative services incurred by CITIC Pacific in respect of the supervision of the operation of the Group. Following the listing of the Company, the management of the Company will be independent of CITIC Pacific and no management fees will be paid to the ultimate holding company.
## Discontinued operations

As part of the streamlining of the Group’s business, the Group has disposed of its subsidiaries engaged in the property investment business. As a result, such subsidiaries will no longer have an impact on the Group’s results of operations and financial condition. The results of the discontinued operations for the Track Record Period were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004</td>
</tr>
<tr>
<td></td>
<td>HK$’000</td>
</tr>
<tr>
<td>Turnover — rental income</td>
<td>6,542</td>
</tr>
<tr>
<td>Other revenue</td>
<td>—</td>
</tr>
<tr>
<td>Other net gain</td>
<td>10,000</td>
</tr>
<tr>
<td>Staff costs</td>
<td>(771)</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>(1,392)</td>
</tr>
<tr>
<td><strong>Profit from operations</strong></td>
<td>14,379</td>
</tr>
<tr>
<td>Finance costs</td>
<td>(4,036)</td>
</tr>
<tr>
<td><strong>Profit before taxation</strong></td>
<td>10,343</td>
</tr>
<tr>
<td>Income tax</td>
<td>—</td>
</tr>
<tr>
<td><strong>Profit for the year</strong></td>
<td>10,343</td>
</tr>
</tbody>
</table>

*Note:* 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. There was no gain or loss recorded on these disposals.
## RESULTS OF OPERATIONS

The following table shows the combined income statements of the Group for the Track Record Period:

<table>
<thead>
<tr>
<th>Year ended 31 December</th>
<th>2004 HK$’000</th>
<th>2005 HK$’000</th>
<th>2006 HK$’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>1,047,152</td>
<td>980,046</td>
<td>1,364,209</td>
</tr>
<tr>
<td>Other revenue</td>
<td>8</td>
<td>295</td>
<td>2,146</td>
</tr>
<tr>
<td>Other net loss</td>
<td>(257)</td>
<td>(931)</td>
<td>(211)</td>
</tr>
<tr>
<td></td>
<td>1,046,903</td>
<td>979,410</td>
<td>1,366,144</td>
</tr>
<tr>
<td>Network, operations and support expenses</td>
<td>(747,151)</td>
<td>(688,113)</td>
<td>(944,860)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>(60,565)</td>
<td>(67,551)</td>
<td>(72,449)</td>
</tr>
<tr>
<td>Staff costs</td>
<td>(35,987)</td>
<td>(51,437)</td>
<td>(67,380)</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>(94,501)</td>
<td>(60,142)</td>
<td>(61,552)</td>
</tr>
<tr>
<td>Profit from operations and before taxation</td>
<td>108,699</td>
<td>112,167</td>
<td>219,903</td>
</tr>
<tr>
<td>Income tax</td>
<td>(17,564)</td>
<td>(18,130)</td>
<td>(38,095)</td>
</tr>
<tr>
<td>Profit for the year from continuing operations</td>
<td>91,135</td>
<td>94,037</td>
<td>181,808</td>
</tr>
<tr>
<td>Discontinued operations (Note 1)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit for the year from discontinued operations</td>
<td>10,343</td>
<td>3,744</td>
<td>19,710</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>101,478</td>
<td>97,781</td>
<td>201,518</td>
</tr>
<tr>
<td>Attributable to:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity holders of the Company</td>
<td>101,478</td>
<td>97,806</td>
<td>201,518</td>
</tr>
<tr>
<td>Minority interests (Note 3)</td>
<td>—</td>
<td>(25)</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>101,478</td>
<td>97,781</td>
<td>201,518</td>
</tr>
<tr>
<td>Dividends payable to equity holders of the Company attributable to the year:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interim dividend declared during the year</td>
<td>—</td>
<td>—</td>
<td>495,000</td>
</tr>
<tr>
<td>Basic and diluted earnings per share (Note 2)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>From continuing and discontinued operations (HK cents)</td>
<td>6.0</td>
<td>5.8</td>
<td>11.9</td>
</tr>
<tr>
<td>From continuing operations (HK cents)</td>
<td>5.4</td>
<td>5.6</td>
<td>10.7</td>
</tr>
<tr>
<td>From discontinued operations (HK cents)</td>
<td>0.6</td>
<td>0.2</td>
<td>1.2</td>
</tr>
</tbody>
</table>

**Notes:**

(1) The Group discontinued its non-telecoms operations in June 2006. For details of the discontinued operations, including financial information, please refer to note 9 of the Accountants’ Report set out in Appendix I to this prospectus.

(2) The basic earnings per share for each of the years ended 31 December 2004, 2005 and 2006 is calculated based on the profit attributable to the equity holders of the Company during the relevant period and the 1,692,000,000 Shares in issue as at the date of the Prospectus and immediately before the Global Offering, as if the Shares were outstanding throughout the entire relevant period.

(3) No minority interest was recorded in 2006 because the Group and the 25% shareholder of the 75% owned of the Group had contractually agreed that the minority shareholder would only share losses up to its share capital contribution. Given that accumulated losses as at 31 December 2005 exceeded the minority shareholder’s share capital contribution, all expenses incurred by the 75% owned subsidiary would have to be borne by the Group in 2006.
From the year 2005 to the year 2006, turnover from telecoms operations increased by HK$384.2 million, or 39.2%, from HK$980.0 million to HK$1,364.2 million. This increase was principally due to the growth in both Fixed-Line/Hybrid Carrier Voice Hubbing Services and Mobile Voice Carrier Hubbing Services and powered by the Group’s concentrated efforts to increase the number of its customers from 194 to 237 during the year.

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

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

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

Mobile VAS and Enterprise Solutions accounted for an insignificant portion of the Group’s turnover during the Track Record Period. For Mobile VAS, turnover in 2004 and 2005 was insubstantial.

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

Other revenue from continuing operations was interest income, which increased from HK$295,000 for the year 2005 to HK$2,146,000 for the year 2006. This increase was mainly due to an increase in bank interest income resulting from the increase in the surplus funds of
the Group after implementing tightened credit controls and an increase in other interest income resulting from an accounting requirement to accrue discounted interest on a long-term receivable.

Other net loss

Other net loss decreased by HK$720,000, or 77.3%, from HK$931,000 for the year 2005 to HK$211,000 for the year 2006. The decrease in other net loss was primarily due to the decrease in net foreign exchange loss of HK$140,000 for the year 2006 and because the Group recorded a net loss on disposal of other property, plant and equipment amounting to HK$617,000 for the year 2005.

Network, operations and support expenses

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

Depreciation

Depreciation expenses increased by HK$4.8 million, or 7.1%, from HK$67.6 million for the year 2005 to HK$72.4 million for the year 2006. The increase was principally due to the completion of construction projects in 2006 that were in progress in the previous year, the costs of which consequently had not yet begun to be depreciated.

Staff costs

Staff costs for continuing operations increased by HK$16.0 million, or 31.1%, from HK$51.4 million for the year 2005 to HK$67.4 million for the year 2006. The increase was principally due to the increase in headcount from the establishment of the China representative office in Beijing, an increase in average staff salary and an additional bonus provision. The number of staff members increased from 161 as at 31 December 2005 to 173 as at 31 December 2006, representing an increase of 7.5%.

Other operating expenses

For the year 2006, other operating expenses for continuing operations increased by HK$1.4 million, or 2.3%, from HK$60.1 million for the year 2005 to HK$61.5 million for the year 2006. The increase was principally due to an increase in business activities and related expenses associated with the Group’s operation, which was mostly offset by the decrease in management fees paid to the Group’s ultimate holding company from HK$26.5 million in the year 2005 to HK$15.9 million for the year 2006. The impairment loss on trade and other receivables for the year 2005 and 2006 amounted to HK$2.6 million to HK$3.9 million, respectively.
Profit from operations and before taxation

As a result of the significant increase in turnover and the economies of scale on the network, operations and support expenses, the Group’s profit from operations and before taxation increased by HK$107.7 million, or 96.0%, from HK$112.2 million for the year 2005 to HK$219.9 million for the year 2006.

Taxation

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

Profit for the year from continuing operations

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

Profit for the year from discontinued operations

The Group’s profit from discontinued operations increased by HK$16.0 million, or 432.4%, from HK$3.7 million for the year 2005 to HK$19.7 million for the year 2006. The increase was mainly due to an increase in the surplus resulting from the revaluation of investment property.

Profit for the year

Primarily as a result of the increase in turnover, economies of scale achieved in network, operations and support expenses discussed above, the Group’s profit for the period increased by HK$103.7 million, or 106.0 %, from HK$97.8 million for the year 2005 to HK$201.5 million for the year 2006.

Profit attributable to equity holders of the Company

As a result of the significant increase in turnover, the Group achieved an increase of profit attributable to equity holders of the Company from HK$97.8 million for the year ended 31 December 2005 to HK$201.5 million for the year ended 31 December 2006.

Net profit margin based on continuing operations

As a result of the economies of scale on the network, operations and support expenses together with decrease in management fees paid to the Group’s ultimate holding company, the Group achieved an increase in net profit margin from 9.6% for the year ended 31 December 2005 to 13.3% for the year ended 31 December 2006.
Year ended 31 December 2004 compared to year ended 31 December 2005

Turnover

Turnover decreased by HK$67.2 million, or 6.4%, from HK$1,047.2 million for the year 2004 to HK$980.0 million for the year 2005. This decrease was principally due to the decrease in turnover from Fixed-Line/Hybrid Carrier Voice Hubbing Services from HK$440.0 million for year 2004 to HK$385.3 million for the year 2005 representing a decrease of 12.4%, as well as the decrease in turnover from Mobile Carrier Voice Hubbing Services from HK$503.5 million in the year 2004 to HK$478.5 million for the year 2005 representing a decrease of 5.0%. Such decreases were mainly due to decreases in prices and the implementation of certain credit policies which had the effect of deterring delinquent customers from using the Group's hubbing services and hence reduced the volume of certain customers. In respect of Fixed-Line/Hybrid Carrier Voice Hubbing Services, the voice call minutes carried by the Group decreased from 2,425.0 million minutes for the year 2004 to 2,259.0 million minutes for the year 2005, a drop of 6.8%.

Despite the decrease in turnover from Mobile Carrier Voice Hubbing Services, mobile hubbing traffic volume actually increased from 818.3 million minutes for the year 2004 to 854.6 million minutes for the year 2005. With this increase in mobile traffic volume, the Group's average mobile voice cost was reduced as a result of the Group's ability to achieve certain economies of scale. This improved the Group's Sales Margins and reduced the impact of decrease in turnover from Mobile Carrier Voice Hubbing Services.

In respect of SMS Hubbing Services, the Group recorded an increase in turnover from HK$48.2 million for the year 2004 to HK$75.2 million for the year 2005, representing a 56.0% increase. The Group recorded a 73.1% increase in the number of SMS messages handled from 638.9 million messages in 2004 to 1,105.7 million messages in 2005. SMS messages handled increased at a higher rate than the turnover mainly due to complimentary intra-operators SMS Hubbing Services.

Mobile VAS and Enterprise Solutions together contributed 5.3% of the Group's turnover in 2004 and 4.2% of the Group's turnover in 2005. The Group began to provide Mobile VAS services in 2004 at a trial scale and officially launched Mobile Roaming Call Back services in December 2005. As such, Mobile VAS only accounted for an insignificant percentage of the Group's overall turnover. The Group's turnover attributable to Enterprise Solutions fluctuated according to the projects taken up.

Other revenue

Other revenue represents interest income from bank deposits. Other revenue increased significantly from HK$8,000 for the year 2004 to HK$295,000 for the year 2005, reflecting the increase in average interest rate from 0.01% at 31 December 2004 to 1.09% at 31 December 2005 and an increase in the Group's bank balance during the year.

Other net loss

Other net loss increased by HK$674,000, or 262.3%, from HK$257,000 for the year 2004 to HK$931,000 for the year 2005. The increase in other net loss was primarily due to the increase in net loss on disposal of other property, plant and equipment amounting to HK$482,000 and an increase in net foreign exchange loss of HK$192,000 for the year 2005.
Network, operations and support expenses

Network, operations and support expenses decreased by HK$59.1 million, or 7.9%, from HK$747.2 million for the year 2004 to HK$688.1 million for the year 2005. The decrease was mainly due to the decrease in voice traffic volume from 3,243.3 million minutes for the year 2004 to 3,113.6 million minutes for the year 2005 and hence the decrease of carrier costs of HK$51.5 million and other telecoms service costs of HK$8.8 million. Such decrease in voice traffic volume was mainly due to the decrease in the traffic volume from Fixed-Line/Hybrid Carrier Voice Hubbing Services, from 2,425.0 million minutes for the year 2004 to 2,259.0 million minutes for the year 2005, which was partly offset by the increase in the traffic volume from Mobile Carrier Voice Hubbing Services, from 818.3 million minutes for the year 2004 to 854.6 million minutes for the year 2005. As a percentage of turnover, network, operations and support expenses decreased from 71.4% for the year 2004 to 70.2% for the year 2005. The main reason for this decrease was due to lower effective circuit charges per minute. Operating lease expenses from the use of IPLC (including STMs) amounted to HK$49.2 million in 2005, an increase of 2.7% from HK$47.9 million in 2004.

Depreciation

Depreciation expenses increased by HK$7.1 million, or 11.7%, from HK$60.5 million for the year 2004 to HK$67.6 million for the year 2005. The increase was principally due to the completion of construction projects that were in progress in the previous year and consequently were not previously provided for in accordance with the Group’s accounting policies.

Staff costs

Staff costs increased by HK$15.4 million, or 42.8%, from HK$36.0 million for the year 2004 to HK$51.4 million for the year 2005. The increase in staff costs was mainly due to the continuous recruitment of additional staff to cope with the expansion of the Group’s business and the increase in average staff salary and other staff benefits. The number of staff members increased from 144 as at 31 December 2004 to 161 as at 31 December 2005, representing an increase of 11.8%.

Other operating expenses

Other operating expenses decreased by HK$34.4 million, or 36.4%, from HK$94.5 million for the year 2004 to HK$60.1 million for the year 2005. This decrease was principally due to the decrease in impairment loss on trade and other receivable by HK$34.7 million, from HK$37.3 million for the year 2004 to HK$2.6 million for the year 2005, as a result of the Group’s effort to tighten its credit controls. The higher amount of impairment losses in the year 2004 was mainly due to the write-off of receivables from an overseas customer who engaged the Group for enterprise solution services and several disputed amounts with certain overseas carriers.

Profit from operations and before taxation

Although the turnover decreased by 6.4% in 2004, this was offset by a significant decrease in other operating expenses due to the Group’s efforts in cost control. As a result, the Group’s profit before taxation from continuing operations increased by 3.1% from HK$108.7 million for the year 2004 to HK$112.1 million for the year 2005.
FINANCIAL INFORMATION

Taxation

The Group’s income tax increased by HK$0.5 million, or 2.8%, from HK$17.6 million for the year 2004 to HK$18.1 million for the year 2005. This increase was mainly due to the increase of profit from operations. The effective tax rate for continuing operations remained stable at approximately 16.2%.

Profit for the year from continuing operations

As a result of the combination of the reduction in turnover offset by the significant decrease in other operating expenses, the Group’s profit from continuing operations increased by HK$3.0 million, or 3.3%, from HK$91.1 million for the year 2004 to HK$94.1 million for the year 2005.

Profit for the year from discontinued operations

Profit from discontinued operations decreased by HK$6.7 million, or 64.4%, from HK$10.4 million for the year 2004 to HK$3.7 million for the year 2005. The decrease was mainly due to an increase in finance costs resulting from an increase in interest rates.

Profit for the year

As a result of the combination of the reduction in turnover, the significant decrease in other operating expenses and the increase in finance costs, the Group’s profit for the year decreased by HK$3.7 million, or 3.6%, from HK$101.5 million for the year 2004 to HK$97.8 million for the year 2005.

Profit attributable to equity holders of the Company

As a result of the combination of the reduction in turnover, the significant decrease in other operating expenses and the increase in finance costs, the Group achieved a slight decrease in profit attributable to equity holders of the Company from HK$101.5 million for the year 2004 to HK$97.8 million for the year 2005.

Net profit margin based on continuing operations

As a result of the reduction in other operating expenses due to the Group’s effort in cost control, the net profit margin has been relatively stable at 8.7% for the year 2004 compared to 9.6% for the year 2005.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 31 January 2007, current assets amounted to HK$542.2 million, which was comprised of trade and other receivables of HK$491.5 million, current tax recoverable of HK$0.9 million and bank balances and cash of HK$49.8 million. As at the same date, current liabilities amounted to HK$435.2 million, which was comprised of trade and other payables of HK$369.2 million, amount due to ultimate holding company of HK$22.3 million and tax payable of HK$43.7 million. As at 31 January 2007, the Group did not have any non-current liabilities except for deferred tax liabilities of HK$37.5 million.
Cash flows

The following table shows the combined cash flow statements of the Group for the Track Record Period:

<table>
<thead>
<tr>
<th>Year ended 31 December</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HK$’000</td>
<td>HK$’000</td>
<td>HK$’000</td>
</tr>
<tr>
<td>Operating activities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit before taxation</td>
<td>119,042</td>
<td>115,911</td>
<td>239,613</td>
</tr>
<tr>
<td>Adjustments for:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Surplus on revaluation of investment property</td>
<td>(10,000)</td>
<td>(11,000)</td>
<td>(23,000)</td>
</tr>
<tr>
<td>— Depreciation</td>
<td>60,565</td>
<td>67,551</td>
<td>72,449</td>
</tr>
<tr>
<td>— Loss on disposal of other property, plant and equipment</td>
<td>135</td>
<td>617</td>
<td>37</td>
</tr>
<tr>
<td>— Finance costs</td>
<td>4,036</td>
<td>11,141</td>
<td>5,499</td>
</tr>
<tr>
<td>— Interest income</td>
<td>(8)</td>
<td>(302)</td>
<td>(2,163)</td>
</tr>
<tr>
<td>Operating profit before changes in working capital</td>
<td>173,770</td>
<td>183,918</td>
<td>292,435</td>
</tr>
<tr>
<td>Decrease/(increase) in trade and other receivables</td>
<td>309,258</td>
<td>307,748</td>
<td>(138,655)</td>
</tr>
<tr>
<td>(Decrease)/increase in trade and other payables</td>
<td>(427,679)</td>
<td>(114,858)</td>
<td>91,724</td>
</tr>
<tr>
<td>Cash generated from operations</td>
<td>55,349</td>
<td>376,808</td>
<td>245,504</td>
</tr>
<tr>
<td>Hong Kong Profits Tax refunded</td>
<td>1,227</td>
<td>4,050</td>
<td>16,076</td>
</tr>
<tr>
<td>Hong Kong Profits Tax paid</td>
<td>(6,167)</td>
<td>(32,732)</td>
<td>(10,845)</td>
</tr>
<tr>
<td>Net cash generated from operating activities</td>
<td>50,409</td>
<td>348,126</td>
<td>250,735</td>
</tr>
<tr>
<td>Year ended 31 December</td>
<td>2004 HK$’000</td>
<td>2005 HK$’000</td>
<td>2006 HK$’000</td>
</tr>
<tr>
<td>------------------------</td>
<td>--------------</td>
<td>--------------</td>
<td>--------------</td>
</tr>
<tr>
<td><strong>Investing activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest received</td>
<td>8</td>
<td>302</td>
<td>2,163</td>
</tr>
<tr>
<td>Payment for purchase of property, plant and equipment</td>
<td>(68,417)</td>
<td>(54,005)</td>
<td>(33,315)</td>
</tr>
<tr>
<td>Proceeds from sales of property, plant and equipment</td>
<td>2,169</td>
<td>12</td>
<td>16</td>
</tr>
<tr>
<td>Net inflow from disposal of discontinued operations</td>
<td>—</td>
<td>—</td>
<td>160,318</td>
</tr>
<tr>
<td><strong>Net cash (used in)/generated from investing activities</strong></td>
<td>(66,240)</td>
<td>(53,691)</td>
<td>129,182</td>
</tr>
<tr>
<td><strong>Financing activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest paid</td>
<td>(4,036)</td>
<td>(11,141)</td>
<td>(5,499)</td>
</tr>
<tr>
<td>Loan from ultimate holding company</td>
<td>119,411</td>
<td>4,141</td>
<td>—</td>
</tr>
<tr>
<td>Loan repayment to ultimate holding company</td>
<td>—</td>
<td>—</td>
<td>(125,540)</td>
</tr>
<tr>
<td>(Increase)/decrease in amount due from ultimate holding company</td>
<td>(93,984)</td>
<td>(274,476)</td>
<td>255,465</td>
</tr>
<tr>
<td>Capital contribution from minority interests</td>
<td>25</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Dividends paid to equity shareholders of the Company</td>
<td>—</td>
<td>—</td>
<td>(495,000)</td>
</tr>
<tr>
<td><strong>Net cash generated from/(used in) financing activities</strong></td>
<td>21,416</td>
<td>(281,476)</td>
<td>(370,574)</td>
</tr>
<tr>
<td><strong>Net increase in cash and cash equivalents</strong></td>
<td>5,585</td>
<td>12,959</td>
<td>9,343</td>
</tr>
<tr>
<td>Cash and cash equivalents at 1 January</td>
<td>15,545</td>
<td>21,130</td>
<td>34,089</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at 31 December</strong></td>
<td>21,130</td>
<td>34,089</td>
<td>43,432</td>
</tr>
</tbody>
</table>

During the Track Record Period, the Group financed its operations primarily through cash flows from its operations and shareholder loans from its ultimate holding company. Beginning in 2006, the Group financed its operations primarily through cash flows from its operations. The Group does not expect to fund its operations with shareholder loans from the ultimate holding company in the future.
Operating activities

For the year ended 31 December 2004, net cash generated from operating activities was HK$50.4 million while for the year ended 31 December 2005, net cash generated from operating activities was HK$348.1 million. The increase in the year 2005 as compared with that of the year 2004 was due to the fact that there was a decrease in trade and other payables of HK$114.9 million for the year 2005 as compared to a decrease in trade and other payables of HK$427.7 million for the year 2004. The larger decrease in trade and other payables in 2004 was mainly due to the Group's settlement of outstanding amounts due to its major suppliers who had settled long outstanding receivables as a result of the Group's action to tighten its credit control procedures.

For the year ended 31 December 2006, the Group's net cash generated from operating activities was HK$250.7 million while for the year ended 31 December 2005, the Group's net cash generated from operating activities was HK$348.1 million. The decrease was mainly due to the increase in trade and other receivables of HK$138.7 million in the year ended 31 December 2006 compared to a decrease in trade and other receivables of HK$307.7 million in the corresponding period in 2005. As a result of the Group's total turnover in 2006 increasing by 39.2%, the Group's account receivables balance increased correspondingly.

Investing activities

For the year ended 31 December 2004, cash used in investing activities was HK$66.2 million. This was the result of payments of an aggregate amount of HK$68.4 million for purchase of property, plant and equipment as more particularly set out in the paragraph headed “Capital expenditures” below.

For the year ended 31 December 2005, cash used in investing activities was HK$53.7 million. This was mainly attributable to payments for purchase of property, plant and equipment of an aggregate amount of HK$54.0 million.

For the year ended 31 December 2006, the Group's net cash generated from investing activities was HK$129.2 million. This was mainly attributable to the cash inflow from the disposal of the discontinued operations of HK$160.3 million, which was partially set off by payments for purchase of other property, plant and equipment of an aggregate amount of approximately HK$33.3 million.

Financing activities

For the year ended 31 December 2004, net cash generated from financing activities was approximately HK$21.4 million. This was mainly due to a loan of HK$119.4 million from the ultimate holding company, which was offset in part by an increase in amount due from the ultimate holding company of HK$94.0 million.

For the year ended 31 December 2005, net cash used in financing activities was HK$281.5 million. This primarily was due to the fact that there was an outflow of cash to the ultimate holding company of HK$274.5 million.
For the year ended 31 December 2006, the Group’s net cash used in financing activities was HK$370.6 million. This was mainly due to the repayment of loan to the ultimate holding company of HK$125.5 million and a decrease in amount due from the ultimate holding company of approximately HK$255.5 million and dividends paid to equity shareholders of the Company of HK$495.0 million for the year ended 31 December 2006.

Receivables and payables

Trade and other receivables

The Group’s trade and other receivables under current assets are primarily affected by the level of services the Group provided during the Track Record Period and the Group’s ability to collect such amounts on a timely basis, as measured by its trade receivable days outstanding. Trade and other receivables were HK$642.6 million, HK$331.9 million and HK$459.7 million as at 31 December 2004, 2005 and 2006, respectively. The decrease from 2004 to 2005 resulted primarily from the significant improvement in the trade receivable days outstanding. The increase from 2005 to 2006 is mainly attributable to the increased turnover during 2006 and the increase in trade receivable days outstanding resulting from the granting of longer credit periods to certain strategic customers.

Set forth below is an ageing analysis of the Group’s trade debtors, included in trade and other receivables, as at periods indicated.

<table>
<thead>
<tr>
<th></th>
<th>31 December</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004</td>
<td>2005</td>
</tr>
<tr>
<td></td>
<td>HK$’000</td>
<td>HK$’000</td>
</tr>
<tr>
<td>Within 6 months</td>
<td>335,016</td>
<td>241,936</td>
</tr>
<tr>
<td>Over 6 months but less than 1 year</td>
<td>100,180</td>
<td>11,198</td>
</tr>
<tr>
<td>Over 1 year</td>
<td>166,006</td>
<td>24,937</td>
</tr>
<tr>
<td></td>
<td>601,202</td>
<td>278,071</td>
</tr>
</tbody>
</table>

The credit periods granted by the Group to its customers ranged from 7 to 180 days. The higher amount of overdue receivables in 2004 when compared to that of 2005 and 2006 was mainly due to disputed amounts with certain customers. Starting from 2005, the Group implemented regular traffic volume reconciliation with certain customers and has tightened its credit policy. The Group’s trade receivable days outstanding decreased from 210 days as at 31 December 2004 to 104 days as at 31 December 2005, primarily because of the Group’s policy to tighten its credit control procedure. The Group’s trade receivable days outstanding increased from 104 days as at 31 December 2005 to 113 days as at 31 December 2006 primarily as a result of extended credit periods granted to certain strategic customers. The Directors have reviewed all outstanding balance of trade receivables and the financial position of its customers and considered that no further provision of doubtful debt is required in accordance with the adopted accounting principles.

As at the Latest Practicable Date, the Group had collected approximately 48.3% of the trade receivables as at 31 December 2006 which amounted to HK$204.4 million.
Trade and other payables

The Group’s trade and other payables are primarily affected by the Group’s business and the status of the Group’s accounts receivables, as measured by its trade receivable days. As the Group generates more turnover from its hubbing services, it also experiences an increase in costs, primarily in the form of carrier costs, which increase the Group’s trade and other payables. Most of the Group’s customers and suppliers are telecoms operators. As customers, telecoms operators place voice and/or data routing through the Group’s hub and the Group grants credits to them. When the telecoms operators are at the terminating end of the routing of voice or data, they charge the Group for telecoms services provided in directing calls to the recipients (being their customers) and grant credits to the Group. Since most of the Group’s suppliers are also its customers, the Group also maintains a policy of matching its payment cycles with its receivable cycles for such customers and suppliers. As a result, any improvement the Group experiences in its trade receivables days outstanding generally has a corresponding effect on the credit periods it receives from its suppliers.

Trade and other payables were HK$406.3 million, HK$284.7 million and HK$373.1 million as at 31 December 2004, 2005 and 2006, respectively. The decrease from 2004 to 2005 resulted primarily from the reduction in trade payable days of the Group in 2005. The increase from 2005 to 2006 resulted primarily from growth in the Group’s business resulting in higher turnover and a corresponding increase in costs.

Other payables are mainly comprised of amounts payable to vendors for equipment purchased by the Group, deposits received for projects in relation to Enterprise Solutions and accruals in relation to staff benefits. Other payables of the Group were HK$48.7 million, HK$43.9 million and HK$43.3 million as at 31 December 2004, 31 December 2005 and 31 December 2006, respectively. Other payables as at 31 December 2006 were at a similar level as compared to 31 December 2005. Other payables for 2005 was lower than 2004 mainly because the Group purchased more equipment in 2004 as compared to 2005 to cope with the growth of business. Accordingly, the outstanding equipment payable for 2005 was lower compared to 2004.

Set forth below is an ageing analysis of the Group’s trade creditors as at the periods indicated.

<table>
<thead>
<tr>
<th></th>
<th>2004 HK$’000</th>
<th>2005 HK$’000</th>
<th>2006 HK$’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within 6 months</td>
<td>204,437</td>
<td>160,183</td>
<td>256,665</td>
</tr>
<tr>
<td>Over 6 months but within 1 year</td>
<td>117,426</td>
<td>37,588</td>
<td>22,786</td>
</tr>
<tr>
<td>Over 1 year</td>
<td>35,728</td>
<td>43,003</td>
<td>50,288</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>357,591</strong></td>
<td><strong>240,774</strong></td>
<td><strong>329,739</strong></td>
</tr>
</tbody>
</table>

The Group is generally granted credit periods of 7 to 180 days. The Group’s trade payable days decreased from 175 days as at 31 December 2004 to 128 days as at 31 December 2005, which was in line with the improvement in its trade receivable days outstanding. As at 31 December 2005 and 2006, the trade payable days remained stable at 128 days and 127 days, respectively.
As at the Latest Practicable Date, the Group had settled HK$135.0 million, or 40.9% of its trade payables outstanding as at 31 December 2006.

Capital expenditures

The following table sets out the Group’s historical capital expenditures and its breakdown during the Track Record Period:

<table>
<thead>
<tr>
<th>Year</th>
<th>Telecommunications equipment HK$’000</th>
<th>Other assets HK$’000</th>
<th>Construction project HK$’000</th>
<th>Total HK$’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>23,372</td>
<td>10,881</td>
<td>21,510</td>
<td>55,763</td>
</tr>
<tr>
<td>2005</td>
<td>19,276</td>
<td>5,317</td>
<td>22,967</td>
<td>47,560</td>
</tr>
<tr>
<td>2006</td>
<td>–</td>
<td>1,809</td>
<td>28,357</td>
<td>30,166</td>
</tr>
</tbody>
</table>

As a result of the establishment of the second data centre, construction project capital expenditures increased substantially during the Track Record Period.

Capital commitments

The following table sets forth the aggregate amounts of the Group’s future minimum lease payments under non-cancellable operating leases as at 31 December 2006:

HK$’million

Commitment on land and building
Commitment in relation to international circuit leases

147.7

The Group’s capital commitment in respect of land and building operating leases outstanding as at 31 December 2006 was primarily in respect of the Group’s various tenancies of offices and data centre. Of the HK$62.3 million commitment, HK$21.8 million would be payable within the year 2007 and the balance of HK$40.5 million within the two years thereafter.

Of the HK$85.4 million capital commitment in relation to international circuit leases outstanding as at 31 December 2006, HK$14.5 million would be payable within the year 2007, HK$51.8 million within the four years thereafter and HK$19.1 million after the year 2011 given substantial portion of the Group’s international circuits are leased for more than five years.

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

As set out in the paragraph headed “Capital commitment” above, the Group did not have any other off balance sheet commitment or arrangement as at 31 December 2006.

Exchange rate risk

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

Credit risk

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

The Group has a certain concentration of credit risk of the total trade and other receivables due from the Group’s largest customers and customers from China, with the 5 largest customers accounting for approximately 61%, 45% and 49% of the Group total trade and other receivables as at 31 December 2004, 2005 and 2006, respectively. The credit risk exposure to these customers in China and the remaining trade receivables balance has been and will be monitored by the Group on an ongoing basis and the historic impairment losses on bad and doubtful debts have been within management’s expectations.

Funding and banking facilities

During the Track Record Period, the Group generally funded its operations with internally-generated cashflow and banking facilities. As at the close of business on 31 January 2007, the Company had banking facilities amounting to US$3.85 million (equivalent to approximately HK$30.03 million). Of the bank facilities of US$3.85 million, US$110,000 (equivalent to approximately HK$858,000) was utilised as guarantees for the Group’s purchase from carriers.

PROPERTY INTERESTS

Knight Frank Petty Limited, an independent property valuer, has valued the Group’s property interests as at 31 December 2006. The full text of the letter, summary of values and valuation certificates with regard to such property interests are set forth in Appendix III to this Prospectus.

TAXATION

For the Track Record Period, the Group has been subject to Hong Kong profits tax, which is calculated at 17.5% of the assessable profit.

Given the Group’s circuits are connected to Taiwan and the US, provisions have been made for Taiwan withholding tax at the rate of 20% and US profits tax at the rate of 20% to 50% on revenue related.
The effective tax rate of the Group was 16.2%, 16.2% and 17.3% for the years ended 31 December 2004, 2005 and 2006, respectively. The effective tax rates for the year ended 31 December 2004 and 2005 were lower than the Hong Kong profits tax rate of 17.5% due to certain non-taxable income. The relatively high effective tax rate for year ended 31 December 2006 was primarily due to the increase in tax effect of non-deductible expenses.

DIVIDEND POLICY, WORKING CAPITAL AND DISTRIBUTABLE RESERVES

Dividend

For each of the two years ended 31 December 2005, the Company did not declare or pay any dividend. For the year ended 31 December 2006, the Company declared and paid an interim dividend of HK$495 million, representing approximately 83.8% of the retained earnings prior to the distribution of such dividend of the Company as at 31 December 2006. Payment of such dividend was financed by internal resources of the Group. The declaration of dividends is subject to the discretion of the Board, and any final dividend for the year is subject to shareholders’ approval. The amounts of dividends will be subject to the discretion of the Board and will depend upon a number of factors, including the Group’s earnings, investment requirements, working capital requirement, general financial conditions and any other factors considered relevant by the Board.

Subject to the availability of the Company’s cash and distributable reserves, the Group’s investment requirements, and the Group’s cashflow and working capital requirements, the Directors currently intend to declare and recommend dividends which would amount to not less than 30% of the net profit, if any, from ordinary activities for the first financial year subsequent to the Global Offering.

The recent declaration of dividend and the above intention does not amount to any guarantee or representation or indication that the Company must or will declare and pay a dividend in such manner or declare and pay any dividend at all, either in the first financial year subsequent to the Global Offering or thereafter. The Group’s dividend policy is subject to review by the Directors at any time and the Company may determine not to pay dividends as a result of such review.

Working capital

The Directors are of the opinion that, taking into account the present available banking facilities and internal financial resources of the Group and the estimated net proceeds of the Global Offering, the Group has sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of this Prospectus.

Distributable reserves

Subject to the Companies Ordinance and the articles of association of the Company (as referred to in the section headed “Dividends” in Appendix IV to this Prospectus), the Company may pay dividends out of its retained profits. The Company’s ability to distribute dividends depends on, among other factors, the available balance of retained profits and distributable profits and the cashflow of the Company (but not the Group).

As at 31 December 2006, being the date to which the latest financial statements of the Group were made up, the Company had retained profits and distributable reserves amounting to HK$96.0 million.
FINANCIAL INFORMATION

Subsidiaries of the Company declared special dividends in the total amount of HK$169,199,000 on 28 February 2007, such that the Company may utilise such amount of retained earnings for the purpose of Capitalisation Issue.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted net tangible assets of the Group is based on the audited combined net assets of the Group as at 31 December 2006, as shown in the Accountants’ Report, the text of which is set out in Appendix I to this Prospectus and adjusted as follows:

<table>
<thead>
<tr>
<th></th>
<th>Adjusted net tangible assets as at 31 December 2006</th>
<th>Estimated net proceeds from the Global Offering</th>
<th>Unaudited pro forma adjusted net tangible assets of the Group</th>
<th>Unaudited pro forma adjusted net tangible asset value per Share</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HK$'000</td>
<td>HK$'000</td>
<td>HK$'000</td>
<td>HK$'000</td>
</tr>
<tr>
<td>Based on Offer</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Price of HK$2.13 per Offer Share</td>
<td>402,889</td>
<td>382,596</td>
<td>785,485</td>
<td>0.42</td>
</tr>
<tr>
<td>Based on Offer</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Price of HK$2.58 per Offer Share</td>
<td>402,889</td>
<td>465,081</td>
<td>867,970</td>
<td>0.46</td>
</tr>
</tbody>
</table>

Notes:

1. The adjusted net tangible assets of the Group as at 31 December 2006 is based on the audited combined net assets of the Group attributable to the equity holders of the Company of HK$372,917,000 as at 31 December 2006 extracted from the Accountants’ Report set out in Appendix I to this Prospectus with an adjustment for the deferred tax assets and liabilities of HK$7,478,000 and HK$37,450,000 respectively as at 31 December 2006.

2. The estimated net proceeds from the Global Offering are based on the Offer Price of HK$2.13 and HK$2.58 per Offer Share, after deduction of the underwriting fees and other related expenses payable by the Group.

3. The unaudited pro forma adjusted net tangible asset value per Share is determined after the adjustments as described in note 2 above and on the assumption of 1,880,000,000 Shares expected to be in issue immediately following the completion of the Capitalisation Issue and Global Offering.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that there is no adverse material change in the financial or trading position or prospects of the Group since 31 December 2006 (being the date to which the latest financial statements of the Group were made up).
MISSION STATEMENT AND STRATEGIES

The mission of the Group is to develop a global interconnection platform and telecoms network with extensive coverage in China, and to establish the Group as the main communication hub for the Asia Pacific region.

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

- further develop and strengthen the Group’s established, long standing relationships with major telecoms operators, in particular, its relationships with telecoms operators in China;
- maintain and expand the Group’s leadership in hub based telecoms services by providing interoperable interconnections for multiple types of traffic between multiple types of networks;
- maintain growth in core business, in particular by expanding the scale of the Group’s interoperability capabilities and providing an increased amount of Mobile VAS so as to enhance its network coverage and telecoms traffic and expand its global customer base;
- selectively expand into high potential new businesses, for example, 3G applications, and enhance its existing service portfolio through continuous technology improvements developed in cooperation with existing customers;
- maintain leadership and growth in rolling out time-to-market integrated solutions for customers, which keep pace with the rapid technology development in the telecoms market;
- aggressively pursue expansion opportunities; and
- leverage on the Group’s existing customer base by marketing additional services to existing customers.

Future Plans

The Group seeks to develop a global interconnection platform and telecoms network with extensive coverage in China, and to establish the Group as the main communication hub for the Asia Pacific region. The Group intends to implement the above through continuous development of its four core businesses, which entails the development and marketing of new value added services proactively in anticipation of market demand, continuing technological innovation, enhancing customer services, and developing superior branding, marketing and distribution channels.
The emergence of new standards such as 3G; mobile telecoms subscribers’ demand for more efficient and effective data transmission; increasing competition amongst telephone operators; continuous growth in the China telecoms market; and the trend of mobile telecoms market towards globalisation all provide an invaluable opportunity for a hub based service provider, such as the Group. The Group has been actively upgrading its services and capabilities to equip itself for such opportunities. As such, the Group has given priority to the following (by way of equity investment in joint venture or strategic alliances with third parties):

- **Developing of Next Generation Roaming Enabling Service**

  The emergence of new and different standards creates interoperability issues amongst telecoms operators. The Group is leveraging on its interoperability platform by developing roaming services and applications for new 3G operators that support multiple standards such as GSM, WCDMA, TD-SCDMA and CDMA2000. The Group is conducting research in this area aiming to be one of the first movers in offering this roaming services for 3G solutions. The Group believes that new 3G operators will have a tendency to employ hubbing services as it is more cost effective and efficient for a new operator to use a readily available network than to develop its own interoperable interconnections with all other mobile operators individually.

  In identifying and assessing potential opportunities, the Group will take into account, among other facts, whether such development will widen the Group’s technology edge, increase the Group’s sales channel and expand the Group’s geographical coverage.

- **Developing strong 3G capabilities**

  The future implementation of 3G services in China will require the establishment of network connections between new mobile operators and foreign operators. This will create opportunities for the hub based service providers. As a result, the Group has been preparing for the expansion of 3G telecoms networks in China, in particular, with respect to potential 3G candidates in China who are currently not offering mobile telecoms services. The Group aims to be the service provider of choice to telecoms operators for their 3G related services. The Group’s preparation in this regard includes its early involvement in projects launched by China telecoms operators with respect to 3G related services. The Group has been working closely with major China telecoms operators with which it has long-standing business relationships with respect to 3G related services.

  In addition, the Group has been aggressively expanding its Application Development team. The Group’s research developers are ready for the development of a new generation high performance IP based platform to cope with the requirement of new 3G applications. Given the expected high bandwidth demand by 3G applications, the Group will expand its IP infrastructure to handle the new products and to provide the new services. The Group believes that it is in a strong position to provide 3G technology related services for PRC telecoms operators because of its early involvement in the China telecoms operator’s projects, strong business relationships and well-built Application Development team as well as its established record in providing high quality services with global reach to telecoms operators.
• **IP Packet Exchange (IPX)**

In addition to preparing the Group to face the challenge and grasp the business opportunity brought about by the 3G standard, the Group has been developing more applications for its customers so as to enhance their network structure.

IPX is one of the new products under development in the Group’s Mobile VAS portfolio. The IPX service provided by the Group will offer secure connections among telecoms operators and Internet service providers to support their applications such as video sharing, games and instant messaging. The Group will provide its IPX service through its existing dedicated, high-performance global IP infrastructure that connects mobile operators, telecoms operators, and internet service providers, in particular, the operators in the China which are the Company’s established customers. IPX will also become the infrastructure for the Group’s Multi-Media Service eXchange, or MMSX, and Video Call eXchange or VCX to enhance the service quality and product unification. The Group is one of the key players in the IP Multimedia Subsystem (IMS) test campaign organised by GSMA which involves extensive IPX testing with many other global operators. The Group intends to launch this service in the 2nd half of 2007.

It is expected that with the commercial launch of such services, the services and capability of the Group’s hub would be enhanced and expanded and would be able to attract more customers and usage.

• **Instant messaging**

With the popularity of instant messaging, mobile operators have been discussing and conducting trials for the feasibility of mobile instant messaging. The Group expects this trend will create another need for the Group’s interoperability services for single connection with wide reachability, and is conducting research in this area especially for the following features:

— multiple domains support

— multiple standards and protocols conversion support

— flexible and comprehensive billing management, to support settlement mechanisms based on volume, transaction, content type, duration and so on

with the goal to provide interconnection amongst mobile operators and prominent internet instant messaging services providers.

While the commercial launch of the above products may be affected by factors beyond the control of the Company, including those set out in the section headed “Risk factors” of this Prospectus, the Directors believe that the Group has already established a sound and reliable inter-standard and inter-vendor platform and a solid and strong customer base upon which the Group can leverage to face the future challenges of the high speed telecoms world.
USE OF PROCEEDS

The Directors believe that the Global Offering will raise the corporate profile and enhance the capital base of the Group, enabling it to further expand the scale and scope of its operations.

The net proceeds of the Global Offering to be received by the Group after deduction of underwriting commission and estimated expenses payable by the Group, and assuming an Offer Price of HK$2.355 per Offer Share (being the mid-point of the Offer Price between HK$2.13 and HK$2.58 per Offer Share), are estimated to be approximately HK$423.8 million. The Directors currently plan to use such net proceeds as follows:

- approximately HK$230 million as funding for investments which may be in the form of acquisitions or joint ventures or strategic alliances with third parties to achieve (a) expansion of technological applications (e.g. the Group's 3G software applications); or (b) expansion of geographical network coverage;
- approximately HK$100 million as capital expenditure to upgrade the Group's computer software and hardware;
- approximately HK$90 million to enhance the Group's application development activities including hiring extra application development staff; and
- the remaining balance as the Group's general working capital.

The current plan of the Group is to acquire investment targets which may help the Group to increase market share, extend geographical coverage, increase product line or achieve technology edge. The Group has not, at this stage, identified any specific investment targets nor entered into any legally binding agreement or arrangement with respect to the investments mentioned above and there is no acquisition in progress. The Group is likely to invest in or enter into contractual arrangements with other companies which provide telecoms hubbing services, SMS hubbing services and/or Mobile VAS products which in the view of the Group may increase its market share and have synergy with the businesses of the Group. The Group will also consider investing in or entering into contractual arrangements with companies as described above outside of Hong Kong in order to widen its market share, subject to fulfilment of the local legal requirements. For details of the future plans of the Group, please refer to the paragraph headed “Future plans” above. The above use of proceeds are allocated based on the current business plan of the Group on capital expenditure and application development. The proceeds of approximately HK$230 million allocated for funding investments is decided after allocations to capital expenditure and application development. As such, the proceeds raised under the Global Offering and allocated may not be sufficient for the Group to complete all the future investment plans. Future acquisitions may have to be funded through various means including but not limited to debt financing and equity funding.

Assuming an Offer Price of HK$2.58 per Offer Share (being the high-end of the stated range of the Offer Price between HK$2.13 and HK$2.58 per Offer Share), the amount of additional net proceeds to be received by the Company are estimated to be approximately HK$40.3 million, which the Directors intend to apply as additional funding for the Group's investments in acquisitions, joint ventures or strategic alliances with third parties.

Assuming an Offer Price of HK$2.13 per Offer Share (being the low-end of the stated range of the Offer Price between HK$2.13 and HK$2.58 per Offer Share), the Directors intend
that the respective amounts to be applied for each of the above purposes will remain unchanged save that the amount to be applied for funding for the Group’s investments in acquisitions, joint ventures or strategic alliances with third parties will be reduced accordingly.

To the extent that the net proceeds of the Global Offering are not immediately required for the above purposes, the Group may hold such funds in short-term deposits with banks and/or financial institutions in Hong Kong for so long as it deems to be in the best interests of the Group.

The net proceeds from the sale of the Sale Shares by the Vendor in the Global Offering after deducting the related expenses, and assuming an Offer Price of HK$2.355 per Offer Share (being the mid-point of the stated range of the Offer Price of between HK$2.13 and HK$2.58 per Offer Share) and that the Over-allotment Option is not exercised in whole or in part, are estimated to amount to approximately HK$1,412.8 million. If the Over-allotment Option is exercised in full, and assuming an Offer Price of HK$2.355 per Offer Share (being the mid-point of the stated range of the Offer Price of between HK$2.13 and HK$2.58 per Offer Share), the Vendor will receive additional net proceeds of approximately HK$280.6 million. The Company will not receive any proceeds from the sale of the Sale Shares by the Vendor in the Global Offering. All of the net proceeds from the sale of the Sale Shares by the Vendor in the Global Offering will be for the account of the Vendor.
Cornerstone Investors

- **Government of Singapore Investment Corporation Pte Ltd. ("GIC")**

  GIC is a global investment management company established in 1981 to manage Singapore's foreign reserves. With its current portfolio size of more than US$100 billion, GIC is amongst the world's largest fund management companies. With a network of seven offices in key financial capitals around the world, GIC invests internationally in equities, fixed income, foreign exchange, commodities, money markets, alternative investments, real estate and private equity.

- **Diamond Season Limited ("Diamond Season")**

  Diamond Season is a company incorporated in Hong Kong and is indirectly wholly and beneficially owned by Ms. Nina Kung (alias Nina T.H. Wang). Ms Kung is the Chairwoman of the Chinachem Group which is one of the largest private property developers in Hong Kong. She is also a Vice President of The Real Estate Developers Association of Hong Kong and has various investments in Hong Kong, China and overseas.

- **Best Transform Limited ("Best Transform")**

  Best Transform is a company incorporated in the British Virgin Islands and is indirectly wholly and beneficially owned by Mr. Ying Lee Yuen Michael. Mr. Ying is a non-executive director of Esprit Holdings Limited, a company listed on the Main Board of the Stock Exchange.

- **Asset Holder PCC No. 2 Limited Re Ashmore Asian Recovery Fund ("ARF")**

  Ashmore Asian Recovery Fund is managed by the Ashmore Group. The Ashmore Group, an London Stock Exchange listed company based in London, UK, has US$26 billion under management in emerging market debt and equity and is a specialist active value-oriented fund manager focusing on 4 investment themes in emerging markets — US$ denominated debt, local currency and local currency denominated debt, special situations (a combination of distressed debt and private equity) and public equities.

  Each of GIC, Diamond Season, Best Transform and ARF (collectively the "Cornerstone Investors" and each a "Cornerstone Investor") will not have any board representation in the Company and so far as the Company is aware, the Cornerstone Investors are Independent Third Parties and they are independent of each other.

The Cornerstone Placing

As part of the International Placing, the Company, the Vendor and the Global Coordinator have entered or will enter into placing agreements (collectively known as "Cornerstone Placing Agreements" and each of them a "Cornerstone Placing Agreement") with each Cornerstone Investor to place such number of Shares that may be purchased by the Cornerstone Investors with an aggregate of US$90.0 million (inclusive of brokerage of 1%, SFC transaction levy of 0.004%, and Stock Exchange trading fee of 0.005%), rounded down to the nearest board lot not exceeding 1,000 Shares (the "Cornerstone Shares"). Assuming the mid-point Offer Price is HK$2.355 per Offer Share and the exchange rate adopted is US$1.00 to HK$7.80, the total number of Shares to be purchased by them would be 295,110,000 Shares, representing
approximate 15.7% of the issued and outstanding share capital of the Company after the
Global Offering or approximately 36.2% of the Offer Shares. Under the Cornerstone Placing
Agreements dated 15 March 2007,

(i) GIC has agreed to purchase such number of Offer Shares that may be purchased with
US$35.0 million, rounded down to the nearest board lot. Assuming the mid-point Offer
Price is HK$2.355 per Offer Share and the exchange rate adopted is US$1.00 to
HK$7.80, GIC would purchase approximately 114,765,000 Offer Shares, representing
approximately 6.1% of the issued share capital of the Company after the Global
Offering or approximately 14.1% of the Offer Shares.

(ii) Diamond Season has agreed to purchase such number of Offer Shares that may be
purchased with US$15.0 million, rounded down to the nearest board lot. Assuming the
mid-point Offer Price is HK$2.355 per Offer Share and the exchange rate adopted is
US$1.00 to HK$7.80, Diamond Season would purchase approximately 49,185,000
Offer Shares, representing approximately 2.6% of the issued share capital of the
Company after the Global Offering or approximately 6.0% of the Offer Shares.

(iii) Best Transform has agreed to purchase such number of Offer Shares that may be
purchased with US$15.0 million, rounded down to the nearest board lot. Assuming the
mid-point Offer Price is HK$2.355 per Offer Share and the exchange rate adopted is
US$1.00 to HK$7.80, Best Transform would purchase approximately 49,185,000 Offer
Shares, representing approximately 2.6% of the issued share capital of the Company
after the Global Offering or approximately 6.0% of the Offer Shares.

In respect of the Cornerstone Placing Agreement to be entered into with ARF, ARF would
purchase such number of Offer Shares that may be purchased with US$25.0 million, rounded
down to the nearest board lot. Assuming the mid-point Offer Price is HK$2.355 per Offer Share
and the exchange rate adopted is US$1.00 to HK$7.80, ARF would purchase approximately
81,975,000 Offer Shares, representing approximately 4.4% of the issued share capital of the
Company after the Global Offering or approximately 10.0% of the Offer Shares.

The offer of Shares to the Cornerstone Investors will not be affected by any reallocation of
Offer Shares between the International Placing and the Public Offer in the event of over-
subscription under the Public Offer. The number of Shares allocated to the Cornerstone Investors
pursuant to the Cornerstone Placing Agreements will be disclosed in the allocation result
announcement which is expected to be published on or about 2 April 2007.
Conditions

The subscription obligation of each Cornerstone Investor is/will be conditional upon (a) the Underwriting Agreements being entered into and having become unconditional in accordance with their respective terms, (b) none of the Underwriting Agreements having been terminated by the date and time for that purpose as specified in such agreements, (c) the Global Coordinator, the Vendor and the Company having entered into the Price Determination Agreement and (d) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Shares. If such conditions have not been fulfilled on or before 3 April 2007 (or such other date as may be agreed among the Company, the relevant Cornerstone Investor and the Global Coordinator), the obligation of such Cornerstone Investor to purchase the relevant Cornerstone Shares shall cease.

Restrictions on disposals by each of the Cornerstone Investors

Each of the Cornerstone Investors has agreed/will agree that without the prior written consent of the Company and the Global Coordinator, it shall not, whether directly or indirectly, at any time during the period of six months following the date of Listing dispose of any of the Cornerstone Shares and any shares or other securities of the Company which are derived therefrom pursuant to any rights issue, capitalisation issue or other form of capital reorganisation (the “Cornerstone Relevant Shares”) or any interest in any company or entity holding any of the Cornerstone Relevant Shares.

The above restrictions shall not apply to the transfer of all or part of the Cornerstone Relevant Shares to any entity that is owned, directly or indirectly, by the Cornerstone Investor (the “Cornerstone Subsidiary”) or in case the Cornerstone Investor is a fund, to any investment or collective investment fund, segregated account or special purpose vehicle managed or advised by the same investment manager as the Cornerstone Investor, or (b) any company that controls, is controlled by or under common control with the investment manager of the Cornerstone Investor (“Cornerstone Affiliate”). Cornerstone Subsidiary or Cornerstone Affiliate will be subject to the restrictions on disposals imposed on the Cornerstone Investor pursuant to the relevant Cornerstone Placing Agreement. If such Cornerstone Subsidiary or Cornerstone Affiliate ceases to be a Cornerstone Subsidiary or Cornerstone Affiliate, it shall transfer the Cornerstone Relevant Shares to the Cornerstone Investor or another Cornerstone Subsidiary or Cornerstone Affiliate which undertakes to abide by the restrictions on disposals imposed on the Cornerstone Investor pursuant to the Cornerstone Placing Agreement.

Each of Ms. Nina Kung and Mr. Ying Lee Yuen Michael, being owner of Diamond Season and Best Transform, respectively, has undertaken that during the period of six months following the date of Listing, he/she shall remain, directly and indirectly, a 100% owner of the relevant Cornerstone Investor.
UNDERWRITERS

Public Offer Underwriters

BNP Paribas Capital (Asia Pacific) Limited
CITIC Securities Corporate Finance (HK) Limited
Macquarie Securities Limited
Daiwa Securities SMBC Hong Kong Limited
Mitsubishi UFJ Securities (HK) Capital, Limited
Nomura International (Hong Kong) Limited
Shenyin Wanguo Capital (H.K.) Limited

International Underwriters

BNP Paribas Capital (Asia Pacific) Limited
CITIC Securities Corporate Finance (HK) Limited
Macquarie Securities Limited
Daiwa Securities SMBC Hong Kong Limited
Mitsubishi UFJ Securities (HK) Capital, Limited
Nomura International (Hong Kong) Limited
Shenyin Wanguo Capital (H.K.) Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Public Offer Underwriting Agreement

Pursuant to the Public Offer Underwriting Agreement, the Company is offering the Public Offer Shares for subscription by way of the Public Offer on, and subject to, the terms and conditions of this Prospectus and the relevant application forms.

Subject to: (a) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein and such listing and permission not subsequently being revoked on or before 8:00 a.m. on the Listing Date (which is currently expected to be on 3 April 2007); (b) certain other conditions set out in the Public Offer Underwriting Agreement (including but not limited to the Offer Price being agreed between the Company, the Vendor and the Global Coordinator (on behalf of the Underwriters)); and (c) the International Underwriting Agreement (which is expected to be entered into on or about 28 March 2007) having been duly executed and delivered and having become unconditional in accordance with its terms (save as regards any condition relating to the Public Offer Underwriting Agreement having become unconditional) and not having been terminated in accordance with its terms or otherwise, prior to 8:00 a.m. on the Listing Date (which is currently expected to be on 3 April 2007), the Public Offer Underwriters have severally agreed to subscribe or procure subscribers for, on the terms and conditions of this Prospectus and the application forms, their respective applicable proportions of the Public Offer Shares now being offered and which are not taken up under the Public Offer.
UNDERWRITING

GROUNDS FOR TERMINATION

The obligations of the Public Offer Underwriters under the Public Offer Underwriting Agreement will be subject to termination by notice in writing from the Global Coordinator (for itself and on behalf of the Public Offer Underwriters) if, at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date (which is expected to be on 3 April 2007):

1. there has come to the notice of the Global Coordinator:

   (i) that any statement, considered by the Global Coordinator to be material, contained in any offer documents (including this Prospectus and the offering circular to be issued for the purpose of the International Placing) and/or the relevant application forms in relation to the Global Offering was, when it was issued, or has become, untrue, incorrect or misleading in any respect or that any forecasts, expressions of opinion, intention or expectation expressed in any offer documents and/or the relevant application forms are not, in all material respects, fair and honest and based on reasonable assumptions, when taken as a whole; or

   (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this Prospectus, constitute an omission therefrom reasonably considered by the Global Coordinator to be material to the Global Offering; or

   (iii) any breach of any of the obligations imposed upon any party to the Public Offer Underwriting Agreement or the International Underwriting Agreement (other than upon any of the Underwriters); or

   (iv) any change or development involving a prospective change in the conditions, business affairs, prospects, profits, losses or the financial or trading position or performance of any Group Company which is considered by the Global Coordinator to be material in the context of the Global Offering; or

   (v) any breach of any of the warranties under the Public Offer Underwriting Agreement reasonably considered by the Global Coordinator to be material in the context of the Global Offering; or

   (vi) approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares (including any additional Shares that may be issued upon the exercise of the Over-allotment Option) is refused or not granted, other than subject to customary conditions, on or before the date of approval of the listing, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

   (vii) the Company withdraws this Prospectus (and any other documents used in connection with the contemplated subscription of the Offer Shares) or the Global Offering; or

   (viii) any person (other than any of the Public Offer Underwriters) has withdrawn or sought to withdraw its consent to being named in this Prospectus or to the issue of this Prospectus.
2. there shall develop, occur, exist or come into effect:

(ix) any event, or series of events, beyond the reasonable control of the Underwriters (including, without limitation, acts of government, strikes, calamity, crisis, lock-outs, fire, explosion, flooding, civil commotion, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God, acts of terrorism, declaration of a national or international emergency, riot, public disorder, economic sanctions, outbreaks of diseases or epidemics including Severe Acute Respiratory Syndrome and H5N1 and such related or mutated forms or interruption or delay in transportation); or

(x) any change or development involving a prospective change, or any event or series of events likely to result in any change or development involving a prospective change, in local, national, international, financial, economic, political, military, industrial, fiscal, regulatory, currency or market conditions or matters and/or disaster or monetary or trading settlement system (including any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the London Stock Exchange, the American Stock Exchange, the Nasdaq National Market, the Chicago Board of Options Exchange, the Chicago Mercantile Exchange or, the Chicago Board of Trade, or a material fluctuation in the exchange rate of the Hong Kong dollar against any foreign currency, or any interruption in securities settlement or clearance service or procedures in Hong Kong or anywhere in the world); or

(xi) any new Law or change or development involving a prospective change in existing Laws or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in any of Hong Kong, the PRC, the United States, Japan or any other jurisdictions relevant to any Group Company (the “Specific Jurisdictions”); or

(xii) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for the United States or by the European Union (or any member thereof) on any of the Specific Jurisdictions; or

(xiii) a change or development occurs involving a prospective change in taxation or exchange control (or the implementation of any exchange control), currency exchange rates or foreign investment Laws in any of the Specific Jurisdictions or affecting an investment in the Shares; or

(xiv) any change or development involving a prospective change, or a materialisation of, any of the risks set out in the section headed “Risk factors” in the Prospectus; or

(xv) any litigation or claim of material importance of any third party being threatened or instigated against any Group Company; or

(xvi) a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
(xvii) the chairman or chief executive officer of the Company vacating his or her office in circumstances where the operations of the Group will be materially and adversely affected; or

(xviii) the commencement by any regulatory body of any public action against a Director in his or her capacity as such or an announcement by any regulatory body that it intends to take any such action; or

(xix) a contravention by any member of the Group of the Companies Ordinance or any of the Listing Rules material to the Global Offering; or

(xx) a prohibition on the Company for whatever reason from allotting or selling the Offer Shares pursuant to the terms of the Global Offering; or

(xxii) other than with the approval of the Global Coordinator, the issue or requirement to issue by the Company of a supplementary prospectus (or any other documents used in connection with the subscription of the Offer Shares) pursuant to the Companies Ordinance or the Listing Rules in circumstances where the matter to be disclosed is, in the sole opinion of the Global Coordinator, materially adverse to the marketing for or implementation of the Global Offering; or

(xxiii) a valid demand by any creditor for repayment or payment of any indebtedness of any Group Company or in respect of which any Group Company is liable prior to its stated maturity; or

(xxiv) any loss or damage sustained by any Group Company (howsoever caused and whether or not the subject of any insurance or claim against any person); or

(xxv) a petition is presented for the winding-up or liquidation of any Group Company or any Group Company makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any Group Company or a provisional liquidator, receiver or manager is appointed to take over all or part of the assets or undertaking of any Group Company or anything analogous thereto occurs in respect of any Group Company; or

(xxvi) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary of Hong Kong and/or the Hong Kong Monetary Authority or otherwise), New York (imposed at the United States federal or New York state level or otherwise), Japan or the PRC or a material disruption in commercial banking or securities settlement or clearance services in any of the Specific Jurisdictions,

which in each case in the sole opinion of the Global Coordinator (for itself and on behalf of the Public Offer Underwriters):
(a) is or will or could be expected to have an adverse effect on the general affairs, management, business, financial, trading or other condition or prospects of the Company or the Group or any Group Company or on any present or prospective shareholder in his, her or its capacity as such; or

(b) has or will have or could be expected to have an adverse effect on the success, marketability or pricing of the Global Offering or the level of applications under the Public Offer or the level of interest under the International Placing; or

(c) makes it inadvisable, inexpedient or impracticable for the Global Offering to proceed or to market the Global Offering; or

(d) would have the effect of making any part of the Public Offer Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof,

then the Global Coordinator, at its sole discretion, may, for itself and on behalf of the Public Offer Underwriters, upon giving notice in writing to the Company at or prior to 8:00 a.m. on the Listing Date (with a copy of such notice to each of the other Public Offer Underwriters), terminate the Public Offer Underwriting Agreement with immediate effect.

The International Underwriting Agreement

In connection with the International Placing, it is expected that the Company, the Vendor among other parties, will enter into the International Underwriting Agreement with the International Underwriters. Under the International Underwriting Agreement, subject to the conditions set out therein, the International Underwriters would severally agree to procure subscribers for, or failing which, to themselves subscribe as principal for, the International Placing Shares being offered pursuant to the International Placing. It is also expected that the International Underwriting Agreement may be terminated upon similar grounds as the Public Offer Underwriting Agreement. Potential investors shall be reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed.

The Vendor intends to grant to BNP Paribas, on behalf of the International Underwriters, the Over-allotment Option exercisable by BNP Paribas on behalf of the International Underwriters to require the Vendor to sell up to an aggregate of 122,388,000 Sale Shares, representing 15% of the Shares initially offered under the Global Offering, solely to cover over-allocations in the International Placing, if any. The Over-allotment Option will expire on the date which is the 30th day after the last day for lodging applications under the Public Offer. Please refer to the paragraph headed “Over-allotment Option and Stabilisation” in the section headed “Structure and conditions of the Global Offering” of this Prospectus for further details.
UNDERWRITING

UNDERTAKINGS

The Vendor has undertaken to the Sponsor, each of the Underwriters and the Company that it shall not, except pursuant to the Stock Borrowing Agreement or employee share option scheme which may be adopted by the Company:

(i) during the period commencing from the date of this Prospectus and ending on the date which is six months from the Listing Date (the “First Period”), it shall not, and shall procure that the relevant registered holder(s) and its associates and companies controlled by it and any nominee or trustee holding in trust for it shall not, without the prior written consent of the Global Coordinator and unless in compliance with the requirements of the Listing Rules,

(a) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, any of the Shares or any securities convertible into or exercisable or exchangeable for, or that represent the right to receive any such Shares or such securities; or

(b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such Shares, whether any of the foregoing transactions is to be settled by delivery of Shares or such other securities, in cash or otherwise; or

(c) agree (conditionally or unconditionally) to enter into or effect any transaction with the same economic effect as any of the transactions referred to in paragraphs (a) or (b) above; or

(d) announce any intention to enter into or effect any of the transactions referred to in paragraphs (a), (b) or (c) above;

(ii) it shall not, and shall procure that the relevant registered holder(s) and its associates or companies controlled by it and any nominee or trustee holding in trust for it shall not, without the prior written consent of the Stock Exchange in the six-month period commencing on the expiry of the First Period set out in paragraph (i) above, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any Shares held by it or any of its associates or companies controlled by it or any nominee or trustee holding in trust for it if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be controlling shareholder (as defined in the Listing Rules) of the Company or would together cease to be controlling shareholders (as defined in the Listing Rules) of the Company;

(iii) in the event of a disposal of any Shares or securities of the Company or any interest therein within six months immediately following the expiry of the First Period set out in paragraph (i) above, it shall take all reasonable steps to ensure that such a disposal shall not create a disorderly or false market for any Shares or other securities of the Company; and
(iv) it shall, and shall procure that its associates and companies controlled by and nominees or trustees holding in trust for it shall, comply with all the restrictions and requirements under the Listing Rules on the sale, transfer or disposal by it or by the registered holder controlled by it of any Shares.

The Vendor has also undertaken to the Sponsor and to each of the Public Offer Underwriters and the Company that it and its Associates will not apply for any of the Offer Shares pursuant to the Global Offering, either directly or indirectly, whether in their own names or through nominees. It is also expected that each of the Covenantors will give similar undertakings to the Sponsor, the Company and the International Underwriters pursuant to the International Underwriting Agreement.

The Vendor has further undertaken to the Company, the Global Coordinator (for itself and on behalf of the Public Offer Underwriters), the Sponsor and the Stock Exchange that, within the period commencing on the Latest Practicable Date and ending on the date which is 12 months after the Listing Date, it will:

(i) if and when it pledges or charges any Shares or other securities of the Company ("securities") beneficially owned by it in favour of an authorised institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform the Company, the Global Coordinator (on behalf of the Public Offer Underwriters) and the Sponsor in writing of such pledge or charge together with the number of Shares or securities so pledged or charged; and

(ii) if and when it receives any indication, either verbal or written, from the pledgee or chargee that any of the pledged/charged Shares or securities will be disposed of, immediately inform the Company, the Global Coordinator (on behalf of the Public Offer Underwriters) and the Sponsor of such indications.

The Company will inform the Stock Exchange as soon as it has been informed of any of the above matters by any of the Covenantors and will disclose such matters by way of a press announcement which will be published in the newspapers as soon as possible after being so informed by any of the Covenantors.

It is also expected that the Company and the Vendor will give a similar undertaking to the Sponsor and each of the International Underwriters pursuant to the International Underwriting Agreement.

Except pursuant to the Global Offering (including pursuant to the Over-allotment Option) and options which may be granted under a share option scheme or with the prior written consent of the Global Coordinator (for itself and on behalf of the Underwriters) and unless in compliance with the requirements of the Listing Rules, the Company will not, and will procure that its subsidiaries will not, allot or issue, or agree to allot or issue, Shares or other securities of the Company (including warrants or other convertible or exchangeable securities) or grant or agree to grant any options, warrants, or other rights to subscribe for or convertible or exchangeable into Shares or other securities of the Company or repurchase Shares or other securities of the Company or enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequence of ownership of any Shares or offer to or agree to do any of the foregoing or announce any intention to do so during the six months immediately following the Listing Date and in the event of the Company doing any of the foregoing by virtue
of the aforesaid exceptions or during the period of six months immediately following the expiry of the first six months period after the Listing Date, it will take all reasonable steps to ensure that any such act will not create a disorderly or false market for any Shares or other securities of the Company.

COMMISSION AND EXPENSES

The Underwriters will receive a commission of 2.5% of the aggregate Offer price of all the Offer Shares, out of which they will pay any sub-underwriting commission. The Sponsor will receive a financial advisory fee and a documentation fee in relation to the Global Offering. Such fee and commission, together with the Stock Exchange listing fees, the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees, printing and other expenses relating to the Global Offering which are currently estimated to be approximately HK$85.1 million in aggregate (based on an Offer Price of HK$2.355 per Offer Share, being the mid-point of the stated range of the Offer Price of between HK$2.13 and HK$2.58 per Offer Share) and assuming Over-allotment Option is not exercised. Such commission, fees and expenses are payable by the Company and the Vendor in proportion to the number of Offer Shares issued or sold by each under the Global Offering. Stamp duty (if any) payable in respect of the Sale Shares shall be borne by the Vendor.

UNDERWRITERS’ INTERESTS IN THE COMPANY AND INDEPENDENCE OF THE SPONSOR

BNP Paribas has been appointed as the compliance adviser of the Company with effect from the Listing Date and the Company shall pay an agreed fee to BNP Paribas for its provision of services.

Other than disclosed in the preceding paragraph and pursuant to the Underwriting Agreements, none of the Underwriters has any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
The Global Offering comprises the International Placing and the Public Offer. The 815,920,000 Offer Shares initially being offered in the Global Offering will represent approximately 43.4% of the Company’s enlarged share capital immediately after the completion of the Global Offering, without taking into account the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 49.91% of the enlarged share capital of the Company immediately after the completion of the Global Offering and the exercise of the Over-allotment Option. Further information about the Over-allotment Option is set out in the paragraph headed “Over-allotment Option and stabilisation” below.

BNP Paribas is the Sponsor, the Global Coordinator and bookrunner of the Global Offering. A total of 815,920,000 Offer Shares will be offered under the Global Offering, of which (a) 678,328,000 Offer Shares will be conditionally placed with professional, institutional and other investors which are expected to have sizeable demand for the Offer Shares at the Offer Price under the International Placing, and (b) 137,592,000 Offer Shares will be offered to the public in Hong Kong for subscription at the Offer Price under the Public Offer (subject to reallocation on the basis described in the paragraph headed “Allocation of Offer Shares between the Public Offer and the International Placing” below).

Of the 137,592,000 Offer Shares to be offered under the Public Offer, (a) 56,000,000 Offer Shares will be offered as Reserved Shares to the Qualifying CP Shareholders for subscription at the Offer Price under the Preferential Offer, and (b) 7,600,000 of the Offer Shares under the Public Offer will be available for subscription by full-time employees of the Company or any of its subsidiaries, on a preferential basis. The Public Offer is fully underwritten by the Public Offer Underwriters, subject to the terms and conditions of the Public Offer Underwriting Agreement. The Offer Shares are being offered at the Offer Price which will be determined by the Global Coordinator (on behalf of the Underwriters), the Vendor and the Company on 28 March 2007 (Hong Kong time), or such later time or date as may be agreed between the Global Coordinator (on behalf of the Underwriters), the Vendor and the Company but in any event no later than 30 March 2007. The International Placing is expected to be fully underwritten by the International Underwriters subject to the terms and conditions of the International Underwriting Agreement. The Public Offer is open to members of the public in Hong Kong as well as to institutional and professional investors. Investors may apply for Public Offer Shares under the Public Offer or indicate an interest for the International Placing Shares under the International Placing, but may not do both.

References in this Prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Public Offer and/or the Preferential Offer (as the case may be).

Acceptance of all applications for the Offer Shares are conditional upon:

(a) Listing

The Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this Prospectus; and
(b) Underwriting Agreements

The obligations of the Underwriters under each of the Underwriting Agreements becoming unconditional in all respects. This requires that (i) neither of the Underwriting Agreements is terminated in accordance with its terms or otherwise prior to 8:00 a.m. on the Listing Date, which is expected to be on 3 April 2007 and (ii) all other conditions set out in the Underwriting Agreements are fulfilled, on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event, not later than 8:00 am on 3 April 2007.

If the Global Coordinator (on behalf of the Underwriters), the Vendor and the Company are unable to reach an agreement on the Offer Price on or around 28 March 2007, or such later time as may be agreed between the Global Coordinator (on behalf of the Underwriters), the Vendor and the Company but in any event no later than 30 March 2007, the Global Offering will not become unconditional and will lapse.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Public Offer will be caused to be published by the Company in South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the paragraph headed “Refund of your money” on the notes attached to the Application Forms.

In the meantime, your money will be held in one or more separate bank accounts with the receiving bank or other licensed bank or banks in Hong Kong.

PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK$2.58 per Offer Share and is expected to be not less than HK$2.13 per Offer Share. Applicants under the Public Offer must pay, on application, the maximum price of HK$2.58 per Offer Share plus 1% brokerage, a SFC transaction levy of 0.004% and a Stock Exchange trading fee of 0.005% amounting to a total of approximately HK$2,606.03 per board lot of 1,000 Shares.

DETERMINING THE OFFER PRICE

The International Underwriters are soliciting from prospective investors indications of interest in acquiring the International Placing Shares. Prospective investors will be required to specify the number of International Placing Shares they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or about 28 March 2007.

The Offer Price is expected to be determined by the Global Coordinator (on behalf of the Underwriters), the Vendor and the Company on or around 28 March 2007 (Hong Kong time), or such later date as may be agreed between the Global Coordinator (on behalf of the Underwriters), the Vendor and the Company but in any event no later than 30 March 2007. If the Global Coordinator (on behalf of the Underwriters), the Vendor and the Company are unable to reach an agreement on the Offer Price by 30 March 2007, the Global Offering will not proceed.
If, based on the level of interest expressed by prospective investors under the book-building, the Global Coordinator (on behalf of the Underwriters, and with the consent of the Company) thinks it appropriate, the indicative offer price range may be reduced below that stated in this Prospectus. **Prospective investors should be aware that the Offer Price may be, but is not expected to be, lower than the indicative offer price range stated in this Prospectus. If the final Offer Price, as determined in the manner described above, is lower than the maximum offer price of HK$2.58 per Offer Share, appropriate refund payments (including brokerage, SFC transaction levy and Stock Exchange trading fee) in respect of the excess application monies will be made to successful applicants, without interest. Further details are set out in the section headed “How to apply for Public Offer Shares and Reserved Shares” of this Prospectus.**

Prospective investors should also be aware that the indicative offer price range may be reduced below that stated in this Prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer. In such case the Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Public Offer and the Preferential Offer, cause to be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) notice of the reduction of the offer price range. **Applicants should have regard to the possibility that any announcement of a reduction in the indicative offer price range may not be made until the day which is the last day for lodging applications under the Public Offer and the Preferential Offer (which is expected to be on 27 March 2007) before submitting applications for Shares prior to that date.** Such notice will also include confirmation or revision, as appropriate, of the working capital at present, the offer statistics as set out in the section headed “Summary” of this Prospectus and any other financial information which may change as a result of any such reduction. **Applicants under the Public Offer (including Qualifying CP Shareholders and eligible full-time employees of the Company or any of its subsidiaries) should note that, even if the offer price range is so reduced, in no circumstances can applications be withdrawn once submitted, except where a person responsible for this Prospectus under section 40 of the Companies Ordinance gives a public notice under that section before the fifth day after the time of the opening of the application lists (the opening of the application lists is expected to be on 27 March 2007) (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong) which excludes or limits the responsibility of that person for this Prospectus, in which case applications made may be revoked before the said fifth day.**

**PUBLIC OFFER**

Pursuant to the Public Offer, the Company is initially offering 137,592,000 Offer Shares, representing approximately 16.9% of the total number of Offer Shares initially being offered in the Global Offering, for subscription by way of a public offer in Hong Kong at the Offer Price. Applicants under the Public Offer are required to pay, on application, the maximum offer price of HK$2.58 per Offer Share in addition to any brokerage, SFC transaction levy and Stock Exchange trading fee payable on each Offer Share. Further information is set out in the section headed “How to apply for Public Offer Shares and Reserved Shares” of this Prospectus.

The Public Offer Shares initially being offered for subscription by the public under the Public Offer less (a) the 56,000,000 Offer Shares available for subscription under the Preferential Offer (as more particularly set out in the paragraph “The Preferential Offer” below), and (b) the 7,600,000 Offer Shares available for subscription by full-time employees of the Company or any of its subsidiaries (as more particularly set out in the paragraph “Preference to Full-time
Employees’ below) (without taking into account any adjustment of Offer Shares between the International Placing and the Public Offer referred to in the paragraph “Allocation of Offer Shares between the Public Offer and the International Placing” below) will be divided equally into two pools for allocation purposes: pool A and pool B. Assuming there is no adjustment of Offer Shares between the International Placing and the Public Offer, 36,996,000 Offer Shares will be available for subscription under each of pool A and pool B. The Public Offer Shares in pool A will be allocated on an equitable basis to successful applicants who have validly applied for Public Offer Shares with an aggregate subscription price (excluding amounts of brokerage, SFC transaction levy and Stock Exchange trading fee payable) of HK$5 million or less. The Public Offer Shares in pool B will be allocated on an equitable basis to successful applicants who have validly applied for Public Offer Shares with an aggregate subscription price (excluding amounts of brokerage, SFC transaction levy and Stock Exchange trading fee payable) of more than HK$5 million and up to the total value of pool B. You should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Public Offer Shares in one pool (but not both pools) are undersubscribed, the surplus Public Offer Shares will be transferred to the other pool to satisfy demand in that pool and be allocated accordingly. For the purposes of this paragraph only, “subscription price” for the Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Investors can only receive an allocation of Public Offer Shares from either pool A or pool B but not from both pools and may only apply for Public Offer Shares in either pool A or pool B. In addition, multiple or suspected multiple applications within either pool or between pools will be rejected. No application will be accepted from applicants applying for more than 36,996,000 Offer Shares (being 50% of the initial number of Public Offer Shares less (a) the 7,600,000 Offer Shares available for subscription by full-time employees of the Company or any of its subsidiaries, and (b) the 56,000,000 Reserved Shares). Each applicant under the Public Offer will also be required to give an undertaking and confirmation in the application form submitted by him that he and any person(s) for whose benefit he is making the application have not indicated and will not indicate an interest for and have not received or been placed or allotted (including conditionally and/or provisionally) any International Placing Share under or otherwise participated in the International Placing, and such applicant’s application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be). The Company and BNP Paribas have full discretion to reject or accept any application, or to accept only part of any application.

Allocation of Public Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of Public Offer Shares validly applied for by applicants in each pool A and pool B, but will otherwise be made strictly on a pro-rata basis. However, this may involve balloting, which would mean that some applicants may be allotted more Public Offer Shares than others who have applied for the same number of Public Offer Shares and that applicants who are not successful in the ballot may not receive any Public Offer Share.

THE PREFERENTIAL OFFER

In order to enable shareholders of CITIC Pacific to participate in the Global Offering on a preferential basis as to allocation only, Qualifying CP Shareholders are being invited to apply for an aggregate of 56,000,000 Reserved Shares (representing approximately 6.9% of the Offer Shares and approximately 3.0% of the share capital of the Company upon completion of the Global Offering assuming the Over-allotment Option is not exercised) in the Preferential Offer on the basis of an Assured Entitlement of one Reserved Share for every whole multiple of 20
STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

CP Shares held by them at 5:00 p.m. on the Record Date. The Reserved Shares are being offered out of the Public Offer Shares under the Public Offer.

With a view to maximising the percentage of the Company’s Shares in the hands of the public immediately after the Global Offering, CITIC Hong Kong (Holdings) Limited, Mr. Yung Chi Kin (Chairman of CITIC Pacific) and Mr. Fan Hung Ling (Managing Director of CITIC Pacific) have indicated that they would not take up any Reserved Shares to the extent that they are Qualifying CP Shareholders and the Company will not allocate any Reserved Shares to them.

The Assured Entitlements may represent Shares not in a multiple of a full board lot of 1,000 Shares and dealings in odd lot Shares may be at below their prevailing market price.

A BLUE Application Form is being despatched to each Qualifying CP Shareholder with an Assured Entitlement together with an electronic copy of this Prospectus on CD ROM. Printed copies of this Prospectus are available at the share registrar of CITIC Pacific, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong between 9:00 a.m. on 22 March 2007 and 12:00 noon on 27 March 2007 for exclusive collection by Qualifying CP Shareholders. Qualifying CP Shareholders may also collect printed copies of this Prospectus from the receiving banks details of which are set out in the section headed “How to apply for Public Offer Shares and Reserved Shares” of this Prospectus. Qualifying CP Shareholders are permitted to apply for a number of Reserved Shares which is greater than, less than or equal to, their Assured Entitlement under the Preferential Offer. A valid application in respect of a number of Reserved Shares less than or equal to a Qualifying CP Shareholder’s Assured Entitlement will be accepted in full, subject to the terms and conditions set out in this Prospectus and the BLUE Application Form. Where a Qualifying CP Shareholder applies for a number of Reserved Shares which is greater than his or her Assured Entitlement, his or her Assured Entitlement will be satisfied in full, subject as mentioned above, but the excess portion of such application will only be met to the extent that there are sufficient available Reserved Shares resulting from other Qualifying CP Shareholders with an Assured Entitlement declining to take up all or some of their Assured Entitlements. The Global Coordinator, on behalf of the Underwriters, will allocate any Reserved Shares not taken up by Qualifying CP Shareholders first to satisfy the excess applications for the Reserved Shares from Qualifying CP Shareholders on a fair and reasonable basis, and thereafter, at the discretion of the Global Coordinator, to the Public Offer. Save for the above, the Preferential Offer will not be subject to the clawback arrangement between the International Placing and the Public Offer.

In addition to any application for Reserved Shares on a BLUE Application Form, each Qualifying CP Shareholder will be entitled to make one application for Offer Shares on WHITE or YELLOW Application Form or by giving electronic application instructions to HKSCC via CCASS. Qualifying CP Shareholders will receive no preference as to entitlement or allocation in respect of applications for Offer Shares made on WHITE or YELLOW Application Forms or by giving electronic application instructions to HKSCC under the Public Offer. Qualifying CP Shareholders who are full-time employees of the Company or any of its subsidiaries may also apply for Public Offer Shares using PINK Application Forms.

Assured Entitlements of Qualifying CP Shareholders to Reserved Shares are not transferable and there will be no trading in nil-paid entitlements on the Stock Exchange. The Global Coordinator has the authority to reallocate all or any of the Reserved Shares not taken up by the Qualifying CP Shareholders to the Public Offer.
STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

The procedures for application under, and the terms and conditions of, the Preferential Offer are set out in the section headed “How to apply for Public Offer Shares and Reserved Shares” of this Prospectus and on the BLUE Application Form.

The documents to be issued in connection with the Public Offer and the Preferential Offer will not be registered under applicable securities legislation of any jurisdiction other than Hong Kong. Accordingly, no Reserved Shares are being offered to Overseas CP Shareholders under the Preferential Offer and no BLUE Application Forms will be sent to such persons. Applications will not be accepted from Overseas CP Shareholders or persons who are acting for the benefit of Overseas CP Shareholders.

PREFERENCE TO FULL-TIME EMPLOYEES

Up to 7,600,000 Public Offer Shares, representing approximately 5.5% of the Offer Shares initially being offered under the Public Offer, approximately 0.9% of the Offer Shares and approximately 0.4% of the share capital of the Company upon completion of the Global Offering assuming the Over-allotment Option is not exercised, are available for subscription by full-time employees of the Company or any of its subsidiaries, excluding the directors of the Company or any of its subsidiaries, the chief executive of the Company or any of its subsidiaries, existing beneficial owners of the shares of the Company or any of its subsidiaries and their respective associates, on a preferential basis. In the event of over-subscription on PINK Application Forms, the 7,600,000 Shares initially available to applicants on PINK Application Forms will be allocated to such applicants on a pro-rata basis in proportion (as nearly as possible without involving portions of a board lot) to the level of valid applications received from eligible employees, or balloted if there are insufficient Shares available to PINK Application Form applicants. If balloting is conducted, some eligible full-time employees may be allocated more Shares than others who have applied for the same number of Shares. No favour will be given to the employees who apply for a large number of Shares or any employees who held a senior position within the Group. Application in excess of 7,600,000 Shares initially available to applicants on PINK Application Forms will be rejected. Allocation of Public Offer Shares to applications made on PINK Application Forms will be based on the allocation guidelines contained in Practice Note 20 to the Listing Rules.

As at the Latest Practicable Date, there were 150 eligible full-time employees.

In case not all the 7,600,000 Shares are subscribed for by eligible full-time employees of the Company or any of its subsidiaries, the under-subscribed Shares will be available for subscription by the public under the Public Offer.

INTERNATIONAL PLACING

Pursuant to the International Placing, an aggregate of 678,328,000 Offer Shares (including Cornerstone Shares (as defined in the section headed “Cornerstone Investors” in this Prospectus)), representing approximately 83.1% of the total number of Offer Shares initially being offered in the Global Offering (assuming the Over-allotment Option is not exercised), will be available for subscription (being 50,408,000 New Shares) or purchase (being 627,920,000 Sale Shares) by way of the International Placing.

If the Public Offer is not fully subscribed, the Global Coordinator (on behalf of the Underwriters) has the authority to reallocate the unsubscribed Public Offer Shares to the International Placing as described in the paragraph headed “Allocation of Offer Shares between the Public Offer and the International Placing” below.
It is expected that the International Underwriters or selling agents nominated by them on behalf of the Company and the Vendor will conditionally place the International Placing Shares at the Offer Price with professional, institutional and other investors expected to have sizeable demand for the Offer Shares. Such professional and institutional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. The International Placing Shares are unlikely to be allocated to individual retail investors, who are expected to subscribe for Shares in the Public Offer and apply through banks and other institutions.

The International Placing is subject to the same conditions as stated in this section. The total number of the International Placing Shares to be allotted and issued or transferred pursuant to the International Placing may change as a result of the clawback arrangement referred to in the paragraph headed “Allocation of Offer Shares between the Public Offer and the International Placing” below, exercise of the Over-allotment Option and any reallocation of unsubscribed Shares originally included in the Public Offer or the International Placing.

Allocation of the International Placing Shares to investors pursuant to the International Placing will be effected in accordance with the “book-building” process undertaken by the International Underwriters. Final allocation of the International Placing Shares pursuant to the International Placing is based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to buy further and/or hold or sell its International Placing Shares after the Listing. Such allocation is generally intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a broad shareholder base for the benefit of the Company and its Shareholders as a whole.

If you are a professional and institutional investor, you may apply for Offer Shares under the Public Offer or receive Offer Shares under the International Placing. However, you will only receive Offer Shares under either the Public Offer or the International Placing, but not under both tranches.

**ALLOCATION OF OFFER SHARES BETWEEN THE PUBLIC OFFER AND THE INTERNATIONAL PLACING**

The allocation of Offer Shares between the Public Offer and the International Placing is subject to adjustment on the following basis:

(a) if the number of Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times of the number of Shares initially available under the Public Offer, then such number of Shares will be reallocated to the Public Offer from the International Placing, so that an aggregate of 244,776,000 Shares will be available under the Public Offer, representing 30% of the Shares to be offered pursuant to the Global Offering (assuming the Over-allotment Option is not exercised);

(b) if the number of Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times of the number of Shares initially available under the Public Offer, then such number of Shares will be reallocated to the Public Offer from the International Placing, so that an aggregate of 326,368,000 Shares will be available under the Public Offer, representing 40% of the Shares to be offered pursuant to the Global Offering (assuming Over-allotment Option is not exercised); and
(c) if the number of Shares validly applied for under the Public Offer represents 100 times
or more of the number of Shares initially available under the Public Offer, then such
number of Shares will be reallocated to the Public Offer from the International Placing,
so that an aggregate of 407,960,000 Shares will be available under the Public Offer,
representing 50% of the Shares to be offered pursuant to the Global Offering (assuming
the Over-allotment Option is not exercised).

If the Public Offer Shares are not fully subscribed for the Global Coordinator (on behalf of
the Underwriters) has the authority to re-allocate all or any of the unsubscribed Public Offer
Shares originally included in the Public Offer to the International Placing in such proportions as
it deems appropriate.

If the International Placing Shares are not fully subscribed for or purchased, the Global
Coordinator (on behalf of the Underwriters) has the authority to re-allocate all or any of the
unsubscribed International Placing Shares originally included in the International Placing to the
Public Offer in such proportions as it deems appropriate.

Neither the Preferential Offer of 56,000,000 Offer Shares to Qualifying CP Shareholders
nor the offer of 7,600,000 Offer Shares to eligible full-time employees of the Company or any of
its subsidiaries will be subject to clawback arrangement between the International Placing and
the Public Offer.

OVER-ALLOTMENT OPTION AND STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution
of securities. To stabilise, the underwriters may bid for, or purchase, the newly issued securities
in the secondary market, during a specified period of time, to retard and, if possible, prevent a
decline in the initial public offer prices of the securities. In Hong Kong and certain other
jurisdictions, stabilisation activity aimed at reducing the market price is prohibited, and the price
at which stabilisation is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Global Coordinator, as stabilising manager, or
any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions
with a view to supporting the market price of the Shares at a level higher than that which might
otherwise prevail for a limited period after the Listing Date. However, there is no obligation on
the Global Coordinator or any person acting for it to conduct any such stabilising action. Such
stabilising action, if taken, will be done at the absolute discretion of the Global Coordinator or
any person acting for it and may be discontinued at any time, and is required to be brought to
an end after a limited period.

Such stabilising action may include the over-allocation by the Global Coordinator of up to,
but not more than, an aggregate of 122,388,000 Sale Shares. The Global Coordinator may
cover such over-allocations by exercising the Over-allotment Option up to the date which is the
30th day after the last day for lodging applications under the Public Offer, by making purchases
in the secondary market at prices that do not exceed the Offer Price or by stock borrowing or
through a combination of these means. Any such purchase will be made in compliance with all
applicable laws, rules and regulatory requirements. The number of Shares that may be over-
allocated will not exceed the total number of Shares that may be issued upon exercise of the
Over-allotment Option, being 122,388,000 Sale Shares in aggregate, which is 15% of the
number of the Offer Shares initially available under the Global Offering.
Stabilising action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilization) Rules of the SFO includes (i) over-allocation for the purpose of preventing or minimising any reduction in the market price, (ii) selling or agreeing to sell shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price, (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, shares pursuant to the over-allotment option in order to close out any position established under (i) or (ii) above, (iv) purchasing, or agreeing to purchase, shares for the sole purpose of preventing or minimising any reduction in the market price, (v) selling or agreeing to sell shares in order to liquidate any position established as a result of those purchases or agreements for purchases in (iv) above, and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v).

As a result of effecting transactions to stabilise or maintain the market price of the Shares, the Global Coordinator, or any person acting for it, may maintain a long position in the Shares. The size of the long position, and the period for which the Global Coordinator, or any person acting for it, will maintain the long position is at the discretion of the Global Coordinator and is uncertain. In the event that the Global Coordinator liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the Shares.

In particular, for the purpose of covering such over-allocations, the Global Coordinator may borrow up to an aggregate of 122,388,000 Sale Shares from the Vendor, equivalent to the maximum number of Shares to be offered on a full exercise of the Over-allotment Option, under the Stock Borrowing Agreement entered into between the Global Coordinator and the Vendor. As a result of an application on behalf of the Company and the Global Coordinator, the Stock Exchange has granted a waiver from strict compliance with Rule 10.07(1)(a) of the Listing Rules which restricts the disposal of Shares by the controlling shareholders from the Latest Practicable Date, in order to allow the Vendor to enter into and perform its obligations under the Stock Borrowing Agreement on the conditions that:

a. The Stock Borrowing Agreement will only be effected by the Global Coordinator for settlement of over-allocation in the International Placing;

b. The maximum number of Shares borrowed from the Vendor will be limited to the maximum number of Shares which may be sold upon exercise of the Over-allotment Option;

c. The same number of Shares so borrowed must be returned to the Vendor or its nominee on or before the third Business Day following the earlier of (i) the last day on which the Over-allotment Option may be exercised, or (ii) the day on which the Over-allotment Option is exercised in full, or (iii) such earlier time as may be agreed in writing between the Global Coordinator and the Vendor;

d. The Stock Borrowing Agreement will be effected in compliance with all applicable laws and regulatory requirements; and

e. No payments or benefit will be made to the Vendor by the Global Coordinator in relation to the Stock Borrowing Agreement.
Stabilising action by the Global Coordinator, or any person acting for it, is not permitted to support the price of the Shares for a period longer than the stabilising period, which begins on the Listing Date and ends on the 30th day after the last day for the lodging of applications under the Public Offer. The stabilising period is expected to end on 26 April 2007. After that date, when no further stabilising action may be taken, demand for the Shares, and therefore their market price, could fall.

The Company will ensure or will procure that a public announcement in compliance with the Securities and Futures (Price Stabilization) Rules will be made within seven days of the expiration of the stabilising period.

Any stabilising action taken by the Global Coordinator, or any person acting for it, may not necessarily result in the market price of the Shares staying at or above the Offer Price either during or after the stabilising period. Bids for or market purchases of the Shares by the Global Coordinator, or any person acting for it, may be made at a price at or below the Offer Price and therefore at or below the price paid by subscribers or purchasers for the Shares.
1. HOW TO APPLY FOR PUBLIC OFFER SHARES AND RESERVED SHARES

You may apply for the Public Offer Shares by using one of the following methods:

- using a **WHITE** or **YELLOW** Application Form; or
- electronically instructing HKSCC to cause HKSCC Nominees to apply for Public Offer Shares on your behalf.

In addition, you may apply by

- using a **PINK** Application Form, if you are a full-time employee of the Company or any of its subsidiaries; and
- using a **BLUE** Application Form, if you are a Qualifying CP Shareholder.

2. WHICH APPLICATION METHOD YOU SHOULD USE

(a) **WHITE** Application Forms

Use a **WHITE** Application Form if you want the Public Offer Shares to be registered in your own name.

(b) **YELLOW** Application Forms

Use a **YELLOW** Application Form if you want the Public Offer Shares to be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

(c) **BLUE** Application Forms

Use a **BLUE** Application Form despatched to you by the Company if you are a Qualifying CP Shareholder applying for the Reserved Shares. Qualifying CP Shareholders may apply on an assured basis for a number of Reserved Shares less than or equal to their Assured Entitlement, which will be specified on their **BLUE** Application Forms. Qualifying CP Shareholders may also apply for a number of Reserved Shares in excess of their Assured Entitlement specified on their **BLUE** Application Forms.

(d) **PINK** Application Forms

Use a **PINK** Application Form if you are a full-time employee of the Company or any of its subsidiaries and want your application to be given preferential consideration. Up to 7,600,000 Public Offer Shares, representing approximately 5.5% of the Shares initially available for subscription under the Public Offer, are available to full-time employees of the Company or any of its subsidiaries.
(e) Instruct HKSCC to make an electronic application on your behalf

Instead of using a YELLOW Application Form, you may electronically instruct HKSCC to cause HKSCC Nominees to apply for the Public Offer Shares on your behalf via CCASS. Any Public Offer Shares allocated to you will be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

3. WHERE TO COLLECT THE APPLICATION FORMS

(a) You can collect a WHITE Application Form and a Prospectus from:

Any participant of the Stock Exchange

or

BNP Paribas Capital (Asia Pacific) Limited
61st Floor, Two International Finance Centre
8 Finance Street
Central
Hong Kong

CITIC Securities Corporate Finance (HK) Limited
26th Floor, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

Macquarie Securities Limited
19th Floor, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

Daiwa Securities SMBC Hong Kong Limited
Level 26, One Pacific Place
88 Queensway
Hong Kong

Mitsubishi UFJ Securities (HK) Capital, Limited
11th Floor, AIG Tower
1 Connaught Road
Central
Hong Kong

Nomura International (Hong Kong) Limited
30th Floor Two International Finance Centre
8 Finance Street
Central
Hong Kong

Shenyin Wanguo Capital (H.K.) Limited
28th Floor, Citibank Tower, Citibank Plaza
3 Garden Road
Central
Hong Kong
or any of the following branches of Bank of China (Hong Kong) Limited:

<table>
<thead>
<tr>
<th>Branches</th>
<th>Address</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Hong Kong Island</strong></td>
<td></td>
</tr>
<tr>
<td>Bank of China Tower Branch</td>
<td>3/F, 1 Garden Road</td>
</tr>
<tr>
<td>Central District (Wing On House) Branch</td>
<td>71 Des Voeux Road Central</td>
</tr>
<tr>
<td>409 Hennessy Road Branch</td>
<td>409-415 Hennessy Road, Wan Chai</td>
</tr>
<tr>
<td>Quarry Bay Branch</td>
<td>Parkvale, 1060 King's Road, Quarry Bay</td>
</tr>
<tr>
<td>Aberdeen Branch</td>
<td>25 Wu Pak Street, Aberdeen</td>
</tr>
<tr>
<td><strong>Kowloon</strong></td>
<td></td>
</tr>
<tr>
<td>Tsim Sha Tsui East Branch</td>
<td>Shop G02-03, Inter-Continental Plaza,</td>
</tr>
<tr>
<td></td>
<td>94 Granville Road, Tsim Sha Tsui</td>
</tr>
<tr>
<td>Shanghai Street (Mong Kok) Branch</td>
<td>611-617 Shanghai Street, Mong Kok</td>
</tr>
<tr>
<td>Yau Ma Tei Branch</td>
<td>471 Nathan Road, Yau Ma Tei</td>
</tr>
<tr>
<td><strong>New Territories</strong></td>
<td></td>
</tr>
<tr>
<td>Kau Yuk Road Branch</td>
<td>18-24 Kau Yuk Road, Yuen Long</td>
</tr>
<tr>
<td>Sheung Shui Branch</td>
<td>61 San Fung Avenue, Sheung Shui</td>
</tr>
</tbody>
</table>

or any of the following branches of Hang Seng Bank Limited:

<table>
<thead>
<tr>
<th>Branches</th>
<th>Address</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Hong Kong Island</strong></td>
<td></td>
</tr>
<tr>
<td>Head Office</td>
<td>83 Des Voeux Road Central</td>
</tr>
<tr>
<td>Causeway Bay Branch</td>
<td>28 Yee Wo Street</td>
</tr>
<tr>
<td>Wanchai Branch</td>
<td>200 Hennessy Road</td>
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<tr>
<td>North Point Branch</td>
<td>335 King’s Road</td>
</tr>
<tr>
<td><strong>Kowloon</strong></td>
<td></td>
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<tr>
<td>Tsimshatsui Branch</td>
<td>18 Carnarvon Road</td>
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<tr>
<td>Kowloon Main Branch</td>
<td>618 Nathan Road</td>
</tr>
<tr>
<td>Kwun Tong Branch</td>
<td>70 Yue Man Square</td>
</tr>
<tr>
<td>Hung Hom Branch</td>
<td>21 Ma Tau Wai Road</td>
</tr>
<tr>
<td><strong>New Territories</strong></td>
<td></td>
</tr>
<tr>
<td>Shatin Branch</td>
<td>Shop 18 Lucky Plaza,</td>
</tr>
<tr>
<td></td>
<td>Wang Pok Street, Shatin</td>
</tr>
<tr>
<td>Tsuen Wan Branch</td>
<td>289 Sha Tsui Road Tsuen Wan</td>
</tr>
</tbody>
</table>
or any of the following branches of The Bank of East Asia, Limited:

**Branches** | **Address**
---|---
**Hong Kong Island**
Main Branch | 10 Des Voeux Road, Central
Causeway Bay Branch | 46 Yee Wo Street
Wanchai Branch | Shop Nos A-C, G/F, Easey Commercial Building, 253-261 Hennessy Road, Wanchai, Hong Kong

**Kowloon**
Tsim Sha Tsui Branch | Shop A and B, Milton Mansion, No.96 Nathan Road, Kowloon
Mongkok Branch | 638-640 Nathan Road
Kwun Tong Branch | 7 Hong Ning Road
Hoi Yuen Road Branch | Unit 1, G/F, Hewlett Centre, 54 Hoi Yuen Road

**New Territories**
Tai Wai Branch | 16-18 Tai Wai Road, Cheung Fung Mansion, Shatin
Tai Po Plaza Branch | Units 49-52, Level 1, Tai Po Plaza
Tuen Mun Town Plaza Branch | Shop Nos. 2-10, UG/F, Tuen Mun Town Plaza Phase II, 3 Tuen Lung Street, Tuen Mun

(b) You can collect a **YELLOW** Application Form and a Prospectus from:
the Depository Counter of HKSCC at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong; or
(c) Your broker.
(d) You may collect a **PINK** Application Form and a Prospectus from the Company Secretary, Ms Tso Mun Wai, at the registered office of the Company at 8th Floor, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong.
(e) A **BLUE** Application Form is being despatched with an electronic copy of this Prospectus on CD ROM to you by the Company if you are a Qualifying CP Shareholder with an Assured Entitlement. Printed copies of this Prospectus are available at the share registrar and transfer office of CITIC Pacific, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong between 9:00 a.m. on 22 March 2007 and 12:00 noon on 27 March 2007 for exclusive collection by Qualifying CP Shareholders.
HOW TO APPLY FOR PUBLIC OFFER SHARES AND RESERVED SHARES

4. WHEN TO APPLY FOR THE PUBLIC OFFER SHARES

(a) WHITE or YELLOW Application Forms

Completed WHITE or YELLOW Application Form, with a cheque or banker’s cashier order attached, must be lodged by 12:00 noon on Tuesday, 27 March 2007, or, if the application lists are not open on that day, by the time and date stated in the sub-paragraph headed “Effect of bad weather conditions on the opening of the application lists” below.

Your completed WHITE or YELLOW Application Form, with payment attached, should be deposited in the special collection boxes provided at any of the branches of Bank of China (Hong Kong) Limited, Hang Seng Bank Limited and The Bank of East Asia, Limited listed under the paragraph headed “Where to collect the Application Forms” in this section at the following times:

- 22 March 2007 — 9:00 a.m. to 4:00 p.m.
- 23 March 2007 — 9:00 a.m. to 4:00 p.m.
- 24 March 2007 — 9:00 a.m. to 12:30 p.m.
- 26 March 2007 — 9:00 a.m. to 4:00 p.m.
- 27 March 2007 — 9:00 a.m. to 12:00 noon

(b) PINK Application Form

Completed PINK Application Forms, together with payment attached, must be returned to the Company Secretary, Ms Tso Mun Wai, at the registered office of the Company, at 8th Floor, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong by 5:00 p.m. on Monday, 26 March 2007.

(c) BLUE Application Form

Completed BLUE Application Form, with a cheque or banker’s cashier order attached, must be lodged by 12:00 noon on Tuesday, 27 March 2007, or, if the application lists are not open on that day, by the time and date specified in the sub-paragraph headed “Effect of bad weather conditions on the opening of the application lists” below.

Your completed BLUE Application Form, with payment attached, should be lodged in the special collection boxes provided at Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong at the following times:

- 22 March 2007 — 9:00 a.m. to 4:00 p.m.
- 23 March 2007 — 9:00 a.m. to 4:00 p.m.
- 24 March 2007 — 9:00 a.m. to 12:30 p.m.
- 26 March 2007 — 9:00 a.m. to 4:00 p.m.
- 27 March 2007 — 9:00 a.m. to 12:00 noon
(d) Electronic application instructions to HKSCC

CCASS Participants should input electronic application instructions via CCASS at the following times:

- 22 March 2007 — 9:00 a.m. to 8:30 p.m. (1)
- 23 March 2007 — 8:00 a.m. to 8:30 p.m. (1)
- 24 March 2007 — 8:00 a.m. to 1:00 p.m. (1)
- 26 March 2007 — 8:00 a.m. to 8:30 p.m. (1)
- 27 March 2007 — 8:00 a.m. (1) to 12:00 noon

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Participants.

The latest time for inputting your electronic application instructions via CCASS (if you are a CCASS Participant) is 12:00 noon on Tuesday, 27 March 2007 or if the application lists are not open on that day, by the time and date stated in the sub-paragraph headed “Effect of bad weather conditions on the opening of the application lists” below.

(e) Application lists

The application lists will be opened from 11:45 a.m. to 12:00 noon on Tuesday, 27 March 2007, except as provided in the sub-paragraph headed “Effect of bad weather conditions on the opening of the application lists” below. No proceedings will be taken on applications for the Public Offer Shares and no allocation of any such Shares will be made until after the closing of the application lists.

(f) Effect of bad weather conditions on the opening of the application lists

The application lists will not be open in relation to the Public Offer if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning signal

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, 27 March 2007, or if there are similar extraneous factors as are acceptable to the Stock Exchange. Instead, they will be open between 11:45 a.m. and 12:00 noon on the next Business Day which does not fall within the above circumstances at any time between 9:00 a.m. and 12:00 noon in Hong Kong. Business Day means a day that is not a Saturday, Sunday or public holiday in Hong Kong.

5. HOW TO APPLY USING A WHITE, YELLOW, PINK OR BLUE APPLICATION FORM

(a) Obtain a WHITE, YELLOW, PINK or BLUE Application Form.

(b) You should read the instructions in this Prospectus and the relevant Application Form carefully. If you do not follow the instructions, your application is liable to be rejected and returned by ordinary post together with the accompanying cheque or banker’s cashier order to you (or the first-named applicant in the case of joint applicants) at your own risk to the address stated on your Application Form. PINK Application Form applicants should apply in your own name.
HOW TO APPLY FOR PUBLIC OFFER SHARES AND RESERVED SHARES

(c) Decide how many Offer Shares you would like to apply for. Calculate the amount you must pay on the basis of the maximum Offer Price of HK$2.58 per Offer Share, plus brokerage of 1%, the SFC transaction levy of 0.004% and the Stock Exchange trading fee of 0.005%. 

(d) Complete the Application Form in English (save as otherwise indicated) and sign it. Only written signatures will be accepted. Applications made by corporations, whether on their own behalf, or on behalf of other persons, must be stamped with the company chop (bearing the company name) and signed by a duly authorised officer, whose representative capacity must be stated. If you are applying for the benefit of someone else, you, rather than that person, must sign the Application Form. If it is a joint application, all applicants must sign it. If your application is made through a duly authorised attorney, the Company and BNP Paribas (or their respective agents or nominees) may accept it at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of your attorney.

(e) Each Application Form must be accompanied by either one cheque or one banker’s cashier order, which must be stapled to the top left-hand corner of the Application Form.

If you pay by cheque, the cheque must:

• be in HK$;
• be drawn on your Hong Kong dollar bank account in Hong Kong;
• show your account name, which must either be pre-printed on the cheque, or be endorsed on the back by a person authorised by the bank. This account name must be the same as the name on the Application Form. If the cheque is drawn on a joint account, one of the joint account names must be the same as the name of the first-named applicant;
• be made payable to “Hang Seng (Nominee) Limited — CITIC 1616 Public Offer” for Public Offer Shares or payable to “Hang Seng (Nominee) Limited — CITIC 1616 Preferential Offer” for Reserved Shares;
• be crossed “Account Payee Only”; and
• not be post-dated.

Your application may be rejected if your cheque does not meet all these requirements or is dishonoured on its first presentation.

If you pay by banker’s cashier order, the banker’s cashier order must:

• be issued by a licensed bank in Hong Kong and have your name certified on the back by a person authorised by the bank. The name on the back of the banker’s cashier order and the name on the Application Form must be the same. If it is a joint application, the name on the back of the banker’s cashier order must be the same as the name of the first-named joint applicant;
HOW TO APPLY FOR PUBLIC OFFER SHARES AND RESERVED SHARES

• be in HK$;

• be made payable to “Hang Seng (Nominee) Limited — CITIC 1616 Public Offer” for Public Offer Shares or payable to “Hang Seng (Nominee) Limited — CITIC 1616 Preferential Offer” for Reserved Shares;

• be crossed “Account Payee Only”; and

• not be post-dated.

Your application is liable to be rejected if your banker’s cashier order does not meet all these requirements.

(f) If you are applying for Shares using a WHITE or YELLOW Application Form, you should lodge your Application Form in one of the collection boxes by the time and at one of the locations, as referred to in sub-paragraph 4(a) above. If you are applying using a PINK Application Form, you should lodge your application with the Company Secretary as referred to 4(b) above. If you are applying for Shares using a BLUE Application Form, you should lodge your Application Form in one of the collection boxes by the time and at one of the locations, as referred to in sub-paragraph 4(c) above.

(g) Multiple or suspected multiple applications are liable to be rejected. Please see the paragraph headed “How many applications you can make” in the section headed “Terms and conditions of the Public Offer and Preferential Offer”.

(h) In order for the YELLOW Application Forms to be valid:

• If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):
  — the designated CCASS Participant or its authorised signatories must sign in the appropriate box; and
  — the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its CCASS Participant I.D. in the appropriate box.

• If you are applying as an individual CCASS Investor Participant:
  — you must fill in your full name and your Hong Kong Identity Card number; and
  — you must insert your CCASS Participant I.D. and sign in the appropriate box.

• If you are applying as a joint individual CCASS Investor Participant:
  — you must insert all joint CCASS Investor Participants’ names and the Hong Kong Identity Card numbers of all joint CCASS Investor Participants; and
— you must insert your CCASS Participant I.D. and the authorised signatory or
signatories of the CCASS Investor Participant’s stock account must sign in
the appropriate box.

• If you are applying as a corporate CCASS Investor Participant:

— you must insert your company name and your company’s Hong Kong business
registration number; and

— you must fill in your CCASS Participant I.D. and stamp your company chop
(bearing your company’s name) in the presence of the authorised signatory
or signatories of the CCASS Investor Participant’s stock account in the
appropriate box.

The signature(s), number of signatories and form of chop, where appropriate, in each
YELLOW Application Form should match the records kept by HKSCC. Incorrect or incomplete
details of the CCASS Participant or the omission or inadequacy of authorised signatory or
signatories (if applicable), CCASS Participant I.D. or other similar matters may render the
application invalid.

(i) Nominees who wish to submit separate applications in their names on behalf of different
beneficial owners are requested to designate on each Application Form in the box
marked “For nominees” an identification number for each beneficial owner.

6. HOW TO COMPLETE THE APPLICATION FORM

There are detailed instructions on each Application Form. You should read these instructions
carefully. If you do not strictly follow the instructions, your application may be rejected.

If the Offer Price as finally determined is less than HK$2.58 per Offer Share, appropriate
refund payments (including the brokerage, the SFC transaction levy and the Stock Exchange
trading fee attributable to the surplus application monies) will be made to successful or partially
successful applications, without interest. Details of the procedure for refunds are set out below
in the paragraph headed “Refund of your money — additional information” in the section headed
“Terms and conditions of the Public Offer and Preferential Offer” of this Prospectus.

7. HOW TO APPLY BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

(a) CCASS Participants may give electronic application instructions via CCASS to
HKSCC to apply for Public Offer Shares and to arrange payment of the money due on
application and payment of refunds. This will be in accordance with their participant
agreements with HKSCC and the General Rules of CCASS and the CCASS Operational
Procedures.
(b) If you are a CCASS Investor Participant, you may give electronic application instructions through the CCASS Phone System by calling 2979 7888 or CCASS Internet System at https://ip.ccass.com (according to the procedures contained in “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input electronic application instructions for you if you go to:

Customer Service Centre of HKSCC at
2nd Floor, Vicwood Plaza,
199 Des Voeux Road Central,
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

(c) If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for Public Offer Shares.

(d) You are deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application whether submitted by you or through your CCASS Broker Participant or CCASS Custodian Participant to the Company and the Hong Kong share registrar.

(e) you may give electronic application instructions in respect of a minimum of 1,000 Public Offer Shares. Each electronic application instruction in respect of more than 1,000 Public Offer Shares must be in one of the multiples set out in the table in the Application Form.

(f) Where a WHITE Application Form is signed by HKSCC Nominees on behalf of persons who have given electronic application instructions to apply for the Public Offer Shares:

(i) HKSCC Nominees is only acting as nominee for those persons and shall not be liable for any breach of the terms and conditions of the WHITE Application Form or this Prospectus; and

(ii) HKSCC Nominees does all the things on behalf of each of such persons as stated in sub-paragraph (c) in the paragraph headed “Effect of making any application” in the section headed “Terms and conditions of the Public Offer and Preferential Offer”.

(g) If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any electronic application instructions to make an application for Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application.
(h) For the purpose of allocating Public Offer Shares, HKSCC Nominees shall not be treated as an applicant. Instead, each CCASS Participant who gives electronic application instructions or each person for whose benefit each such instruction is given shall be treated as an applicant.

(i) The paragraph headed “Personal data” in the section headed “Terms and conditions of the Public Offer and Preferential Offer” applies to any personal data held by the Sponsor, the Company and the Hong Kong share registrar about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

Warning

Application for Public Offer Shares by giving electronic application instructions to HKSCC is only a facility provided to CCASS Participants. The Company, the Underwriters, the Sponsor, their respective directors and any parties involved in the Global Offering take no responsibility for the application and provide no assurance that any CCASS Participant will be allocated any Public Offer Shares.

To ensure that CCASS Investor Participants can give their electronic application instructions to HKSCC through the CCASS Phone System or CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input instructions. If CCASS Investor Participants have problems in connecting to the CCASS Phone System or CCASS Internet System to submit electronic application instructions, they should either:

(a) submit the WHITE or YELLOW Application Form (as appropriate); or

(b) go to HKSCC’s Customer Service Centre to complete an application instruction input request form before 12:00 noon on Tuesday, 27 March 2007 or such later time as described under the sub-paragraph headed “Effect of bad weather conditions on the opening of the application lists” above.

8. RESULTS OF ALLOCATIONS

The results of allocations of the Public Offer Shares under the Public Offer (including the Reserved Shares under the Preferential Offer) in respect of applications made under WHITE, YELLOW, BLUE and PINK Application Forms and by giving electronic application instructions to HKSCC, which will include the Hong Kong identity card numbers, passport numbers or Hong Kong business registration numbers of successful applicants and the number of the Public Offer Shares (and Reserved Shares, in the case of the Preferential Offer) successfully applied for, are expected to be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on or about 2 April 2007.
1. GENERAL

(a) If you apply for the Public Offer Shares in the Public Offer (including the Reserved Shares in the Preferential Offer), you will be agreeing with the Company and the Global Coordinator (on behalf of the Public Offer Underwriters) as set out below.

(b) If you electronically instruct HKSCC to cause HKSCC Nominees to apply for the Public Offer Shares on your behalf, you will have authorised HKSCC Nominees to apply on the terms and conditions set out below, as supplemented and amended by the terms and conditions applicable to the relevant application method.

(c) In this section, references to “you”, “applicants”, “joint applicants” and other like references shall, if the context so permits, include references to both nominees and principals on whose behalf HKSCC Nominees are applying for the Public Offer Shares; and references to the making of an application shall, if the context so permits, include references to making applications electronically by giving instructions to HKSCC.

(d) Applicants should read this Prospectus carefully, including other terms and conditions of the Public Offer, the paragraphs headed “The Public Offer” and “The Preferential Offer” in the section headed “Structure and conditions of the Global Offering”, and in the section headed “How to Apply for the Public Offer Shares and Reserved Shares” and the terms and conditions set out in the relevant application form or imposed by HKSCC (as the case may be) prior to making an application.

2. OFFER TO SUBSCRIBE THE PUBLIC OFFER SHARES

(a) You offer to subscribe from the Company at the Offer Price the number of the Public Offer Shares indicated in your application form (or any smaller number in respect of which your application is accepted) on the terms and conditions set out in this Prospectus and the relevant application form.

(b) For applicants using application forms, a refund cheque in respect of the surplus application monies (if any) representing the Public Offer Shares applied for but not allocated to you and representing the difference (if any) between the final Offer Price and the maximum Offer Price (including brokerage fee, the SFC transaction levy and the Stock Exchange trading fee attributable thereto), is expected to be sent to you at your own risk to the address stated on your application form.

Details of the procedure for refunds relating to each of the Public Offer methods are contained below in the paragraphs headed “If your application for the Public Offer Shares or the Reserved Shares is successful (in whole or in part)” and “Refund of your money — additional information” in this section.

(c) Any application may be rejected in whole or in part.

(d) Applicants under the Public Offer should note that in no circumstances (save for those provided under section 40 of the Companies Ordinance) can applications be withdrawn once submitted. For the avoidance of doubt, the Company and all other parties involved in the preparation of this Prospectus acknowledge that each CCASS Participant who gives, or causes to give, electronic application instructions to HKSCC via CCASS is a person who may be entitled to compensation under section 40 of the Companies Ordinance.
3. ACCEPTANCE OF YOUR OFFER

(a) The Public Offer Shares will be allocated after the application lists close. The Company expects to announce the final number of Public Offer Shares, the level of applications under the Public Offer and the basis of allocations of the Public Offer Shares in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on or about Monday, 2 April 2007.

(b) The results of allocations of the Public Offer Shares under the Public Offer, including the Hong Kong Identity Card numbers, passport numbers or Hong Kong business registration numbers (where applicable) of successful applicants and the number of Public Offer Shares successfully applied for, will be made available on or about Monday, 2 April 2007, in the manner described in the paragraph headed “Results of allocations” in the section headed “How to apply for Public Offer Shares and Reserved Shares”.

(c) The Company may accept your offer to purchase (if your application is received, valid, processed and not rejected) by announcing the basis of allocations and/or making available the results of allocations publicly.

(d) If the Company accepts your offer to purchase (in whole or in part), there will be a binding contract under which you will be required to purchase the Public Offer Shares in respect of which your offer has been accepted if the conditions of the Global Offering are satisfied or the Global Offering is not otherwise terminated. Further details are contained in the section headed “Structure and conditions of the Global Offering”.

(e) You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

4. HOW MANY APPLICATIONS YOU CAN MAKE

(a) You may make more than one application for the Public Offer Shares only if:

- You are a nominee, in which case you may make an application as a nominee by: (i) giving electronic application instructions to HKSCC (if you are a CCASS Participant); and (ii) lodging more than one application form in your own name on behalf of different beneficial owners. In the box on the application form marked “For nominees” you must include:
  - an account number; or
  - another identification number
  for each beneficial owner. If you do not include this information, the application will be treated as being for your benefit.

If you are a Qualifying CP Shareholder applying for Reserved Shares under the Preferential Offer on a BLUE Application Form, as beneficial owner, you may also make one application for Offer Shares either on a WHITE or YELLOW Application Form or electronically through CCASS (if you are a CCASS Investor Participant or act
through a CCASS Broker or Custodian Participant). However, in respect of applications for Offer Shares made using the above-mentioned methods, you will not enjoy the preferential treatment accorded to you under the Preferential Offer as described in the section headed “Conditions and structure of the Global Offering — The Preferential Offer” in this Prospectus.

If you are a full-time employee, other than a director or the chief executive of the Company or any of its subsidiaries or existing beneficial owner of Shares, or an associate of any of them, and apply on a **PINK** application form, you may also apply for the Public Offer shares on a **WHITE** or **YELLOW** application form or by giving, or instructing your broker or custodian (who is a CCASS Broker/Custodian Participant) to give, **electronic application instructions** to HKSCC.

Otherwise, multiple applications are liable to be rejected.

(b) **All** of your applications under the Public Offer are liable to be rejected as multiple applications if you, or you and other joint applicants together:

- make more than one application on a **WHITE** or **YELLOW** application form or by giving electronic application instructions to HKSCC;
- make more than one application on a **PINK** application form;
- apply on one **WHITE** or **YELLOW** application form (whether individually or jointly with others) or by giving **electronic application instructions** to HKSCC to apply for more than 36,996,000 Shares, being 50% of the Public Offer Shares initially available for subscription under the Public Offer (excluding the Public Offer Shares initially available to eligible full-time employees of the Group and the Reserved Shares);
- apply on one **PINK** application form for more than 100% of the Public Offer Shares being offered to eligible full-time employees on a preferential basis;
- receive any International Placing Shares under the International Placing.

(c) All of your applications will also be rejected as multiple applications if more than one application is made for your benefit (or you and your joint applicant’s benefit). If an application is made by an unlisted company and

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be deemed to be made for your benefit.

**Unlisted company** means a company with no equity securities listed on the Stock Exchange.
Statutory control means you:

- control the composition of the board of directors of that company; or
- control more than half of the voting power of that company; or
- hold more than half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

5. EFFECT OF MAKING ANY APPLICATION

(a) By making any application, you (and if you are joint applicants, each of you jointly and severally) for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee:

- instruct and authorise any one of the Company or BNP Paribas (or their respective agents or nominees) to execute any transfer forms, contract notes or other documents on your behalf and to do on your behalf all other things necessary to effect the registration of any Public Offer Shares (including any Reserved Shares) allocated to you in your name(s) or HKSCC Nominees, as the case may be, as required by the Articles and otherwise to give effect to the arrangements described in this Prospectus and the relevant application form;

- undertake to sign all documents and to do all things necessary to enable you or HKSCC Nominees, as the case may be, to be registered as the holder of the Public Offer Shares (including the Reserved Shares) allocated to you, and as required by the Articles;

- represent and warrant that you understand that the Public Offer Shares (including the Reserved Shares) have not been and will not be registered under the U.S. Securities Act and you are outside the United States when completing the application form (as defined in Regulation S) and are not a U.S. person described under the U.S. Securities Act;

- confirm that you have received a copy of this Prospectus and have only relied on the information and representations contained in this Prospectus in making your application, and not on any other information or representation concerning the Company and you agree that neither the Company, BNP Paribas and the Underwriters nor any of their respective directors, officers, employees, partners, agents, advisers or any other parties involved in the Global Offering will have any liability for any such other information or representations;

- agree (without prejudice to any other rights which you may have) that once your application has been accepted, you may not revoke or rescind it because of an innocent misrepresentation;

- (if the application is made by an agent on your behalf) warrant that you have validly and irrevocably conferred on your agent all necessary power and authority to make the application;
• (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person that the application is the only application which will be made for the benefit of that other person on a WHITE, YELLOW, PINK or BLUE application form or by giving electronic application instructions to HKSCC, and that you are duly authorised to sign the application form or to give electronic application instructions as that other person’s agent;

• agree that once your application is accepted, your application will be evidenced by the results of the Public Offer or the Preferential Offer made available by the Company;

• undertake and confirm that you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up or indicated an interest in or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up or indicate any interest in any International Placing Shares in the International Placing, nor otherwise participate in the International Placing;

• warrant the truth and accuracy of the information contained in your application;

• agree to disclose to the Company, BNP Paribas and their respective agents any information about you or the person(s) for whose benefit you have made the application which they require;

• agree that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;

• undertake and agree to accept the Public Offer Shares or the Reserved Shares applied for, or any lesser number allocated to you under the application;

• authorise the Company to place your name(s) or the name of HKSCC Nominees, as the case may be, on the register of members of the Company as the holder(s) of any Public Offer Shares or Reserved Shares allocated to you, and the Company and/or its agents to send any share certificate(s) (where applicable) and/or any refund cheque (where applicable) to you or (in case of joint applicants) the first-named applicant in the application form by ordinary post at your own risk to the address stated on your application form (except that if you have indicated in your application form, you can collect your share certificate(s) and/or refund cheque (where applicable) in person between 9:00 a.m. and 1:00 p.m. on 2 April 2007 (Hong Kong time) from the Share Registrar or any other date notified by the Company in the newspapers as the date of despatch of share certificates and refund cheques;

• if the laws of any place outside Hong Kong are applicable to your application, you agree and warrant that you have complied with all such laws and none of the Company, BNP Paribas and the Underwriters nor any of their respective officers or advisers will infringe any laws outside Hong Kong as a result of the acceptance of your offer to subscribe, or any actions arising from your rights and obligations under the terms and conditions contained in this Prospectus;
• agree with the Company, for itself and for the benefit of each shareholder of the Company (and so that the Company will be deemed by its acceptance in whole or in part of the application to have agreed, for itself and on behalf of each shareholder of the Company) to observe and comply with the Companies Ordinance and the Articles;

• confirm that you are aware of the restrictions on offering of the Public Offer Shares or the Reserved Shares described in this Prospectus; and

• understand that these declarations and representations will be relied upon by the Company and BNP Paribas in deciding whether or not to allocate any Public Offer Shares in response to your application.

(b) If you apply for the Public Offer Shares using a YELLOW application form, in addition to the confirmations and agreements referred to in (a) above you agree that

• any Public Offer Shares allocated to you shall be registered in the name of HKSCC Nominees and deposited directly into CCASS operated by HKSCC for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant, in accordance with your election on the application form;

• each of HKSCC and HKSCC Nominees reserves the right (1) not to accept any or part of such allotted Public Offer Shares issued in the name of HKSCC Nominees or not to accept such allotted Public Offer Shares for deposit into CCASS; (2) to cause such allotted Public Offer Shares to be withdrawn from CCASS and transferred into your name at your own risk and costs; and (3) to cause such allotted Public Offer Shares to be issued in your name (or, if you are a joint applicant, to the first-named applicant) and in such a case, to post the share certificates for such allotted Public Offer Shares at your own risk to the address on your application form by ordinary post or to make available the same for your collection;

• each of HKSCC and HKSCC Nominees may adjust the number of allotted Public Offer Shares issued in the name of HKSCC Nominees;

• neither HKSCC nor HKSCC Nominees shall have any liability for the information and representations not so contained in this Prospectus and the application forms;

• neither HKSCC nor HKSCC Nominees shall be liable to you in any way.
(c) If you apply for the Reserved Shares using a BLUE application form, in addition to the confirmations and agreements referred to in (a) above you warrant that in making an application, you or any person(s) for whose behalf you may be acting is/are Qualifying CP Shareholder(s) and that each of the persons you are applying for has not applied for more than 56,000,000 Reserved Shares.

(d) In addition, by giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to do the following additional things and neither HKSCC nor HKSCC Nominees will be liable to the Company nor any other person in respect of such things:

- **instruct** and **authorise** HKSCC to cause HKSCC Nominees (acting as nominee for the CCASS Participants) to apply for the Public Offer Shares on your behalf;

- **instruct** and **authorise** HKSCC to arrange payment of the maximum Offer Price, brokerage fee, the SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of wholly or partly unsuccessful applications and/or if the final Offer Price is less than the maximum Offer Price of HK$2.58 per Offer Share, refund the appropriate portion of the application money by crediting your designated bank account;

- (in addition to the confirmations and agreements set out in paragraph (a) above) **instruct** and **authorise** HKSCC to cause HKSCC Nominees to do on your behalf:
  - **agree** that the Public Offer Shares to be allocated shall be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or the stock account of the CCASS Participant who has inputted **electronic application instructions** on your behalf;

  - **undertake** and **agree** to accept the Public Offer Shares in respect of which you have given **electronic application instructions** or any lesser number;

  - (if the **electronic application instructions** are given for your own benefit) **declare** that only one set of **electronic application instructions** has been given for your benefit;

  - (if you are an agent for another person) **declare** that you have given only one set of **electronic application instructions** for the benefit of that other person, and that you are duly authorised to give those instructions as that other person’s agent;

  - **understand** that the above declaration will be relied upon by the Company and BNP Paribas in deciding whether or not to make any allocation of the Public Offer Shares in respect of the **electronic application instructions** given by you and that you may be prosecuted if you make a false declaration;
authorise the Company to place the name of HKSCC Nominees on the register of members of the Company as the holder of the Public Offer Shares allocated in respect of your electronic application instructions and to send share certificates and/or refund in accordance with arrangements separately agreed between the Company and HKSCC;

confirm that you have read the terms and conditions and application procedures set out in this Prospectus and agree to be bound by them;

confirm that you have only relied on the information and representations in this Prospectus in giving your electronic application instructions or instructing your CCASS Broker Participant or CCASS Custodian Participant to give electronic application instructions on your behalf;

agree that the Company, BNP Paribas and the Underwriters and any of their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering are liable only for the information and representations contained in this Prospectus;

agree (without prejudice to any other rights which you may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentation;

agree to disclose your personal data to BNP Paribas, the Underwriters, the Company, the Share Registrar, the receiving banker(s), their respective agents and advisers together with any information about you which they require;

agree that any applications made by HKSCC Nominees on behalf of that person pursuant to the electronic application instructions given by that person is irrevocable before the end of the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a Business Day) unless a person responsible for this Prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this Prospectus;

agree that once the application of HKSCC Nominees is accepted, neither that application nor your electronic application instructions can be revoked and that acceptance of that application will be evidenced by the results of the Public Offer made available by the Company; and

agree to the arrangements, undertakings and warranties specified in the participant agreement between you and HKSCC and read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of electronic application instructions relating to the Public Offer Shares.
6. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED PUBLIC OFFER SHARES OR RESERVED SHARES

You should note the following situations in which Public Offer Shares or Reserved Shares will not be allocated to you or your application is liable to be rejected:

(a) If your application is revoked:

By completing and submitting an application form or submitting electronic application instructions to HKSCC, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked before the end of the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a Business Day) unless a person responsible for this Prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this Prospectus.

If your application has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(b) If the allocation of Public Offer Shares or Reserved Shares is void:

Your allocation of Public Offer Shares will be void if the listing committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing of the applications lists; or
- within a longer period of up to six weeks if the listing committee of the Stock Exchange notifies the Company of that longer period within three weeks of the closing of the application lists.

(c) If you make applications under the Public Offer as well as the International Placing:

By filling in any of the WHITE or YELLOW application forms or giving application instructions to HKSCC electronically, you agree not to apply for International Placing Shares under the International Placing. Reasonable steps will be taken to identify and reject applications under the Public Offer from investors who have received International Placing Shares in the International Placing, and to identify and reject indications of interest in the International Placing from investors who have received Public Offer Shares in the Public Offer.

(d) If the Company, BNP Paribas or their respective agents exercise their discretion:

The Company, BNP Paribas or their respective agents have full discretion to reject or accept any application, or to accept only part of any application, without having to give any reasons for any rejection or acceptance.
(e) If:

- your application is a multiple or a suspected multiple application;
- your application form is not completed correctly;
- your payment is not made correctly or you pay by cheque or banker’s cashier order and the cheque or banker’s cashier order is dishonoured on its first presentation;
- you or the person for whose benefit you are applying have applied for and/or received or will receive International Placing Shares under the International Placing;
- if you apply for more than 50% of the Public Offer Shares initially being offered to the public for subscription;
- the Company is of the view that by accepting your application, it would violate applicable securities laws, rules or regulations or other laws, rules or regulations of the jurisdiction in which your application is completed and/or signed;
- the Public Offer Underwriting Agreement does not become unconditional or it is terminated in accordance with its terms; or

(f) If you are giving electronic application instructions to HKSCC to apply for Public Offer Shares on your behalf, you will also not be allocated any Public Offer Shares if HKSCC Nominee’s application is not accepted.

7. IF YOUR APPLICATION FOR THE PUBLIC OFFER SHARES OR THE RESERVED SHARES IS SUCCESSFUL (IN WHOLE OR IN PART)

(a) If you are applying using a WHITE or BLUE application form and you elect to receive any share certificate(s) in your name:

- Refund cheques for these applicants are expected to be despatched on or before Monday, 2 April 2007 to the same address as that for share certificate(s).
- Applicants who apply for 1,000,000 Shares or more on WHITE application forms or apply for 1,000,000 Shares or more on BLUE application form and have indicated in their application forms that they wish to collect share certificates and (where applicable) refund cheques in person from the Share Registrar may collect share certificates and (where applicable) refund cheques in person from the Share Registrar, Tricor Investor Services Limited, at 26th Floor Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, 2 April 2007.
- Applicants will receive one share certificate each for all the Public Offer Shares or the Reserved Shares allocated.
- Applicants being individuals who opt for personal collection cannot authorise any other person to make collection on their behalf. Corporate applicants who opt for personal collection must attend by their authorised representatives bearing letters
of authorisation from the corporation stamped with the corporation’s respective chops. Both individuals and authorised representative (if applicable) must produce, at the time of collection, evidence of identity acceptable to the Company's Hong Kong share registrar.

• Uncollected share certificates and (where applicable) refund cheques will be despatched by ordinary post at the applicants’ own risk to the addresses specified in the relevant application forms.

(b) If: (i) you are applying on a YELLOW application form; or (ii) you are giving electronic application instructions to HKSCC, and in each case you elect to have allocated Public Offer Shares deposited directly into CCASS:

If your application is wholly or partly successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you (on the application form or electronically, as the case may be), at the close of business on Monday, 2 April 2007 or, under certain contingent situations, on any other date as shall be determined by HKSCC or HKSCC Nominees.

• If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant) on a YELLOW application form:

For Public Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Public Offer Shares allocated to you with that CCASS Participant.

• If you are applying as a CCASS Investor Participant on a YELLOW application form:

The Company is expected to make available the results of the Public Offer, including the results of CCASS Investor Participants’ applications, in the manner described in the paragraph headed “Results of allocations” in the section headed “How to apply for Public Offer Shares and Reserved Shares”, on Monday, 2 April 2007. You should check the results made available by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, 2 April 2007 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account) you can check your new account balance via the CCASS Phone System or CCASS Internet System (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your stock account.

• If you have given electronic application instructions to HKSCC:

The Company is expected to make available the application results of the Public Offer, including the results of CCASS Participants’ applications (and in the case of CCASS Broker Participants and CCASS Custodian Participants, the Company shall include information relating to the beneficial owner), your Hong Kong identity card/passport/Hong Kong business registration number or other identification code (as
appropriate) in the manner described in the paragraph headed “Results of allocations” in the section headed “How to apply for Public Offer Shares and Reserved Shares”, on Monday, 2 April 2007. You should check the results made available by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, 2 April 2007 or any other date HKSCC or HKSCC Nominees chooses.

- If you are instructing your CCASS Broker Participant or CCASS Custodian Participant to give electronic application instructions to HKSCC on your behalf:

  You can also check the number of Public Offer Shares allocated to you and the amount of refund (if any) payable to you with that CCASS Broker Participant or CCASS Custodian Participant.

- If you are applying as a CCASS Investor Participant by giving electronic instruction to HKSCC:

  You can also check the number of the Public Offer Shares allotted to you and the amount of refund (if any) payable to you via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time) on Monday, 2 April 2007. HKSCC will also make available to you an activity statement showing the number of the Public Offer Shares credited to your stock account and the amount of refund credited to your designated bank account (if any).

If you apply on a PINK application form, you may collect your share certificate (if any) in person from the Company Secretary, Ms. Tso Mun Wai, at the registered office of the Company, at 8th Floor, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong by 5:00 p.m. on Monday, 2 April 2007.

No receipt will be issued for application monies paid. The Company will not issue temporary documents of title.

8. REFUND OF YOUR MONEY — ADDITIONAL INFORMATION

(a) You will be entitled to a refund (any interest accrued on refund money prior to the date of despatch of refund cheques will be retained for the benefit of the Company) if:

  • your application is not successful, in which case the Company will refund your application money together with the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee to you, without interest;

  • your application is accepted only in part, in which case the Company will refund the appropriate portion of your application money, the brokerage, the SFC transaction levy and the Stock Exchange trading fee, without interest;
• the Offer Price (as finally determined) is less than the price per Offer Share initially paid by the applicant on application, in which case the Company will refund the surplus application money together with the appropriate portion of the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee, without interest; and

• the conditions of Global Offering are not fulfilled in accordance with the section headed “Structure and conditions of the Global Offering”.

(b) If you apply on a YELLOW application form and have indicated in your YELLOW application form that you wish to collect your refund cheques in person from the Share Registrar, you may collect your refund cheque (if any) in person from the Share Registrar, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong on Monday, 2 April 2007. The procedure for collection of refund cheques for YELLOW application form applicants is the same as that for WHITE application form applicants set out in sub-paragraph (a) of the paragraph headed “If your application for the Public Offer Shares or the Reserved Shares is successful (in whole or in part)” in this section.

(c) If you apply on a PINK application form, you may collect your refund cheque (if any) in person from the Company Secretary, Ms. Tso Mun Wai, at the registered office of the Company, at 8th Floor, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong by 1:00 p.m. on Monday, 2 April 2007.

(d) If you are applying by giving electronic instructions to HKSCC to apply on your behalf, all refunds are expected to be credited to your designated bank account (if you are applying as a CCASS Investor Participant) or the designated bank account of your broker or custodian (if you are applying through a CCASS Broker/Custodian Participant) on Monday, 2 April 2007.

(e) All refunds by cheque will be crossed “Account Payee Only”, and made out to you, or if you are a joint applicant, to the first-named applicant on your application form.

(f) Refund cheques are expected to be despatched on Monday, 2 April 2007. The Company intends to make special efforts to avoid undue delays in refunding money.

9. PERSONAL DATA

The main provisions of the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong) (the “Ordinance”) came into effect in Hong Kong on 20th December 1996. This Personal Information Collection Statement informs the applicant for and holder of the Public Offer Shares or the Reserved Shares of the policies and practices of the Company and the Hong Kong share registrar in relation to personal data and the Ordinance.

(a) Reasons for the collection of your personal data

From time to time it is necessary for applicants for securities or registered holders of securities to supply their latest correct personal data to the Company and the Hong Kong share registrar when applying for securities or transferring securities into or out of their names or in procuring the services of the Hong Kong share registrar.
Failure to supply the requested data may result in your application for securities being rejected or in delay or inability of the Company or the Share Registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfer of the Public Offer Shares or the Reserved Shares which you have successfully applied for and/or the despatch of share certificate(s), and/or refund cheque(s) to which you are entitled.

It is important that holders of securities inform the Company and the Share Registrar immediately of any inaccuracies in the personal data supplied.

(b) Purposes

The personal data of the applicants and the holders of securities may be used, held and/or stored (by whatever means) for the following purposes:

- processing of your application and verification of compliance with the terms and application procedures set out in the application forms and this Prospectus and announcing results of allocations of the Public Offer Shares;
- enabling compliance with all applicable laws and regulations in Hong Kong and elsewhere;
- registering new issues or transfers into or out of the name of holders of securities including, where applicable, in the name of HKSCC Nominees;
- maintaining or updating the registers of holders of securities of the Company;
- conducting or assisting to conduct signature verifications, any other verification or exchange of information;
- establishing benefit entitlements of holders of securities of the Company, such as dividends, rights issues and bonus issues;
- distributing communications from the Company and its subsidiaries;
- compiling statistical information and shareholder profiles;
- making disclosures as required by any laws, rules or regulations;
- disclosing relevant information to facilitate claims on entitlements; and
- any other incidental or associated purposes relating to the above and/or to enable the Company and the Share Registrar to discharge their obligations to holders of securities and/or regulators and/or any other purpose to which the holders of securities may from time to time agree.
(c) Transfer of personal data

Personal data held by the Company and the Share Registrar relating to the applicants and the holders of securities will be kept confidential but the Company and the Share Registrar, to the extent necessary for achieving the above purposes or any of them, make such enquiries as they consider necessary to confirm the accuracy of the personal data and in particular, they may disclose, obtain or provide (whether within or outside Hong Kong) the personal data of the applicants and the holders of securities to or from any and all of the following persons and entities:

- the Company or its appointed agents such as financial advisers and receiving bankers;

- HKSCC and HKSCC Nominees, who will use the personal data for the purposes of operating CCASS (in cases where the applicants have requested for the Public Offer Shares to be deposited into CCASS);

- any agents, contractors or third party service providers who offer administrative, telecoms, computer, payment or other services to the Company and/or the Hong Kong share registrar in connection with the operation of their businesses;

- the Stock Exchange, the SFC and any other statutory, regulatory or governmental bodies; and

- any other persons or institutions with which the holders of securities have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers.

By signing an application form or by giving electronic application instructions to HKSCC, you agree to all of the above.

(d) Access and correction of personal data

The Ordinance provides the applicants and the holders of securities with rights to ascertain whether the Company and/or the Hong Kong share registrar hold their personal data, to obtain a copy of that data, and to correct any data that is inaccurate. In accordance with the Ordinance, the Company and the Hong Kong share registrar have the right to charge a reasonable fee for the processing of any data access request. All requests for access to data or correction of data or for information regarding policies and practices or the kinds of data held should be addressed to the Company for the attention of the Company Secretary or (as the case may be) the Hong Kong share registrar for the attention of the Privacy Compliance Officer (for the purposes of the Ordinance).
10. MISCELLANEOUS

(a) Commencement of dealings in the Shares

• Dealings in the Shares on the Stock Exchange are expected to commence on Tuesday, 3 April 2007.

• The Shares will be traded in board lots of 1,000 Shares.

• Any Share certificates in respect of Public Offer Shares or the Reserved Shares collected or received by successful applicants will not be valid if the Global Offering is terminated in accordance with the terms of the Public Offer Underwriting Agreement.

(b) The Shares will be eligible for admission into CCASS

• If the Stock Exchange grants the listing of and permission to deal in the Shares and the stock admission requirements of HKSCC are complied with, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

• All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

• All necessary arrangements have been made for the Shares to be admitted into CCASS.
APPENDIX I

ACCOUNTANTS’ REPORT

The following is the full text of a report, prepared for the purpose of incorporation in this prospectus, received from the independent reporting accountants of the Company, KPMG, Certified Public Accountants, Hong Kong. As described in the paragraph headed “Documents delivered to the Registrar of Companies in Hong Kong” in Appendix VI to this prospectus, a copy of the following accountants’ report is available for public inspection.

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

22 March 2007

The Directors
CITIC 1616 Holdings Limited
BNP Paribas Capital (Asia Pacific) Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the Financial Information relating to CITIC 1616 Holdings Limited (formerly World Navigation Limited) (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) including the combined income statements, the combined statements of changes in equity and the combined cash flow statements of the Group for each of the three years ended 31 December 2004, 2005 and 2006 (the “relevant period”), the combined balance sheets of the Group as at 31 December 2004, 2005 and 2006, and the balance sheets of the Company as at 31 December 2004, 2005 and 2006 together with explanatory notes thereto (the “Financial Information”) for inclusion in the prospectus of the Company dated 22 March 2007 (the “Prospectus”).

The Company was incorporated in Hong Kong with limited liability on 25 June 1997. By a special resolution passed on 22 December 2006 and by a Certificate of Change of Name issued by the Registrar of Companies on 5 January 2007, the name of the Company was changed from World Navigation Limited to CITIC 1616 Holdings Limited and the Chinese name from 宝航有限公司 to 中信1616集团有限公司.

CITIC Telecom 1616 Limited, World Navigation (BVI) Ltd. and Wise Guide Development Limited are the principal subsidiaries of the Company during the relevant period. The principal activities of CITIC Telecom 1616 Limited and World Navigation (BVI) Ltd. are the provision of international telecommunications services. The principal activity of Wise Guide Development Limited is property investment.

BASIS OF PREPARATION

The Financial Information has been prepared by the directors of the Company based on the audited financial statements of the companies comprising the Group, on the basis set out in Section A below, after making such adjustments as are appropriate.
We are auditors of the companies comprising the Group since 1 January 2005. The financial statements of the companies comprising the Group for the year ended 31 December 2004 were audited by PricewaterhouseCoopers, a firm of professional accountants registered in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

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

Our responsibility is to form an opinion on these Financial Information based on our audit.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the audited financial statements of the companies comprising the Group (as reflected in Section A of this report) for the relevant period (or where the companies were incorporated/established/acquired at a date later than 1 January 2004, for the period from their respective dates of incorporated/established/acquired to 31 December 2006) in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

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

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

We have not audited any financial statements of the companies now comprising the Group in respect of any period subsequent to 31 December 2006.
APPENDIX I

ACCOUNTANTS’ REPORT

OPINION

In our opinion, for the purpose of this report, all adjustments considered necessary have been made and the Financial Information, on the basis of presentation set out in Section A below, gives a true and fair view of the profits and cash flows of the Group for the relevant period and of the financial position of the Group and the Company as at 31 December 2004, 2005 and 2006.

A. BASIS OF PRESENTATION

On 20 May 2004, the Group acquired from a wholly owned subsidiary of its ultimate holding company, the entire equity interests in Crown Gain Limited which directly owns Wise Guide Development Limited for a consideration of HK$117,082,000. The control is not transitory and, consequently, there was a continuation of the risks and benefits to the controlling parties, and therefore this is considered as business combination under common control and that Accounting Guideline 5 “Merger Accounting for Common Control Combinations” is applied for this transaction. The Financial Information has been prepared using the merger basis of accounting as if the Group had always been in existence. The net assets of the combining companies are consolidated using the existing book values from the controlling parties perspective.

The Financial Information relating to the combined income statements, combined statements of changes in equity and combined cash flow statements of the Group as set out in Section B for the relevant period include the results of operations of the companies comprising the Group for the periods from 1 January 2004 to 31 December 2006. The combined balance sheets of the Group as at 31 December 2004, 2005 and 2006, and the balance sheets of the Company as at 31 December 2004, 2005 and 2006 as set out in Section B have been prepared to present the combined assets and liabilities of the Group and the assets and liabilities of the Company respectively as at those dates.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

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

Where losses applicable to the minority exceed the minority interests in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group’s interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group’s interest is allocated all such profits until the minority’s share of losses previously absorbed by the Group has been recovered.
During the relevant period, the Company had direct or indirect interests in the following subsidiaries, all of which are private companies, particulars of which are set out below:

<table>
<thead>
<tr>
<th>Name of company(^a)</th>
<th>Place and date of incorporation/ operation</th>
<th>Principal activities</th>
<th>Percentage of equity attributable to the Company</th>
<th>Issued and fully paid-up capital(^*)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amazing Gains Finance Limited</td>
<td>British Virgin Islands 28 November 2001</td>
<td>Provision of leasing services</td>
<td>— 100%</td>
<td>US$1</td>
</tr>
<tr>
<td>Asia Pacific Internet Exchange Limited</td>
<td>Hong Kong 18 October 2004</td>
<td>Provision of financial and operational support to HKIX</td>
<td>— 75%</td>
<td>HK$100,000</td>
</tr>
<tr>
<td>CITIC Concept 1616 Limited</td>
<td>Hong Kong 23 August 2002</td>
<td>Provision of systems integration services</td>
<td>— 100%</td>
<td>HK$2</td>
</tr>
<tr>
<td>CITIC Consultancy 1616 Limited</td>
<td>Hong Kong 28 November 2001</td>
<td>Provision of telecommunications consultancy services in Hong Kong</td>
<td>— 100%</td>
<td>HK$2</td>
</tr>
<tr>
<td>CITIC Data 1616 Limited</td>
<td>Hong Kong 6 March 2000</td>
<td>Provision of data services in Hong Kong</td>
<td>— 100%</td>
<td>HK$2</td>
</tr>
<tr>
<td>CITIC Media 1616 Limited</td>
<td>Hong Kong 17 September 2004</td>
<td>Provision of content services to licensed telecoms operators in Hong Kong</td>
<td>— 100%</td>
<td>HK$1</td>
</tr>
<tr>
<td>CITIC Networks 1616 Limited</td>
<td>Hong Kong 10 September 2001</td>
<td>Provision of systems integration services</td>
<td>— 100%</td>
<td>HK$2</td>
</tr>
<tr>
<td>CITIC Telecom 1616 Limited</td>
<td>Hong Kong 5 December 1996</td>
<td>Provision of licensed telecommunications services in Hong Kong</td>
<td>100% —</td>
<td>HK$2</td>
</tr>
<tr>
<td>CITIC TeleSoft 1616 Limited</td>
<td>Hong Kong 15 September 2003</td>
<td>Provision of systems integration services</td>
<td>— 100%</td>
<td>HK$2</td>
</tr>
<tr>
<td>Crown Yield (HK) Limited</td>
<td>Hong Kong 3 December 2001</td>
<td>Provision of leasing services</td>
<td>— 100%</td>
<td>HK$2</td>
</tr>
<tr>
<td>Data Communication Services Limited</td>
<td>Hong Kong 23 October 1998</td>
<td>Equipment holding</td>
<td>100% —</td>
<td>HK$1,000 HK$38,000,000#</td>
</tr>
<tr>
<td>Delight Way Holdings Inc.</td>
<td>British Virgin Islands 15 November 2001</td>
<td>Investment holding</td>
<td>— 100%</td>
<td>US$1</td>
</tr>
<tr>
<td>Name of company*</td>
<td>Place and date of incorporation/operation</td>
<td>Principal activities</td>
<td>Percentage of equity attributable to the Company</td>
<td>Issued and fully paid-up capital*</td>
</tr>
<tr>
<td>-----------------</td>
<td>------------------------------------------</td>
<td>----------------------</td>
<td>-----------------------------------------------</td>
<td>----------------------------------</td>
</tr>
<tr>
<td>Fasini Corp.</td>
<td>British Virgin Islands/ Hong Kong 10 March 2004</td>
<td>Provision of financing</td>
<td>— 100%</td>
<td>US$1</td>
</tr>
<tr>
<td>Grand Aim Technologies Limited</td>
<td>British Virgin Islands 1 June 2001</td>
<td>Investment holding</td>
<td>— 100%</td>
<td>US$1</td>
</tr>
<tr>
<td>Grand Formosa Holdings Inc.</td>
<td>British Virgin Islands 9 October 2001</td>
<td>Investment holding</td>
<td>— 100%</td>
<td>US$1</td>
</tr>
<tr>
<td>Hen Fai Engineering Networks Company Limited</td>
<td>Hong Kong 16 December 2002</td>
<td>Provision of field engineering services</td>
<td>— 100%</td>
<td>HK$2</td>
</tr>
<tr>
<td>Joy Trend Holdings Inc.</td>
<td>British Virgin Islands 24 August 2004</td>
<td>Investment holding</td>
<td>— 100%</td>
<td>US$1</td>
</tr>
<tr>
<td>Logic Way Holdings Inc.</td>
<td>British Virgin Islands 18 May 2000</td>
<td>Investment holding</td>
<td>100% —</td>
<td>US$1</td>
</tr>
<tr>
<td>Pacific Choice International Limited</td>
<td>British Virgin Islands 13 July 2001</td>
<td>Investment holding</td>
<td>100% —</td>
<td>US$1</td>
</tr>
<tr>
<td>Smart Legend Co. Ltd.</td>
<td>British Virgin Islands 8 January 2003</td>
<td>Investment holding</td>
<td>— 100%</td>
<td>US$1</td>
</tr>
<tr>
<td>Unique Star Holdings Inc.</td>
<td>British Virgin Islands 18 May 2000</td>
<td>Investment holding</td>
<td>— 100%</td>
<td>US$1</td>
</tr>
<tr>
<td>World Navigation (BVI) Ltd.</td>
<td>British Virgin Islands/ Hong Kong 1 July 1997</td>
<td>Provision of sales and marketing functions</td>
<td>100% —</td>
<td>US$1</td>
</tr>
</tbody>
</table>

* 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.

^ All companies have adopted 31 December as their financial year end date.
# APPENDIX I  
## ACCOUNTANT'S REPORT

## B  FINANCIAL INFORMATION

### 1. Combined Income Statements

<table>
<thead>
<tr>
<th>Note</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HK$’000</td>
<td>HK$’000</td>
<td>HK$’000</td>
</tr>
<tr>
<td><strong>Turnover</strong></td>
<td>1,047,152</td>
<td>980,046</td>
<td>1,364,209</td>
</tr>
<tr>
<td>Other revenue</td>
<td>8</td>
<td>295</td>
<td>2,146</td>
</tr>
<tr>
<td>Other net loss</td>
<td>(257)</td>
<td>(931)</td>
<td>(211)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,046,903</td>
<td>979,410</td>
<td>1,366,144</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Network, operations and support expenses</strong></td>
<td>HK$’000</td>
</tr>
<tr>
<td>5(c)</td>
<td>(747,151)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>(60,565)</td>
</tr>
<tr>
<td>Staff costs</td>
<td>(35,987)</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>(94,501)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>(944,860)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Profit from operations and before taxation</strong></th>
<th>HK$’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax</td>
<td>(17,564)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>(18,130)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Profit for the year from continuing operations</strong></th>
<th>HK$’000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>91,135</td>
</tr>
<tr>
<td>Discontinued operations</td>
<td>9</td>
</tr>
<tr>
<td><strong>Profit for the year from discontinued operations</strong></td>
<td>HK$’000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>19,710</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Profit for the year</strong></th>
<th>HK$’000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>101,478</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Attributable to:</strong></th>
<th>HK$’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity holders of the Company</td>
<td>101,478</td>
</tr>
<tr>
<td>Minority interests</td>
<td>(25)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>101,478</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Dividends payable to equity holders of the Company attributable to the year:</strong></th>
<th>HK$’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interim dividend declared during the year</td>
<td>495,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Basic and diluted earnings per share</strong></th>
<th>HK cents</th>
</tr>
</thead>
<tbody>
<tr>
<td>From continuing and discontinued operations</td>
<td>6.0</td>
</tr>
<tr>
<td>From continuing operations</td>
<td>5.4</td>
</tr>
<tr>
<td>From discontinued operations</td>
<td>0.6</td>
</tr>
</tbody>
</table>

The accompanying notes form part of the Financial Information.
## 2. Combined Balance Sheets

<table>
<thead>
<tr>
<th>Section C Note</th>
<th>2004 HK$'000</th>
<th>2005 HK$'000</th>
<th>2006 HK$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>13</td>
<td>341,029</td>
<td>320,409</td>
</tr>
<tr>
<td>Non-current other receivables</td>
<td>16</td>
<td>24,034</td>
<td>26,910</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>15(a)</td>
<td>5,994</td>
<td>5,288</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>371,057</strong></td>
<td><strong>352,607</strong></td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>16</td>
<td>642,585</td>
<td>331,872</td>
</tr>
<tr>
<td>Amount due from ultimate holding company</td>
<td>12(c)</td>
<td>—</td>
<td>253,240</td>
</tr>
<tr>
<td>Current tax recoverable</td>
<td>6(b)</td>
<td>20,119</td>
<td>16,284</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>17</td>
<td>17,217</td>
<td>31,884</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>679,921</strong></td>
<td><strong>633,280</strong></td>
</tr>
<tr>
<td><strong>Non-current assets and the assets of disposal group classified as held for sale</strong></td>
<td>23</td>
<td>134,710</td>
<td>144,091</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>814,631</strong></td>
<td><strong>777,371</strong></td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>18</td>
<td>406,267</td>
<td>284,668</td>
</tr>
<tr>
<td>Amount due to ultimate holding company</td>
<td>12(c)</td>
<td>22,436</td>
<td>—</td>
</tr>
<tr>
<td>Current tax payable</td>
<td>6(b)</td>
<td>22,827</td>
<td>10,391</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>451,530</strong></td>
<td><strong>295,059</strong></td>
</tr>
<tr>
<td><strong>Liabilities directly associated with the assets of disposal group classified as held for sale</strong></td>
<td>23</td>
<td>124,146</td>
<td>129,783</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>575,676</strong></td>
<td><strong>424,842</strong></td>
</tr>
<tr>
<td><strong>Net current assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>238,955</strong></td>
<td><strong>352,529</strong></td>
</tr>
<tr>
<td><strong>Total assets less current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>610,012</strong></td>
<td><strong>705,136</strong></td>
</tr>
</tbody>
</table>
2. Combined Balance Sheets (continued)

<table>
<thead>
<tr>
<th>Section C Note</th>
<th>2004 HK$’000</th>
<th>2005 HK$’000</th>
<th>2006 HK$’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-current liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred tax liabilities 15(a)</td>
<td>41,394</td>
<td>38,737</td>
<td>37,450</td>
</tr>
<tr>
<td></td>
<td>41,394</td>
<td>38,737</td>
<td>37,450</td>
</tr>
<tr>
<td>NET ASSETS</td>
<td>568,618</td>
<td>666,399</td>
<td>372,917</td>
</tr>
<tr>
<td>CAPITAL AND RESERVES</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share capital 19(a)</td>
<td>2,001</td>
<td>2,001</td>
<td>1</td>
</tr>
<tr>
<td>Reserves</td>
<td>566,592</td>
<td>664,398</td>
<td>372,916</td>
</tr>
<tr>
<td>Total equity attributable to equity holders of the company</td>
<td>568,593</td>
<td>666,399</td>
<td>372,917</td>
</tr>
<tr>
<td>Minority interests</td>
<td>25</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>TOTAL EQUITY</td>
<td>568,618</td>
<td>666,399</td>
<td>372,917</td>
</tr>
</tbody>
</table>

The accompanying notes form part of the Financial Information.
APPENDIX I

ACCOUNTANTS’ REPORT

3. Balance Sheets

<table>
<thead>
<tr>
<th>Section C</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Note</td>
<td>HK$’000</td>
<td>HK$’000</td>
<td>HK$’000</td>
</tr>
</tbody>
</table>

**Non-current assets**

- Property, plant and equipment 13: 27,746 18,629 10,365
- Investments in subsidiaries 14: 1 1 1
- Deferred tax assets 15(a): — 1,488 4,617

| | 2004   | 2005   | 2006   |
| | 27,747 | 20,118 | 14,983 |

**Current assets**

- Trade and other receivables 16: 361,816 82,122 9,535
- Amounts due from subsidiaries 14: 292,347 339,035 407,086
- Amount due from ultimate holding company 12(c): — 253,317 —
- Current tax recoverable 6(b): 18,674 15,710 —
- Cash and cash equivalents 17: 10,780 10,233 14,068

| | 2004   | 2005   | 2006   |
| | 683,617 | 700,417 | 430,689 |

**Current liabilities**

- Trade and other payables 18: 116,034 36,071 25,036
- Amounts due to subsidiaries 14: 435,090 564,308 320,403
- Amount due to ultimate holding company 12(c): 22,359 — 2,237

| | 2004   | 2005   | 2006   |
| | 573,483 | 600,379 | 347,676 |

**Net current assets**

| | 2004   | 2005   | 2006   |
| | 110,134 | 100,038 | 83,013 |

**Total assets less current liabilities**

| | 2004   | 2005   | 2006   |
| | 137,881 | 120,156 | 97,996 |

**Non-current liabilities**

- Deferred tax liabilities 15(a): 6,193 — —

| | 2004   | 2006   |
| | 6,193   | —      |

**NET ASSETS**

| | 2004   | 2005   | 2006   |
| | 131,688 | 120,156 | 97,996 |

**CAPITAL AND RESERVES**

- Share capital 19(a): 2,001 2,001 1
- Reserves 129,687 116,155 97,995

**TOTAL EQUITY**

| | 2004   | 2005   | 2006   |
| | 131,688 | 120,156 | 97,996 |

The accompanying notes form part of the Financial Information.
4. Statements of Changes in Equity

The Group

<table>
<thead>
<tr>
<th>Capital</th>
<th>Share capital (Note 19(a)) HK$'000</th>
<th>Retained profits HK$'000</th>
<th>Minority interests HK$'000</th>
<th>Total HK$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 1 January 2004</td>
<td>2,001</td>
<td>465,114</td>
<td>467,115</td>
<td>467,115</td>
</tr>
<tr>
<td>Minority interests pursuant to</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>acquisition of a subsidiary</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit for the year</td>
<td></td>
<td></td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>At 31 December 2004 and 1 January 2005</td>
<td>2,001</td>
<td>566,592</td>
<td>568,593</td>
<td>568,618</td>
</tr>
<tr>
<td>Profit for the year</td>
<td></td>
<td></td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>At 31 December 2005 and 1 January 2006</td>
<td>2,001</td>
<td>664,398</td>
<td>666,399</td>
<td>666,399</td>
</tr>
<tr>
<td>Profit for the year</td>
<td></td>
<td></td>
<td>201,518</td>
<td>201,518</td>
</tr>
<tr>
<td>Repurchase of shares</td>
<td>(2,000)</td>
<td>2,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Dividends approved and paid during the year</td>
<td></td>
<td></td>
<td>(495,000)</td>
<td>(495,000)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>372,916</td>
<td>372,916</td>
</tr>
</tbody>
</table>

The Company

<table>
<thead>
<tr>
<th>Capital</th>
<th>Share capital (Note 19(a)) HK$'000</th>
<th>Retained profits HK$'000</th>
<th>Total HK$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 1 January 2004</td>
<td>2,001</td>
<td>194,178</td>
<td>136,179</td>
</tr>
<tr>
<td>Loss for the year (note 19(d))</td>
<td></td>
<td>(4,491)</td>
<td>(4,491)</td>
</tr>
<tr>
<td>At 31 December 2004 and 1 January 2005</td>
<td>2,001</td>
<td>129,687</td>
<td>131,688</td>
</tr>
<tr>
<td>Loss for the year (note 19(d))</td>
<td></td>
<td>(11,532)</td>
<td>(11,532)</td>
</tr>
<tr>
<td>At 31 December 2005 and 1 January 2006</td>
<td>2,001</td>
<td>118,155</td>
<td>120,156</td>
</tr>
<tr>
<td>Profit for the year (note 19(d))</td>
<td></td>
<td>472,840</td>
<td>472,840</td>
</tr>
<tr>
<td>Repurchase of shares</td>
<td>(2,000)</td>
<td>2,000</td>
<td>0</td>
</tr>
<tr>
<td>Dividends approved and paid during the year</td>
<td></td>
<td>(495,000)</td>
<td>(495,000)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>95,995</td>
<td>97,996</td>
</tr>
</tbody>
</table>

The accompanying notes form part of the Financial Information.
### Combined Cash Flow Statements

#### Year ended 31 December

<table>
<thead>
<tr>
<th>Section C</th>
<th>Note</th>
<th>2004 (HK$’000)</th>
<th>2005 (HK$’000)</th>
<th>2006 (HK$’000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating activities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit before taxation</td>
<td></td>
<td>119,042</td>
<td>115,911</td>
<td>239,613</td>
</tr>
<tr>
<td>Adjustments for:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Surplus on revaluation of investment property</td>
<td>4</td>
<td>(10,000)</td>
<td>(11,000)</td>
<td>(23,000)</td>
</tr>
<tr>
<td>— Depreciation</td>
<td>5(c)</td>
<td>60,565</td>
<td>67,551</td>
<td>72,449</td>
</tr>
<tr>
<td>— Loss on disposal of other property, plant and equipment</td>
<td>4</td>
<td>135</td>
<td>617</td>
<td>37</td>
</tr>
<tr>
<td>— Finance costs</td>
<td>5(a)</td>
<td>4,036</td>
<td>11,141</td>
<td>5,499</td>
</tr>
<tr>
<td>— Interest income</td>
<td>3</td>
<td>(8)</td>
<td>(302)</td>
<td>(2,163)</td>
</tr>
<tr>
<td>Operating profit before changes in working capital</td>
<td></td>
<td>173,770</td>
<td>183,918</td>
<td>292,435</td>
</tr>
<tr>
<td>Decrease/(increase) in trade and other receivables</td>
<td></td>
<td>309,258</td>
<td>307,748</td>
<td>(138,655)</td>
</tr>
<tr>
<td>(Decrease)/increase in trade and other payables</td>
<td></td>
<td>(427,679)</td>
<td>(114,858)</td>
<td>91,724</td>
</tr>
<tr>
<td>Cash generated from operations</td>
<td></td>
<td>55,349</td>
<td>376,808</td>
<td>245,504</td>
</tr>
<tr>
<td>Hong Kong Profits Tax refunded</td>
<td></td>
<td>1,227</td>
<td>4,050</td>
<td>16,076</td>
</tr>
<tr>
<td>Hong Kong Profits Tax paid</td>
<td></td>
<td>(6,167)</td>
<td>(32,732)</td>
<td>(10,845)</td>
</tr>
<tr>
<td>Net cash generated from operating activities</td>
<td></td>
<td>50,409</td>
<td>348,126</td>
<td>250,735</td>
</tr>
<tr>
<td>Investing activities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest received</td>
<td>8</td>
<td>302</td>
<td>2,163</td>
<td></td>
</tr>
<tr>
<td>Payment for purchase of property, plant and equipment</td>
<td></td>
<td>(68,417)</td>
<td>(54,005)</td>
<td>(33,315)</td>
</tr>
<tr>
<td>Proceeds from sales of property, plant and equipment</td>
<td></td>
<td>2,169</td>
<td>12</td>
<td>16</td>
</tr>
<tr>
<td>Net inflow from disposal of discontinued operations</td>
<td>22</td>
<td>—</td>
<td>—</td>
<td>160,318</td>
</tr>
<tr>
<td>Net cash (used in)/generated from investing activities</td>
<td></td>
<td>(66,240)</td>
<td>(53,691)</td>
<td>129,182</td>
</tr>
</tbody>
</table>
5. Combined Cash Flow Statements (continued)

<table>
<thead>
<tr>
<th>Section C Note</th>
<th>Year ended 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004</td>
</tr>
<tr>
<td></td>
<td>HK$’000</td>
</tr>
<tr>
<td>Financing activities</td>
<td></td>
</tr>
<tr>
<td>Interest paid</td>
<td>(4,036)</td>
</tr>
<tr>
<td>Loan from ultimate holding company</td>
<td>119,411</td>
</tr>
<tr>
<td>Loan repayment to ultimate holding company</td>
<td>—</td>
</tr>
<tr>
<td>(Increase)/decrease in amount due from ultimate holding company</td>
<td>(93,984)</td>
</tr>
<tr>
<td>Capital contribution from minority interests</td>
<td>25</td>
</tr>
<tr>
<td>Dividends paid to equity shareholders of the Company</td>
<td>—</td>
</tr>
<tr>
<td>Net cash generated from/(used in) financing activities</td>
<td>21,416</td>
</tr>
<tr>
<td>Net increase in cash and cash equivalents</td>
<td>5,585</td>
</tr>
<tr>
<td>Cash and cash equivalents at 1 January</td>
<td>17</td>
</tr>
<tr>
<td>Cash and cash equivalents at 31 December</td>
<td>17</td>
</tr>
</tbody>
</table>

The accompanying notes form part of the Financial Information.


C NOTIONS ON THE FINANCIAL INFORMATION

1. SIGNIFICANT ACCOUNTING POLICIES

   (a) Statement of compliance

   The Financial Information has been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual HKFRSs, HKASs and Interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. The Financial Information also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). A summary of the significant accounting policies adopted by the Group is set out below.

   (b) Basis of preparation of the Financial Information

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

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

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

   The preparation of Financial Information 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 Information and estimates with a significant risk of material adjustment in the next year are discussed in note 27.

   (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 Financial Information from the date that control commences until the date that control ceases.

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

   (d) Investment property

   Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(f)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.
Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 1(n)(iii).

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

(e) Other property, plant and equipment

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

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

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

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

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:

<table>
<thead>
<tr>
<th>Asset</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telecommunications equipment</td>
<td>7 – 33%</td>
</tr>
<tr>
<td>Other assets</td>
<td>20 – 33%</td>
</tr>
</tbody>
</table>

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

(f) Leased assets

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

(i) Classification of assets leased to the Group

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

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

(g) **Impairment of assets**

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

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

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

(ii) **Impairment of other assets**

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

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

— **Calculation of recoverable amount**

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

— **Recognition of impairment losses**

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

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

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

(h) Trade and other receivables

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

(i) Cash and cash equivalents

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

(j) Trade and other payables

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

(k) Employee benefits

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

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

(ii) Share based payments

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

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

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

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

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

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

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

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

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

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

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

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

— the same taxable entity; or
different taxable entities, which, in each future period in which significant amounts of deferred
tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax
assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(m) Provisions and contingent liabilities

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

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

(n) Revenue recognition

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

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

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

(ii) Fees from the provision of other telecommunication services

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

(iii) Rental income from operating leases

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

(iv) Interest income

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

(v) Barter transactions

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

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

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

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

(p) Borrowing costs

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

(q) Discontinued operations

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

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

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

— the post-tax profit or loss of the discontinued operation; and

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

(r) Interest-bearing borrowings

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

(s) Related parties

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

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group’s parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals, or
(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

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

(t) 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 (geographical 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.

(u) Business combinations involving entities under common control

The combined financial statements incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties’ perspective. No amount is recognised in respect of goodwill or excess of acquirer’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party’s interest.

The combined income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the combined financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

(v) Deferred revenue

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

(w) Deferred expenditure

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

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

Turnover recognised during the relevant period may be analysed as follows:

<table>
<thead>
<tr>
<th>Year ended 31 December</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HK$’000</td>
<td>HK$’000</td>
<td>HK$’000</td>
</tr>
<tr>
<td><strong>Continuing operations —</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fees from the provision of voice hubbing services</td>
<td>943,434</td>
<td>863,822</td>
<td>1,141,656</td>
</tr>
<tr>
<td>Fees from the provision of short message services</td>
<td>48,242</td>
<td>75,252</td>
<td>117,092</td>
</tr>
<tr>
<td>Fees from the provision of other telecommunication services</td>
<td>55,476</td>
<td>40,972</td>
<td>105,461</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,047,152</strong></td>
<td><strong>980,046</strong></td>
<td><strong>1,364,209</strong></td>
</tr>
<tr>
<td><strong>Discontinued operations —</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross rental income from discontinued operations (note 9)</td>
<td>6,542</td>
<td>6,183</td>
<td>2,845</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,053,694</strong></td>
<td><strong>986,229</strong></td>
<td><strong>1,367,054</strong></td>
</tr>
</tbody>
</table>

The direct outgoings of the gross rental income from investment property amounted to HK$913,000, HK$1,079,000, HK$436,000 for the years ended 31 December 2004, 2005 and 2006, respectively.
### 3. OTHER REVENUE

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 December</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2004</td>
<td>2005</td>
<td>2006</td>
</tr>
<tr>
<td></td>
<td>HK$’000</td>
<td>HK$’000</td>
<td>HK$’000</td>
<td></td>
</tr>
<tr>
<td><strong>Continuing operations —</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank Interest income</td>
<td></td>
<td>8</td>
<td>295</td>
<td>1,309</td>
</tr>
<tr>
<td>Other interest income</td>
<td></td>
<td></td>
<td></td>
<td>837</td>
</tr>
<tr>
<td></td>
<td></td>
<td>8</td>
<td>295</td>
<td>2,146</td>
</tr>
<tr>
<td><strong>Discontinued operations —</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest income <em>(note 9)</em></td>
<td></td>
<td></td>
<td>7</td>
<td>17</td>
</tr>
<tr>
<td></td>
<td></td>
<td>8</td>
<td>302</td>
<td>2,163</td>
</tr>
</tbody>
</table>

### 4. OTHER NET (LOSS)/GAIN

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 December</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2004</td>
<td>2005</td>
<td>2006</td>
</tr>
<tr>
<td></td>
<td>HK$’000</td>
<td>HK$’000</td>
<td>HK$’000</td>
<td></td>
</tr>
<tr>
<td><strong>Continuing operations —</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net loss on disposal of other property, plant and equipment</td>
<td></td>
<td>(135)</td>
<td>(617)</td>
<td>(37)</td>
</tr>
<tr>
<td>Net foreign exchange loss</td>
<td></td>
<td>(122)</td>
<td>(314)</td>
<td>(174)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(257)</td>
<td>(931)</td>
<td>(211)</td>
</tr>
<tr>
<td><strong>Discontinued operations —</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Surplus on revaluation of investment property <em>(note 9)</em></td>
<td></td>
<td>10,000</td>
<td>11,000</td>
<td>23,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>9,743</td>
<td>10,069</td>
<td>22,789</td>
</tr>
</tbody>
</table>
5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

<table>
<thead>
<tr>
<th>Year ended 31 December</th>
<th>2004 HK$’000</th>
<th>2005 HK$’000</th>
<th>2006 HK$’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Finance costs:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discontinued operations — Interest on loan from ultimate holding company <em>(note 9)</em></td>
<td>4,036</td>
<td>11,141</td>
<td>5,499</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>4,036</td>
<td>11,141</td>
<td>5,499</td>
</tr>
<tr>
<td>(b) Staff costs:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Continuing operations — Salaries, wages and other benefits</td>
<td>40,734</td>
<td>54,947</td>
<td>69,399</td>
</tr>
<tr>
<td>Contribution to defined contribution retirement plan</td>
<td>1,355</td>
<td>1,595</td>
<td>1,897</td>
</tr>
<tr>
<td></td>
<td>42,089</td>
<td>56,542</td>
<td>71,296</td>
</tr>
<tr>
<td>Less: staff costs capitalised into property, plant and equipment</td>
<td>(6,102)</td>
<td>(5,105)</td>
<td>(3,916)</td>
</tr>
<tr>
<td></td>
<td>35,987</td>
<td>51,437</td>
<td>67,380</td>
</tr>
<tr>
<td>Discontinued operations *(note 9) — Salaries, wages and other benefits</td>
<td>740</td>
<td>752</td>
<td>293</td>
</tr>
<tr>
<td>Contribution to defined contribution retirement plan</td>
<td>31</td>
<td>33</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>771</td>
<td>785</td>
<td>307</td>
</tr>
<tr>
<td></td>
<td>36,758</td>
<td>52,222</td>
<td>67,687</td>
</tr>
<tr>
<td>(c) Other items:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Continuing operations — Network, operations and support expenses, including:</td>
<td>747,151</td>
<td>688,113</td>
<td>944,860</td>
</tr>
<tr>
<td>— carrier costs</td>
<td>682,372</td>
<td>630,826</td>
<td>864,653</td>
</tr>
<tr>
<td>— operating leases — international leased circuits</td>
<td>47,905</td>
<td>49,234</td>
<td>46,130</td>
</tr>
<tr>
<td>— other telecommunications service costs</td>
<td>16,874</td>
<td>8,053</td>
<td>34,077</td>
</tr>
<tr>
<td>Depreciation</td>
<td>60,565</td>
<td>67,551</td>
<td>72,449</td>
</tr>
<tr>
<td>Impairment loss on trade and other receivables</td>
<td>37,368</td>
<td>2,599</td>
<td>3,879</td>
</tr>
<tr>
<td>Auditors’ remuneration</td>
<td>343</td>
<td>333</td>
<td>410</td>
</tr>
<tr>
<td>Operating lease charges in respect of land and buildings</td>
<td>7,426</td>
<td>7,403</td>
<td>9,131</td>
</tr>
</tbody>
</table>
6. INCOME TAX

(a) Income tax in the combined income statements represents:

*Continuing operations —*

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 December</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2004</td>
<td>2005</td>
<td>2006</td>
</tr>
<tr>
<td></td>
<td>HK$’000</td>
<td>HK$’000</td>
<td>HK$’000</td>
<td></td>
</tr>
<tr>
<td><strong>Current tax — Hong Kong Profits Tax</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for the year</td>
<td>19,582</td>
<td>17,933</td>
<td>39,807</td>
<td></td>
</tr>
<tr>
<td>Under/(over)-provision in respect of prior years</td>
<td>63</td>
<td>(58)</td>
<td>—</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>19,645</td>
<td>17,875</td>
<td>39,807</td>
</tr>
<tr>
<td><strong>Current tax — Overseas</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for the year</td>
<td>1,928</td>
<td>2,206</td>
<td>1,765</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>1,928</td>
<td>2,206</td>
<td>1,765</td>
</tr>
<tr>
<td><strong>Deferred tax</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Origination and reversal of temporary differences</td>
<td>(4,009)</td>
<td>(1,951)</td>
<td>(3,477)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>17,564</td>
<td>18,130</td>
<td>38,095</td>
</tr>
</tbody>
</table>

The provision for Hong Kong Profits Tax for the years ended 31 December 2004, 2005 and 2006 is calculated at 17.5% of the estimated assessable profits for the year.

Overseas taxation has been calculated on the estimated assessable profit during the relevant period 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:

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 December</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2004</td>
<td>2005</td>
<td>2006</td>
</tr>
<tr>
<td></td>
<td>HK$’000</td>
<td>HK$’000</td>
<td>HK$’000</td>
<td></td>
</tr>
<tr>
<td><strong>Profit before taxation</strong></td>
<td></td>
<td>119,042</td>
<td>115,911</td>
<td>239,613</td>
</tr>
<tr>
<td>Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned</td>
<td></td>
<td>20,832</td>
<td>20,284</td>
<td>41,932</td>
</tr>
<tr>
<td>Tax effect of different tax rate</td>
<td></td>
<td>797</td>
<td>882</td>
<td>706</td>
</tr>
<tr>
<td>Tax effect of non-taxable revenue and non-deductible expenses</td>
<td>(3,907)</td>
<td>(4,028)</td>
<td>(6,113)</td>
<td></td>
</tr>
<tr>
<td>Tax effect of unused tax losses not recognised</td>
<td>181</td>
<td>1,274</td>
<td>672</td>
<td></td>
</tr>
<tr>
<td>Under/(over)-provision in respect of prior years</td>
<td>63</td>
<td>(58)</td>
<td>—</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>(402)</td>
<td>(224)</td>
<td>898</td>
<td></td>
</tr>
<tr>
<td><strong>Actual tax expense</strong></td>
<td></td>
<td>17,564</td>
<td>18,130</td>
<td>38,095</td>
</tr>
</tbody>
</table>

*Discontinued operations —*

No provision for Hong Kong Profits Tax was made for the discontinued operations as the companies comprising the discontinued operations either have no assessable profit during the period or have unrelieved tax losses carried forward which are not likely to be crystallised in the future.
(b) Income tax in the combined balance sheets represents:

<table>
<thead>
<tr>
<th>Year</th>
<th>The Group</th>
<th>The Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004 HK$'000</td>
<td>2005 HK$'000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Continuing operations —</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hong Kong Profits Tax</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for the year</td>
<td>19,582</td>
<td>17,933</td>
</tr>
<tr>
<td>Provisional Profits Tax paid</td>
<td>(8,760)</td>
<td>(15,084)</td>
</tr>
<tr>
<td></td>
<td>10,822</td>
<td>2,849</td>
</tr>
<tr>
<td>Balance recoverable relating to prior years</td>
<td>(12,876)</td>
<td>(15,710)</td>
</tr>
<tr>
<td></td>
<td>(2,054)</td>
<td>(12,861)</td>
</tr>
<tr>
<td>Taxation outside Hong Kong</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for the year</td>
<td>1,928</td>
<td>2,206</td>
</tr>
<tr>
<td>Balance payable relating to prior years</td>
<td>2,834</td>
<td>4,762</td>
</tr>
<tr>
<td></td>
<td>4,762</td>
<td>6,968</td>
</tr>
<tr>
<td></td>
<td>2,708</td>
<td>(5,893)</td>
</tr>
<tr>
<td>Representing:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>current tax recoverable</td>
<td>(20,119)</td>
<td>(16,284)</td>
</tr>
<tr>
<td>current tax payable</td>
<td>22,827</td>
<td>10,391</td>
</tr>
<tr>
<td></td>
<td>2,708</td>
<td>(5,893)</td>
</tr>
</tbody>
</table>

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

Details of directors’ remuneration are as follows:

**Year ended 31 December 2004**

<table>
<thead>
<tr>
<th></th>
<th>Fees HK$’000</th>
<th>Basic salaries, allowances and other benefits HK$’000</th>
<th>Contributions to defined retirement plan HK$’000</th>
<th>Discretionary bonus HK$’000</th>
<th>Total HK$’000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Executive director</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mr Peter Chan Kwong Choi</td>
<td>—</td>
<td>3</td>
<td>—</td>
<td>—</td>
<td>3</td>
</tr>
<tr>
<td><strong>Non-executive directors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mr Lee Chung Hing</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Ms Frances Yung Ming Fong</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Mr Kwok Man Leung</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>—</td>
<td>3</td>
<td>—</td>
<td>—</td>
<td>3</td>
</tr>
</tbody>
</table>

**Year ended 31 December 2005**

<table>
<thead>
<tr>
<th></th>
<th>Fees HK$’000</th>
<th>Basic salaries, allowances and other benefits HK$’000</th>
<th>Contributions to defined retirement plan HK$’000</th>
<th>Discretionary bonus HK$’000</th>
<th>Total HK$’000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Executive director</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mr Peter Chan Kwong Choi</td>
<td>—</td>
<td>272</td>
<td>—</td>
<td>—</td>
<td>272</td>
</tr>
<tr>
<td><strong>Non-executive directors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mr Lee Chung Hing</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Ms Frances Yung Ming Fong</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Mr Kwok Man Leung</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>—</td>
<td>272</td>
<td>—</td>
<td>—</td>
<td>272</td>
</tr>
</tbody>
</table>
Year ended 31 December 2006

<table>
<thead>
<tr>
<th></th>
<th>Fees HK$’000</th>
<th>Basic salaries and other benefits HK$’000</th>
<th>Contributions to defined retirement plan HK$’000</th>
<th>Discretionary bonus HK$’000</th>
<th>Total HK$’000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Executive director</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mr Peter Chan Kwong Choi</td>
<td>—</td>
<td>211</td>
<td>1</td>
<td>3,000</td>
<td>3,212</td>
</tr>
<tr>
<td><strong>Non-executive directors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mr Lee Chung Hing</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Ms Frances Yung Ming Fong</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Mr Kwok Man Leung</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>—</td>
<td>211</td>
<td>1</td>
<td>3,000</td>
<td>3,212</td>
</tr>
</tbody>
</table>

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 24.

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

During the years ended 31 December 2004, 2005 and 2006, no emoluments were paid by the Company to any of the directors as an inducement to join or upon joining the Company or as compensation for loss of office and none of the directors has waived or agreed to waive any emoluments.

8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group for the relevant period include one director for 2006 (2004 and 2005: Nil), details of which are disclosed in note 7.

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

<table>
<thead>
<tr>
<th>Year ended 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>2004</td>
</tr>
<tr>
<td>HK$’000</td>
</tr>
<tr>
<td>Directors</td>
</tr>
<tr>
<td>Employees</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Year ended 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>2004</td>
</tr>
<tr>
<td>HK$’000</td>
</tr>
<tr>
<td>Salaries and other emoluments</td>
</tr>
<tr>
<td>Discretionary bonuses</td>
</tr>
<tr>
<td>Retirement scheme contributions</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>
The emoluments of the individuals with the highest emoluments are within the following bands:

<table>
<thead>
<tr>
<th>Year ended 31 December</th>
<th>2004 HK$’000</th>
<th>2005 HK$’000</th>
<th>2006 HK$’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>HK$</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1,000,001 — 1,500,000</td>
<td>4</td>
<td>3</td>
<td>—</td>
</tr>
<tr>
<td>1,500,001 — 2,000,000</td>
<td>—</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>2,000,001 — 2,500,000</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>3,000,001 — 3,500,000</td>
<td>—</td>
<td>—</td>
<td>1</td>
</tr>
</tbody>
</table>

During the years ended 31 December 2004, 2005 and 2006, no emoluments were paid by the Company to any of the five highest paid individuals as an inducement to join or upon joining the Company as or as compensation for loss of office.

9. 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 years ended 31 December 2004, 2005 and 2006 were as follows:

<table>
<thead>
<tr>
<th>Year ended 31 December</th>
<th>2004 HK$’000</th>
<th>2005 HK$’000</th>
<th>2006 HK$’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover — rental income</td>
<td>6,542</td>
<td>6,183</td>
<td>2,845</td>
</tr>
<tr>
<td>Other revenue</td>
<td>—</td>
<td>7</td>
<td>17</td>
</tr>
<tr>
<td>Other net gain</td>
<td>10,000</td>
<td>11,000</td>
<td>23,000</td>
</tr>
<tr>
<td>Staff costs 5(b)</td>
<td>(771)</td>
<td>(785)</td>
<td>(307)</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>(1,392)</td>
<td>(1,520)</td>
<td>(346)</td>
</tr>
<tr>
<td>Profit from operations</td>
<td>14,379</td>
<td>14,885</td>
<td>25,209</td>
</tr>
<tr>
<td>Finance costs 5(a)</td>
<td>(4,036)</td>
<td>(11,141)</td>
<td>(5,499)</td>
</tr>
<tr>
<td>Profit before taxation</td>
<td>10,343</td>
<td>3,744</td>
<td>19,710</td>
</tr>
<tr>
<td>Income tax 6(a)</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>10,343</td>
<td>3,744</td>
<td>19,710</td>
</tr>
</tbody>
</table>
10. DIVIDENDS

Dividends attributable to the year

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004</td>
</tr>
<tr>
<td>HK$’000</td>
<td>HK$’000</td>
</tr>
</tbody>
</table>

Interim dividend declared and paid of HK$495,000 per share

|                      | —    | —    | 495,000 |

11. BASIC AND DILUTED EARNINGS PER SHARE

(a) From continuing and discontinued operations

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

(b) From continuing operations

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

(c) From discontinued operations

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

(d) Diluted earnings per share

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

During the relevant periods, the Group entered into the following material related party transactions.

<table>
<thead>
<tr>
<th>Name of party</th>
<th>Relationship</th>
</tr>
</thead>
<tbody>
<tr>
<td>CITIC Pacific Limited</td>
<td>Ultimate holding company</td>
</tr>
<tr>
<td>CITIC Pacific Communications Limited (“CPC”)</td>
<td>Intermediate holding company</td>
</tr>
<tr>
<td>Companhia de Telecomunicacoes de Macau S.A.R.L. (“CTM”)</td>
<td>A 20% associate of CITIC Pacific Limited</td>
</tr>
<tr>
<td>CPCNet Macau Limited (“CPCNet Macau”)</td>
<td>Previously a 55% associate and currently an 85% fellow subsidiary</td>
</tr>
<tr>
<td>CPCNet Hong Kong Limited (“CPCNet”)</td>
<td>Fellow subsidiary</td>
</tr>
<tr>
<td>Goldon Investment Limited</td>
<td>A 40% associate of CITIC Pacific Limited</td>
</tr>
<tr>
<td>HKIX Hong Kong Ltd</td>
<td>A minority shareholder of Asia Pacific Internet Exchange Limited</td>
</tr>
</tbody>
</table>

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

Continuing operations

(a) Recurring transactions

<table>
<thead>
<tr>
<th>Note</th>
<th>Year ended 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004</td>
</tr>
<tr>
<td></td>
<td>HK$’000</td>
</tr>
<tr>
<td>Telecommunications services and related income from:</td>
<td></td>
</tr>
<tr>
<td>– CTM</td>
<td>(iv) &amp; (v)</td>
</tr>
<tr>
<td>– CPC</td>
<td>(iv) &amp; (v)</td>
</tr>
<tr>
<td>– CPCNet Macau</td>
<td>(iv) &amp; (v)</td>
</tr>
<tr>
<td>– CPCNet</td>
<td>(iv) &amp; (v)</td>
</tr>
</tbody>
</table>

| Telecommunications service expenses to CTM | (iv) & (v) | 1,445 | 1,446 | 3,130 |
| Circuits operating lease charges payable to CTM | (iv) & (v) | — | 620 | 827 |

| Operating leases |
| charges and building management fee payable to Goldon Investment Limited | (ii), (iv) & (v) | 11,103 | 11,181 | 12,029 |
| Management fee paid to a wholly-owned subsidiary of the HKIX Hong Kong Ltd. | (iv) & (v) | — | 1,000 | 1,000 |

(b) Non-recurring transactions

| Management fee payable to CITIC Pacific Limited | (i) & (iv) | 24,685 | 26,484 | 15,921 |
(c) **Amount due from/(to) ultimate holding company**

**The Group**

<table>
<thead>
<tr>
<th>Note</th>
<th>31 December 2004</th>
<th>31 December 2005</th>
<th>31 December 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HK$’000</td>
<td>HK$’000</td>
<td>HK$’000</td>
</tr>
<tr>
<td>CITIC Pacific Limited (iii)</td>
<td>(22,436)</td>
<td>253,240</td>
<td>(2,237)</td>
</tr>
</tbody>
</table>

**The Company**

<table>
<thead>
<tr>
<th>Note</th>
<th>31 December 2004</th>
<th>31 December 2005</th>
<th>31 December 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HK$’000</td>
<td>HK$’000</td>
<td>HK$’000</td>
</tr>
<tr>
<td>CITIC Pacific Limited (iii)</td>
<td>(22,359)</td>
<td>253,317</td>
<td>(2,237)</td>
</tr>
</tbody>
</table>

(d) **Trade receivables/(trade payables)**

**The Group**

<table>
<thead>
<tr>
<th>31 December</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>HK$’000</td>
<td>HK$’000</td>
<td>HK$’000</td>
<td>HK$’000</td>
</tr>
</tbody>
</table>

Amount due from/(to) CTM included in

Trade receivables: 1,003 507 1,359
Trade payables: (1,347) (391) (873)

(344) 116 486

Trade receivables due from:

<table>
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<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>CPC</td>
<td>1,085</td>
<td>—</td>
<td>—</td>
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<tr>
<td>CPCNet</td>
<td>21</td>
<td>396</td>
<td>263</td>
</tr>
<tr>
<td>CPCNet Macau</td>
<td>—</td>
<td>350</td>
<td>1,524</td>
</tr>
</tbody>
</table>

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

**Discontinued operations**

(a) **Recurring transactions**

<table>
<thead>
<tr>
<th>Year ended 31 December</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>HK$’000</td>
<td>HK$’000</td>
<td>HK$’000</td>
<td>HK$’000</td>
</tr>
</tbody>
</table>

Management fee payable to
CITIC Pacific Limited *(note 9)* (i) & (iv) 1,200 1,200 500

Interest on other loans from
CITIC Pacific Limited *(notes 5(a) and 9)* (iv) 4,036 11,141 5,499
(b) Non-recurring transactions

<table>
<thead>
<tr>
<th>Note</th>
<th>Year ended 31 December</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>HK$’000</td>
<td>HK$’000</td>
<td>HK$’000</td>
</tr>
<tr>
<td>(iv)</td>
<td>Disposal of Crown Gain Group (note 22)</td>
<td>—</td>
<td>—</td>
<td>162,051</td>
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</table>

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

<table>
<thead>
<tr>
<th>Note</th>
<th>31 December</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>HK$’000</td>
<td>HK$’000</td>
<td>HK$’000</td>
</tr>
<tr>
<td>(iii)</td>
<td>CITIC Pacific Limited (note 23)</td>
<td>120,211</td>
<td>125,552</td>
<td>—</td>
</tr>
</tbody>
</table>

Notes:

(i) Management fees were paid/payable to the ultimate holding company for the provision of financial and administrative services.

(ii) Goldon Investment Limited leases a property in Hong Kong to the Group under an operating lease. The amount represents the lease charges and building management fees paid to Goldon Investment Limited.

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

Of the above balance, a loan from CITIC Pacific Limited amounted to HK$120,211,000 and HK$125,552,000 as at 31 December 2004 and 2005 respectively, carried interest at the prevailing market rates.

The balance has been repaid prior to the listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited.

(iv) 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 Co, was in accordance with terms of a shareholder agreement.

(v) The directors have confirmed the above recurring transactions listed in continuing operations will continue in the future after the listing of the Company’s shares on the Stock Exchange.
### PROPERTY, PLANT AND EQUIPMENT

#### The Group

<table>
<thead>
<tr>
<th></th>
<th>Telecommunications equipment HK$'000</th>
<th>Other assets HK$'000</th>
<th>Construction in progress HK$'000</th>
<th>Continuing operations HK$'000</th>
<th>Discontinued operations — Investment property HK$'000</th>
<th>Total assets HK$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost/Valuation:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>At 1 January 2004</td>
<td>438,896</td>
<td>20,137</td>
<td>22,465</td>
<td>481,498</td>
<td>120,000</td>
<td>601,498</td>
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<td>Additions</td>
<td>23,372</td>
<td>10,881</td>
<td>21,510</td>
<td>55,763</td>
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<td>55,763</td>
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<td>Disposals</td>
<td>(4,914)</td>
<td>—</td>
<td>—</td>
<td>(4,914)</td>
<td>—</td>
<td>(4,914)</td>
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<td>Reclassification</td>
<td>274</td>
<td>10,083</td>
<td>(10,357)</td>
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<td>Fair value adjustment (note 9)</td>
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<td>—</td>
<td>10,000</td>
<td>10,000</td>
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<tr>
<td><strong>At 31 December 2004</strong></td>
<td>457,628</td>
<td>41,101</td>
<td>33,618</td>
<td>532,347</td>
<td>130,000</td>
<td>662,347</td>
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<td><strong>Representing:</strong></td>
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</tr>
<tr>
<td>Cost</td>
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<td>41,101</td>
<td>33,618</td>
<td>532,347</td>
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<td>532,347</td>
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<td>Valuation — 2004</td>
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<td></td>
<td></td>
<td></td>
<td>130,000</td>
<td>130,000</td>
</tr>
<tr>
<td><strong>At 1 January 2005</strong></td>
<td>457,628</td>
<td>41,101</td>
<td>33,618</td>
<td>532,347</td>
<td>130,000</td>
<td>662,347</td>
</tr>
<tr>
<td>Additions</td>
<td>19,276</td>
<td>5,317</td>
<td>22,967</td>
<td>47,560</td>
<td>—</td>
<td>47,560</td>
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<tr>
<td>Disposals</td>
<td>(702)</td>
<td>(10)</td>
<td>—</td>
<td>(712)</td>
<td>—</td>
<td>(712)</td>
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<tr>
<td>Reclassification</td>
<td>26,702</td>
<td>662</td>
<td>(27,364)</td>
<td>—</td>
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<td>—</td>
</tr>
<tr>
<td>Fair value adjustment (note 9)</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>11,000</td>
<td>11,000</td>
</tr>
<tr>
<td><strong>At 31 December 2005</strong></td>
<td>502,904</td>
<td>47,070</td>
<td>29,221</td>
<td>579,195</td>
<td>141,000</td>
<td>720,195</td>
</tr>
<tr>
<td><strong>Representing:</strong></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Cost</td>
<td>502,904</td>
<td>47,070</td>
<td>29,221</td>
<td>579,195</td>
<td>—</td>
<td>579,195</td>
</tr>
<tr>
<td>Valuation — 2005</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>141,000</td>
<td>141,000</td>
</tr>
<tr>
<td><strong>At 1 January 2006</strong></td>
<td>502,904</td>
<td>47,070</td>
<td>29,221</td>
<td>579,195</td>
<td>141,000</td>
<td>720,195</td>
</tr>
<tr>
<td>Additions</td>
<td>502,904</td>
<td>47,070</td>
<td>29,221</td>
<td>579,195</td>
<td>141,000</td>
<td>720,195</td>
</tr>
<tr>
<td>Disposals</td>
<td>— through disposal of subsidiaries</td>
<td>—</td>
<td>—</td>
<td>(164,000)</td>
<td>(164,000)</td>
<td>(164,000)</td>
</tr>
<tr>
<td>— others</td>
<td>—</td>
<td>(133)</td>
<td>—</td>
<td>(133)</td>
<td>—</td>
<td>(133)</td>
</tr>
<tr>
<td>Reclassification</td>
<td>38,991</td>
<td>2,132</td>
<td>(41,123)</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Fair value adjustment (note 9)</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>23,000</td>
<td>23,000</td>
</tr>
<tr>
<td><strong>At 31 December 2006</strong></td>
<td>541,895</td>
<td>50,878</td>
<td>16,455</td>
<td>609,228</td>
<td>—</td>
<td>609,228</td>
</tr>
<tr>
<td><strong>Representing:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Cost</td>
<td>541,895</td>
<td>50,878</td>
<td>16,455</td>
<td>609,228</td>
<td>—</td>
<td>609,228</td>
</tr>
<tr>
<td>Valuation — 2006</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>
## APPENDIX I

### ACCOUNTANTS’ REPORT

| Discontinued | Tele- | Other | Construction | Continuing | Investment | Total |
| operations — | communications | assets | in progress | operations | property | assets |
| —— | —— | —— | —— | —— | —— | —— |
| | equipment | HK$’000 | HK$’000 | HK$’000 | HK$’000 | HK$’000 |

### Accumulated depreciation:

<table>
<thead>
<tr>
<th></th>
<th>At 1 January 2004</th>
<th>Charge for the year</th>
<th>Written back on disposals</th>
<th>At 31 December 2004</th>
<th>At 1 January 2005</th>
<th>Charge for the year</th>
<th>Written back on disposals</th>
<th>At 31 December 2005</th>
<th>At 1 January 2006</th>
<th>Charge for the year</th>
<th>Written back on disposals</th>
<th>At 31 December 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accumulated</td>
<td>127,399</td>
<td>5,964</td>
<td>(2,610)</td>
<td>178,960</td>
<td>178,960</td>
<td>57,473</td>
<td>(82)</td>
<td>236,351</td>
<td>236,351</td>
<td>62,352</td>
<td>(80)</td>
<td>298,703</td>
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<td>depreciation:</td>
<td>133,363</td>
<td>——</td>
<td>——</td>
<td>191,318</td>
<td>191,318</td>
<td>67,551</td>
<td>(83)</td>
<td>258,786</td>
<td>258,786</td>
<td>72,449</td>
<td>(80)</td>
<td>331,155</td>
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<tr>
<td>Charge for the</td>
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<td>Written back on</td>
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<td>At 1 January 2005</td>
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<tr>
<td>Charge for the</td>
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<td>2005</td>
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</tr>
<tr>
<td>At 1 January 2006</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Charge for the</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>year</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Written back on</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>disposals</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 31 December</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Net book value:

<table>
<thead>
<tr>
<th></th>
<th>At 31 December 2004</th>
<th>At 31 December 2005</th>
<th>At 31 December 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>278,668</td>
<td>266,553</td>
<td>243,192</td>
</tr>
<tr>
<td></td>
<td>28,743</td>
<td>24,635</td>
<td>18,426</td>
</tr>
<tr>
<td></td>
<td>33,618</td>
<td>29,221</td>
<td>16,455</td>
</tr>
<tr>
<td></td>
<td>341,029</td>
<td>320,409</td>
<td>278,073</td>
</tr>
<tr>
<td></td>
<td>130,000</td>
<td>141,000</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>471,029</td>
<td>461,409</td>
<td>278,073</td>
</tr>
</tbody>
</table>
The Company

<table>
<thead>
<tr>
<th>Other assets</th>
<th>HK$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost:</strong></td>
<td></td>
</tr>
<tr>
<td>At 1 January 2004</td>
<td>18,228</td>
</tr>
<tr>
<td>Additions</td>
<td>20,964</td>
</tr>
<tr>
<td>At 31 December 2004 and 1 January 2005</td>
<td>39,192</td>
</tr>
<tr>
<td>Additions</td>
<td>6</td>
</tr>
<tr>
<td>Disposals</td>
<td>(10)</td>
</tr>
<tr>
<td>At 31 December 2005 and 1 January 2006</td>
<td>39,188</td>
</tr>
<tr>
<td>Disposals</td>
<td>(120)</td>
</tr>
<tr>
<td>At 31 December 2006</td>
<td>39,068</td>
</tr>
<tr>
<td><strong>Accumulated depreciation:</strong></td>
<td></td>
</tr>
<tr>
<td>At 1 January 2004</td>
<td>5,434</td>
</tr>
<tr>
<td>Charge for the year</td>
<td>6,012</td>
</tr>
<tr>
<td>At 31 December 2004 and 1 January 2005</td>
<td>11,446</td>
</tr>
<tr>
<td>Charge for the year</td>
<td>9,114</td>
</tr>
<tr>
<td>Written back on disposals</td>
<td>(1)</td>
</tr>
<tr>
<td>At 31 December 2005 and 1 January 2006</td>
<td>20,559</td>
</tr>
<tr>
<td>Charge for the year</td>
<td>8,222</td>
</tr>
<tr>
<td>Written back on disposals</td>
<td>(78)</td>
</tr>
<tr>
<td>At 31 December 2006</td>
<td>28,703</td>
</tr>
<tr>
<td><strong>Net book value:</strong></td>
<td></td>
</tr>
<tr>
<td>At 31 December 2004</td>
<td>27,746</td>
</tr>
<tr>
<td>At 31 December 2005</td>
<td>18,629</td>
</tr>
<tr>
<td>At 31 December 2006</td>
<td>10,365</td>
</tr>
</tbody>
</table>

**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 2004 and 2005 respectively by an independent firm of surveyors, Knight Frank, who have among their staff Fellows of the Hong Kong Institute of Surveyors, on an open market value basis.

(ii) The Group leased out investment property under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.
The Group’s total minimum lease payments under non-cancellable operating leases are receivable as follows:

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HK$’000</td>
<td>HK$’000</td>
<td>HK$’000</td>
</tr>
<tr>
<td>Within 1 year</td>
<td>4,825</td>
<td>5,655</td>
<td>—</td>
</tr>
<tr>
<td>After 1 year but within 5 years</td>
<td>4,190</td>
<td>3,401</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>9,015</td>
<td>9,056</td>
<td>—</td>
</tr>
</tbody>
</table>

(iii) The investment property is held under long-term lease in Hong Kong.

(iv) Other assets included electronic data processing equipment (“EDP equipment”), furniture and fixtures, motor vehicles and office equipment.

14. INTERESTS IN SUBSIDIARIES

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HK$’000</td>
<td>HK$’000</td>
<td>HK$’000</td>
</tr>
<tr>
<td>Unlisted shares, at cost</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Amounts due from subsidiaries</td>
<td>292,347</td>
<td>339,035</td>
<td>407,086</td>
</tr>
<tr>
<td></td>
<td>292,348</td>
<td>339,036</td>
<td>407,087</td>
</tr>
<tr>
<td>Amounts due to subsidiaries</td>
<td>(435,090)</td>
<td>(564,308)</td>
<td>(320,403)</td>
</tr>
<tr>
<td></td>
<td>(142,742)</td>
<td>(225,272)</td>
<td>86,684</td>
</tr>
</tbody>
</table>

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

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

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

The Group

<table>
<thead>
<tr>
<th></th>
<th>Depreciation allowances in excess of the related depreciation HK$’000</th>
<th>Tax losses HK$’000</th>
<th>Total HK$’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 1 January 2004</td>
<td>44,081</td>
<td>(4,672)</td>
<td>39,409</td>
</tr>
<tr>
<td>Credited to combined income statements</td>
<td>(580)</td>
<td>(3,429)</td>
<td>(4,009)</td>
</tr>
<tr>
<td>At 31 December 2004</td>
<td>43,501</td>
<td>(8,101)</td>
<td>35,400</td>
</tr>
<tr>
<td>At 1 January 2005</td>
<td>43,501</td>
<td>(8,101)</td>
<td>35,400</td>
</tr>
<tr>
<td>(Credited)/charged to combined income statements</td>
<td>(2,199)</td>
<td>248</td>
<td>(1,951)</td>
</tr>
<tr>
<td>At 31 December 2005</td>
<td>41,302</td>
<td>(7,853)</td>
<td>33,449</td>
</tr>
<tr>
<td>At 1 January 2006</td>
<td>41,302</td>
<td>(7,853)</td>
<td>33,449</td>
</tr>
<tr>
<td>Credited to combined income statements</td>
<td>(2,707)</td>
<td>(770)</td>
<td>(3,477)</td>
</tr>
<tr>
<td>At 31 December 2006</td>
<td>38,595</td>
<td>(8,623)</td>
<td>29,972</td>
</tr>
</tbody>
</table>

31 December 2004 2005 2006
HK$’000 HK$’000 HK$’000

Represented by:

<table>
<thead>
<tr>
<th></th>
<th>HK$’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred tax assets</td>
<td>(5,994)</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>41,394</td>
</tr>
<tr>
<td></td>
<td>38,737</td>
</tr>
<tr>
<td></td>
<td>37,450</td>
</tr>
<tr>
<td></td>
<td>35,400</td>
</tr>
<tr>
<td></td>
<td>33,449</td>
</tr>
<tr>
<td></td>
<td>29,972</td>
</tr>
</tbody>
</table>
APPENDIX I
ACCOUNTANTS’ REPORT

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

### The Company

<table>
<thead>
<tr>
<th></th>
<th>Depreciation allowances in excess of the related depreciation HK$'000</th>
<th>Tax losses HK$'000</th>
<th>Total HK$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>At 1 January 2004</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,467</td>
<td></td>
<td>1,467</td>
</tr>
<tr>
<td></td>
<td>Credited to income statement</td>
<td>2,493</td>
<td>2,233</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>4,726</td>
</tr>
<tr>
<td></td>
<td>At 31 December 2004</td>
<td>3,960</td>
<td>2,233</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>6,193</td>
</tr>
<tr>
<td></td>
<td>At 1 January 2005</td>
<td>3,960</td>
<td>2,233</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>6,193</td>
</tr>
<tr>
<td></td>
<td>Credited to income statement</td>
<td>(1,507)</td>
<td>(6,174)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(7,681)</td>
</tr>
<tr>
<td></td>
<td>At 31 December 2005</td>
<td>2,453</td>
<td>(3,941)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(1,488)</td>
</tr>
<tr>
<td></td>
<td>At 1 January 2006</td>
<td>2,453</td>
<td>(3,941)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(1,488)</td>
</tr>
<tr>
<td></td>
<td>Credited to income statement</td>
<td>(1,367)</td>
<td>(1,762)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(3,129)</td>
</tr>
<tr>
<td></td>
<td>At 31 December 2006</td>
<td>1,086</td>
<td>(5,703)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(4,617)</td>
</tr>
</tbody>
</table>

**b) Deferred tax assets not recognised**

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

<table>
<thead>
<tr>
<th></th>
<th>2004 HK$'000</th>
<th>2005 HK$'000</th>
<th>2006 HK$'000</th>
<th>2004 HK$'000</th>
<th>2005 HK$'000</th>
<th>2006 HK$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred tax assets in respect of cumulative tax losses not recognised Discontinued operations</td>
<td>82,481</td>
<td>89,764</td>
<td>–</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

16. TRADE AND OTHER RECEIVABLES

<table>
<thead>
<tr>
<th></th>
<th>The Group 31 December</th>
<th>The Company 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004 HK$'000</td>
<td>2005 HK$'000</td>
</tr>
<tr>
<td>Trade debtors</td>
<td>610,730</td>
<td>280,670</td>
</tr>
<tr>
<td>less: impairment loss</td>
<td>(9,528)</td>
<td>(2,599)</td>
</tr>
<tr>
<td>Net trade debtors</td>
<td>601,202</td>
<td>278,071</td>
</tr>
<tr>
<td>Other receivables, prepayments and deposits</td>
<td>65,417</td>
<td>80,711</td>
</tr>
<tr>
<td>Continuing operations</td>
<td>666,619</td>
<td>358,782</td>
</tr>
<tr>
<td>Discontinued operations</td>
<td>797</td>
<td>886</td>
</tr>
<tr>
<td>Represented by:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Continuing operations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Non-current portion</td>
<td>24,034</td>
<td>26,910</td>
</tr>
<tr>
<td>– Current portion</td>
<td>642,585</td>
<td>331,872</td>
</tr>
<tr>
<td>Discontinued operations</td>
<td>797</td>
<td>886</td>
</tr>
<tr>
<td></td>
<td>667,416</td>
<td>359,668</td>
</tr>
</tbody>
</table>
All of the current trade and other receivables are expected to be recovered within one year except for utility, rental and other deposits at 31 December 2004, 2005 and 2006 amounted to HK$9,597,000, HK$9,597,000 and HK$12,270,000 respectively (the Company: 2004: HK$3,459,000; 2005: HK$3,459,000 and 2006: HK$6,132,000) included in other receivables will not be recovered within a year.

The Group’s credit policy is set out in Note 21(a).

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

The directors of the Group made an assessment of the above transactions and concluded that they are an exchange of dissimilar assets, the income of HK$8,190,000 (2005: HK$10,725,000; 2004: HK$15,210,000) from their outsourcing activities are included in turnover and the operating lease expense of HK$7,800,000 (2005: HK$7,849,000; 2004: HK$8,336,000) from the use of the STMs are included in network, operations and support expenses.

The gross amount of the deferred revenue and deferred expenditure were HK$16,770,000 and HK$44,070,000 (2005: HK$24,960,000 and HK$51,870,000; 2004: HK$35,685,000 and HK$59,719,000) respectively. The net balance of HK$27,300,000 (2005: HK$26,910,000; 2004: HK$24,034,000) of the deferred revenue and deferred expenditure is included in other receivables.

Included in trade and other receivables are trade debtors (net of impairment losses for bad and doubtful debts) with the following ageing analysis as of the balance sheet date. The credit periods range from 7 days to 180 days, according to the credit rating of each customer.

<table>
<thead>
<tr>
<th></th>
<th>The Group</th>
<th></th>
<th>The Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31 December</td>
<td></td>
<td>31 December</td>
</tr>
<tr>
<td></td>
<td>HK$’000</td>
<td>HK$’000</td>
<td>HK$’000</td>
</tr>
<tr>
<td>Within 6 months</td>
<td>335,016</td>
<td>241,936</td>
<td>381,692</td>
</tr>
<tr>
<td>Over 6 months but less than 1 year</td>
<td>100,180</td>
<td>11,198</td>
<td>29,796</td>
</tr>
<tr>
<td>Over 1 year</td>
<td>166,006</td>
<td>24,937</td>
<td>12,146</td>
</tr>
<tr>
<td></td>
<td>601,202</td>
<td>278,071</td>
<td>423,634</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>The Group</th>
<th></th>
<th>The Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31 December</td>
<td></td>
<td>31 December</td>
</tr>
<tr>
<td></td>
<td>’000</td>
<td>’000</td>
<td>’000</td>
</tr>
</tbody>
</table>

17. CASH AND CASH EQUIVALENTS

<table>
<thead>
<tr>
<th></th>
<th>The Group</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31 December</td>
</tr>
<tr>
<td></td>
<td>2004</td>
</tr>
<tr>
<td></td>
<td>HK$’000</td>
</tr>
<tr>
<td>Continuing operations</td>
<td>17,217</td>
</tr>
<tr>
<td>Discontinued operations</td>
<td>3,913</td>
</tr>
<tr>
<td></td>
<td>21,130</td>
</tr>
</tbody>
</table>
Included in cash and cash equivalents are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

<table>
<thead>
<tr>
<th></th>
<th>The Group</th>
<th>The Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31 December</td>
<td>31 December</td>
</tr>
<tr>
<td></td>
<td>2004 '000</td>
<td>2005 '000</td>
</tr>
<tr>
<td>United States dollars</td>
<td>US$1,484</td>
<td>US$1,579</td>
</tr>
<tr>
<td>Renminbi</td>
<td>RMB—</td>
<td>RMB331</td>
</tr>
</tbody>
</table>

18. TRADE AND OTHER PAYABLES

<table>
<thead>
<tr>
<th></th>
<th>The Group</th>
<th>The Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31 December</td>
<td>31 December</td>
</tr>
<tr>
<td></td>
<td>2004 HK$'000</td>
<td>2005 HK$'000</td>
</tr>
<tr>
<td>Trade creditors</td>
<td>357,591</td>
<td>240,774</td>
</tr>
<tr>
<td>Other payables and accruals</td>
<td>48,676</td>
<td>43,894</td>
</tr>
<tr>
<td>Continuing operations</td>
<td>406,267</td>
<td>284,668</td>
</tr>
<tr>
<td>Discontinued operations</td>
<td>3,935</td>
<td>4,231</td>
</tr>
<tr>
<td></td>
<td>410,202</td>
<td>288,899</td>
</tr>
</tbody>
</table>

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 credit periods granted by various suppliers range from 7 days to 180 days.

<table>
<thead>
<tr>
<th></th>
<th>The Group</th>
<th>The Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31 December</td>
<td>31 December</td>
</tr>
<tr>
<td></td>
<td>2004 HK$'000</td>
<td>2005 HK$'000</td>
</tr>
<tr>
<td>Within 6 months</td>
<td>204,437</td>
<td>160,183</td>
</tr>
<tr>
<td>After 6 months but within 1 year</td>
<td>117,426</td>
<td>37,588</td>
</tr>
<tr>
<td>Over 1 year</td>
<td>35,728</td>
<td>43,003</td>
</tr>
<tr>
<td></td>
<td>357,591</td>
<td>240,774</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>The Group</th>
<th>The Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31 December</td>
<td>31 December</td>
</tr>
<tr>
<td></td>
<td>2004 '000</td>
<td>2005 '000</td>
</tr>
</tbody>
</table>
19. CAPITAL AND RESERVES

(a) Authorised and issued share capital

<table>
<thead>
<tr>
<th></th>
<th>The Group and the Company</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31 December</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2004 HK$’000</td>
<td>2005 HK$’000</td>
<td>2006 HK$’000</td>
</tr>
<tr>
<td>Authorised</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1,000 ordinary shares of HK$1 each</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>2,000,000 non-voting deferred shares of HK$1 each</td>
<td>2,000</td>
<td>2,000</td>
<td>2,000</td>
</tr>
<tr>
<td></td>
<td>2,001</td>
<td>2,001</td>
<td>2,001</td>
</tr>
<tr>
<td>Issued and fully paid:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1,000 ordinary shares of HK$1 each</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>2,000,000 non-voting deferred shares of HK$1 each</td>
<td>2,000</td>
<td>2,000</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>2,001</td>
<td>2,001</td>
<td>1</td>
</tr>
</tbody>
</table>

Non-voting deferred shares will not share the profits of the Company and in the case of the winding up or return of assets of the Company, the first HK$100,000,000,000,000,000 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.

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

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company’s residual assets.

(b) Capital redemption reserve

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

(c) Distributability of reserves

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

<table>
<thead>
<tr>
<th></th>
<th>The Company</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31 December</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2004 HK$’000</td>
<td>2005 HK$’000</td>
<td>2006 HK$’000</td>
</tr>
<tr>
<td>Available for distribution to equity holders of the Company</td>
<td>129,687</td>
<td>118,155</td>
<td>95,995</td>
</tr>
</tbody>
</table>
(d) Profit attributable to equity shareholders of the Company

The combined profit attributable to equity shareholders of the Company includes losses of HK$4,491,000, HK$11,532,000 and HK$17,160,000 for the years ended 31 December 2004, 2005 and 2006 which have been dealt with in the financial statements of the Company respectively.

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

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>HK$’000</td>
<td>HK$’000</td>
<td>HK$’000</td>
<td>HK$’000</td>
</tr>
<tr>
<td>Amount of combined profit attributable to equity shareholders dealt with in the Company's financial statements</td>
<td>(4,491)</td>
<td>(11,532)</td>
<td>(17,160)</td>
</tr>
<tr>
<td>Interim dividends from subsidiaries attributable to the (loss)/profit of the relevant period, approved and paid during the relevant period</td>
<td>—</td>
<td>—</td>
<td>490,000</td>
</tr>
<tr>
<td>Company's (loss)/profit for the relevant period</td>
<td>(4,491)</td>
<td>(11,532)</td>
<td>472,840</td>
</tr>
</tbody>
</table>

20. COMMITMENTS AND CONTINGENCIES

(a) Capital commitments

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

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>HK$’000</td>
<td>HK$’000</td>
<td>HK$’000</td>
<td>HK$’000</td>
</tr>
<tr>
<td>Contracted for</td>
<td>26,571</td>
<td>5,765</td>
<td>23,769</td>
</tr>
<tr>
<td>Authorised but not contracted for</td>
<td>—</td>
<td>—</td>
<td>17,440</td>
</tr>
</tbody>
</table>

(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

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>HK$’000</td>
<td>HK$’000</td>
<td>HK$’000</td>
<td>HK$’000</td>
</tr>
<tr>
<td>Within 1 year</td>
<td>7,908</td>
<td>8,045</td>
<td>21,816</td>
</tr>
<tr>
<td>After 1 year but within 5 years</td>
<td>39,895</td>
<td>32,002</td>
<td>40,508</td>
</tr>
<tr>
<td></td>
<td>47,803</td>
<td>40,047</td>
<td>62,324</td>
</tr>
</tbody>
</table>
International leased circuits

<table>
<thead>
<tr>
<th></th>
<th>31 December</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004 HK$'000</td>
<td>2005 HK$'000</td>
<td>2006 HK$'000</td>
</tr>
<tr>
<td>Within 1 year</td>
<td>17,343</td>
<td>16,084</td>
<td>14,547</td>
</tr>
<tr>
<td>After 1 year but within 5 years</td>
<td>55,638</td>
<td>56,472</td>
<td>51,801</td>
</tr>
<tr>
<td>After 5 years</td>
<td>43,499</td>
<td>29,381</td>
<td>19,068</td>
</tr>
<tr>
<td></td>
<td>116,480</td>
<td>101,937</td>
<td>85,416</td>
</tr>
</tbody>
</table>

(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:

<table>
<thead>
<tr>
<th></th>
<th>31 December</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004 HK$'000</td>
<td>2005 HK$'000</td>
<td>2006 HK$'000</td>
</tr>
<tr>
<td>Within 1 year</td>
<td>—</td>
<td>9,475</td>
<td>10,353</td>
</tr>
<tr>
<td>After 1 year but within 5 years</td>
<td>—</td>
<td>4,368</td>
<td>1,322</td>
</tr>
<tr>
<td></td>
<td>—</td>
<td>13,843</td>
<td>11,675</td>
</tr>
</tbody>
</table>

21. FINANCIAL INSTRUMENTS

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

(a) Credit risk

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

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

A significant portion of the Group’s telecommunication services are provided to customers in the People’s Republic of China (the “PRC”). As at 31 December 2004, 2005 and 2006, the balance due from these PRC customers amounted to HK$353,613,000, HK$105,759,000 and HK$196,666,000 respectively. The credit risk exposure to these PRC customers and the remaining trade receivables balance has been monitored by the Group on an ongoing basis and the impairment loss on bad and doubtful debts have been within management’s expectations.

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

<table>
<thead>
<tr>
<th></th>
<th>31 December</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004 %</td>
<td>2005 %</td>
</tr>
<tr>
<td>Due from the Group’s largest trade debtor</td>
<td>53</td>
<td>25</td>
</tr>
<tr>
<td>Due from the Group’s five largest trade debtors</td>
<td>66</td>
<td>46</td>
</tr>
</tbody>
</table>
(b) Liquidity risk

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

(c) Interest rate risk

The Group’s exposure to market risk for changes in interest rate relates primarily to the Group’s cash and cash equivalents and amount due to ultimate holding company. The interest rates and terms of repayment of the interest-bearing portion of amount due to ultimate holding company are disclosed in note 12(c).

Effective interest rates and repricing analysis

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

<table>
<thead>
<tr>
<th>Repricing dates for assets/(liabilities) which reprice before maturity</th>
<th>2004 Effective interest rate</th>
<th>One year or less HK$’000</th>
<th>2005 Effective interest rate</th>
<th>One year or less HK$’000</th>
<th>2006 Effective interest rate</th>
<th>One year or less HK$’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>0.01%</td>
<td>21,130</td>
<td>1.09%</td>
<td>34,089</td>
<td>1.27%</td>
<td>43,432</td>
</tr>
<tr>
<td>Loan from ultimate holding company</td>
<td>4.99% (120,211)</td>
<td>9.62% (125,552)</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>(99,081)</td>
<td>(91,463)</td>
<td>43,432</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(d) Foreign currency risk

The Group’s reporting currency is Hong Kong dollar (“HKD”).

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

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

(e) Fair values

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

The Group disposed of two subsidiaries, namely, Wise Guide Development Limited and Crown Gain Limited, related to properties leasing business to Newmarket Holdings Limited, a wholly owned subsidiary of CITIC Pacific Limited in June 2006 at the carrying value and the fair value of HK$162,051,000. Property, plant and equipment represent the fair value of the investment property held. The investment property was revalued as at 2 June 2006 by an independent firm of surveyor, Knight Frank, who have among their staff Fellows of the Hong Kong Institute of Surveyors, on an open market value basis. There is no gain or loss on disposal.

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

Net assets disposed

<table>
<thead>
<tr>
<th></th>
<th>HK$’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, plant and equipment</td>
<td>164,000</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>731</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>1,733</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>(4,413)</td>
</tr>
<tr>
<td>Total consideration</td>
<td>162,051</td>
</tr>
</tbody>
</table>

Satisfied by

Cash 162,051

Analysis of net inflow of cash and cash equivalents in respect of the disposal of subsidiaries

<table>
<thead>
<tr>
<th></th>
<th>HK$’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents disposed</td>
<td>(1,733)</td>
</tr>
<tr>
<td>Cash consideration received</td>
<td>162,051</td>
</tr>
<tr>
<td></td>
<td>160,318</td>
</tr>
</tbody>
</table>

23. 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 combined balance sheets.

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

<table>
<thead>
<tr>
<th></th>
<th>31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004</td>
</tr>
<tr>
<td></td>
<td>HK$’000</td>
</tr>
</tbody>
</table>

|                             | 2004        | 2005        |
|-----------------------------|-------------|
| Investment properties       | 130,000     | 141,000     |
| Trade and other receivables | 797         | 886         |
| Cash and cash equivalents   | 3,913       | 2,205       |
| Total assets                | 134,710     | 144,091     |

|                             | 2004        | 2005        |
|-----------------------------|-------------|
| Trade and other payables    | (3,935)     | (4,231)     |
| Loan from ultimate holding company (note 12(c)) | (120,211)  | (125,552)  |
| Total liabilities           | (124,146)   | (129,783)   |

|                             | 2004        | 2005        |
|-----------------------------|-------------|
| Net assets                  | 10,564      | 14,308      |
The net assets of the discontinued operations as at the date of discontinuance were as follows:

<table>
<thead>
<tr>
<th></th>
<th>HK$’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>166,464</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>(132,452)</td>
</tr>
<tr>
<td>Net assets</td>
<td>34,012</td>
</tr>
</tbody>
</table>

The cash flows of the discontinued operations for the years ended 31 December 2004, 2005 and up to the date of disposal on 1 June 2006 were as follows:

<table>
<thead>
<tr>
<th>Years ended 31 December</th>
<th>1 June</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HK$’000</td>
</tr>
<tr>
<td>Net cash from operating activities</td>
<td>3,770</td>
</tr>
<tr>
<td>Net cash from investing activities</td>
<td>—</td>
</tr>
<tr>
<td>Net cash used in financing activities</td>
<td>—</td>
</tr>
</tbody>
</table>

Increase/(decrease) in cash and cash equivalents | 3,770 | (1,708) | (472) |

24. EQUITY SHARE-BASED TRANSACTIONS

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

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

<table>
<thead>
<tr>
<th>No. of Options</th>
<th>Exercise Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,200,000</td>
<td>HK$18.20</td>
</tr>
<tr>
<td>1,550,000</td>
<td>HK$19.90</td>
</tr>
<tr>
<td>2,400,000</td>
<td>HK$22.10</td>
</tr>
</tbody>
</table>

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

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

(a) The terms and conditions of the share options granted to an executive (other than non-executive directors) in respect of his services rendered to the Group during 2004 to 2006 are as follows, whereby all options are settled by physical delivery of shares:

<table>
<thead>
<tr>
<th>Number of options</th>
<th>Exercise period</th>
<th>Date of expiry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Options granted:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>— 20 June 2006</td>
<td>200,000</td>
<td>From 20 June 2006 to 19 June 2011</td>
</tr>
</tbody>
</table>
(b) The number and weighted average exercise prices of share options granted to an executive (other than non-executive directors) in respect of his services rendered to the Group are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Weighted Average Exercise price</th>
<th>Number of Options '000</th>
<th>Weighted Average Exercise price</th>
<th>Number of Options '000</th>
<th>Weighted Average Exercise price</th>
<th>Number of Options '000</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td></td>
<td></td>
<td>2005</td>
<td></td>
<td>2006</td>
<td></td>
</tr>
<tr>
<td>Outstanding at the beginning of the period</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Granted during the period</td>
<td>—</td>
<td>—</td>
<td>HK$22.10</td>
<td>200</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Outstanding at the end of the period</td>
<td>—</td>
<td>—</td>
<td>HK$22.10</td>
<td>200</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Exercisable at the end of the period</td>
<td>—</td>
<td>—</td>
<td>HK$22.10</td>
<td>200</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

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

(c) Fair value of share options and assumptions

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

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

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

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

25. SEGMENT REPORTING

As all of the Group’s total turnover and profits were derived from telecommunications operations, accordingly no separate business segment analysis is presented for the Group. Further, the Group’s business participates primarily in only one geographical location classified by the location of assets, i.e. Hong Kong, accordingly, no segmental analysis is provided.
26. 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.

27. ACCOUNTING ESTIMATES AND JUDGEMENTS

Key sources of estimation uncertainty

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

(a) Depreciation

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

(b) Impairments

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

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

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

(c) Recognition of deferred tax assets

Deferred tax assets in respect of tax losses carried forward are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted at the balance sheet date. In determining the carrying amounts of deferred tax assets, expected taxable profits are estimated which involves a number of assumptions relating to the operating environment of the Group and requires significant level of judgement exercised by the directors. Any change in such assumptions and judgement would affect the carrying amounts of deferred tax assets to be recognised and hence the net profit in future years.
28. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2006

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

Of these developments, the following relate to matters that may be relevant to the Group’s operations and Financial Information:

<table>
<thead>
<tr>
<th>Effective for accounting periods beginning on or after</th>
</tr>
</thead>
<tbody>
<tr>
<td>HKFRS 7, Financial instruments: disclosures</td>
</tr>
<tr>
<td>Amendments to HKAS 1, Presentation of financial statements: capital disclosures</td>
</tr>
<tr>
<td>HK(IFRIC) 8, “Scope of HKFRS 2”</td>
</tr>
<tr>
<td>HK(IFRIC) 9, “Reassessment of embedded derivatives”</td>
</tr>
</tbody>
</table>

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.

D PARENT AND ULTIMATE HOLDING COMPANY

The directors consider the parent and ultimate holding company of the Company to be Ease Action Investments Corp., a company incorporated in the British Virgin Islands and CITIC Pacific Limited, a company listed and incorporated in Hong Kong.

E SUBSEQUENT EVENTS

The following significant transactions took place subsequent to 31 December 2006.

Management has proposed plans to increase the authorised share capital of the Company and capitalisation issue prior to the placing and public offer of the Company’s shares (“Global Offering”).

Pursuant to the proposed plan, the following will be undertaken:

• re-designation of all non-voting deferred shares to ordinary shares;
• share-split of 1 to 10 shares;
• increase in authorised capital to HK$500,000,000 with the allotment of 4,979,990,000 new ordinary shares of HK$0.10 each; and
• allotment of 1,691,990,000 new shares to the immediate holding company through the capitalisation of the Group’s retained earnings.

The reorganisation is expected to be completed prior to the Global Offering and upon completion the total issued capital of the Company will be HK$169,200,000, comprising 1,692,000,000 ordinary shares of HK$0.10 each fully paid or credited as fully paid.
SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2006.

Yours faithfully,

KPMG
Certified Public Accountants
Hong Kong
The information set forth in this appendix does not form part of the Accountants’ Report prepared by KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this Prospectus, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with the section headed “Financial Information” in this Prospectus and the Accountants’ Report set forth in Appendix I to this Prospectus.

REPORT ON PRO FORMA FINANCIAL INFORMATION

For illustrative purposes, the financial information prepared in accordance with paragraph 29 of Chapter 4 of the Listing Rules, is set out here to provide prospective investors with further information about how the financial information of CITIC 1616 Holdings Limited and its subsidiaries (the “Group”) might be affected by completion of the Global Offering as if the Global Offering had been completed on 31 December 2006. The statement has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the Group’s financial condition on the completion of the Global Offering.

(A) UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted net tangible assets of the Group is based on the audited combined net assets of the Group as at 31 December 2006, as shown in the Accountants’ Report, the text of which is set out in Appendix I to this Prospectus and adjusted as follows:

<table>
<thead>
<tr>
<th></th>
<th>Adjusted net tangible assets as at 31 December 2006¹</th>
<th>Estimated net proceeds from the Global Offering²</th>
<th>Unaudited pro forma adjusted net tangible assets of the Group</th>
<th>Unaudited pro forma adjusted net tangible asset value per Share³</th>
</tr>
</thead>
<tbody>
<tr>
<td>Based on Offer:</td>
<td>HK$’000</td>
<td>HK$’000</td>
<td>HK$’000</td>
<td>HK$’000</td>
</tr>
<tr>
<td>Price of HK$2.13 per Offer Share</td>
<td>402,889</td>
<td>382,596</td>
<td>785,485</td>
<td>0.42</td>
</tr>
<tr>
<td>Price of HK$2.58 per Offer Share</td>
<td>402,889</td>
<td>465,081</td>
<td>867,970</td>
<td>0.46</td>
</tr>
</tbody>
</table>

Notes:

1. The adjusted net tangible assets of the Group as at 31 December 2006 is based on the audited combined net assets of the Group attributable to the equity holders of the Company of HK$372,917,000 as at 31 December 2006 extracted from the Accountants’ Report set out in Appendix I to this Prospectus with an adjustment for the deferred tax assets and liabilities of HK$7,478,000 and HK$37,450,000 respectively as of 31 December 2006.

2. The estimated net proceeds from the Global Offering are based on the Offer Price of HK$2.13 and HK$2.58 per Share, after deduction of the underwriting fees and other related expenses payable by the Group.

3. The unaudited pro forma adjusted net tangible asset value per Share is determined after the adjustments as described in note 2 above and on the assumption of 1,880,000,000 Shares expected to be in issue immediately following the completion of the Capitalisation Issue and Global Offering.
(B) COMFORT LETTER ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this Prospectus, in respect of the Group's unaudited pro forma financial information.

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong
22 March 2007

The Directors
CITIC 1616 Holdings Limited
BNP Paribas Capital (Asia Pacific) Limited

Dear Sirs,

CITIC 1616 Holdings Limited (formerly “World Navigation Limited”) (“the Company”) Unaudited Pro Forma Financial Information in respect of the proposed Initial Public Offering of the Company and its subsidiaries (collectively the “Group”) on The Main Board of the Stock Exchange of Hong Kong Limited

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 page II-1 in Part A of Appendix II to the Prospectus dated 22 March 2007 (the “Prospectus”), which has been prepared by the directors of the Company solely for illustrative purposes to provide information about how the share offer might have affected the financial information presented. The basis of preparation of the Pro Forma Financial Information is set out in Part A of Appendix II to the Prospectus.

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 (“HKSIR”) 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 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 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.

Our work has not been carried out in accordance with auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it had been carried out in accordance with those standards.

The unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 31 December 2006 or any future date; or
- the earnings per share of the Group for the year ended 31 December 2006 or any future periods.

We make no comments regarding the reasonableness of the amount of net proceeds from the share offer, the application of those net proceeds, or whether such use will actually take place as described under “Use of Proceeds” in the section headed “Future Plans and Use of Proceeds” in the Prospectus.

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
The following is the text of a letter, summary of valuation and valuation report, prepared for the purpose of incorporation in this Prospectus, received from Knight Frank Petty Limited, an independent qualified property valuer, in connection with its valuation as at 31 December 2006.

The Directors
CITIC 1616 Holdings Limited
8th Floor, CITIC Tower
No.1 Tim Mei Avenue
Central
Hong Kong

22 March 2007

Dear Sirs,

In accordance with your instructions for us to value the property interests in Hong Kong and The People’s Republic of China (referred to as The “PRC”) held by CITIC 1616 Holdings Limited (the “Company”) and its subsidiaries (together referred to as the “Group”), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the property interests as at 31 December 2006.

Our valuation of each of the property interests is our opinion of its market value which we would define as intended to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The market value of a property is also estimated without regard to costs of sale and purchase, and without offset for any associated taxes.

All the properties are rented and occupied by the Group in both Hong Kong and the PRC. We have attributed no commercial value to the property interests due either to the short-term nature of the leases or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents.
We have relied to a considerable extent on the information provided by the Group and have accepted advice given to us on such matters as statutory notices, easements, identification of properties, tenure, particulars of occupancy, floor areas and all other relevant matters. We have caused searches to be made at the Land Registry for those properties in Hong Kong. However, we have not scrutinised the original documents to verify ownership or to verify any amendments which may not appear on the copies handed to us. In respect of the property situated in the PRC, we have relied on the information given to us by the Group and its legal adviser, Jingtian & Gongcheng, on the PRC laws, regarding the title and other legal matters relating to the property in PRC. We have no reason to doubt the truth and accuracy of the information provided to us by the Group and its PRC legal adviser which is material to the valuation. We are also advised by the Group that no material fact has been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view. All documents and leases have been used as reference only and all dimensions, measurements and areas are approximate.

We have inspected the exterior of the properties valued. During the course of our inspection, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report as to whether the properties are or are not free of rot, infestation or any other defects. No tests were carried out on any of the services.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the properties valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of any onerous nature which could affect their values.

In preparing our valuation report, we have complied with “The HKIS Valuation Standards on Properties (First Edition 2005)” published by The Hong Kong Institute of Surveyors and all the requirements contained in the provisions of Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited.

Unless otherwise stated, all monetary terms quoted in this report are in Hong Kong Dollars. The exchange rate we have adopted for Hong Kong Dollars to Renminbi is 1 HK$ to 1.003 RMB.

We enclose herewith our summary of valuation and valuation report.

Yours faithfully,
For and on behalf of
Knight Frank Petty Limited
Catherine Cheung
MHKIS MRICS RPS(GP)
Director of Valuations

Note: Ms Catherine Cheung is a member of the Hong Kong Institute of Surveyors and a member of the Royal Institution of Chartered Surveyors and has extensive valuation experience in Hong Kong and PRC properties.
<table>
<thead>
<tr>
<th>Property</th>
<th>Market Value in existing state as at 31 December 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Flat No. 6 on 20th Floor and Roof No. 6 together with Car Port No. 17 on 1st Floor of Block A, Coral Court, Nos. 51-67 Cloud View Road and Nos. 116-126 Tin Hau Temple Road, North Point, Hong Kong</td>
<td>No commercial value</td>
</tr>
<tr>
<td>2. Unit No. 2 on 6th Floor of Tower II, Harbour View Garden, No. 2 Catchick Street, Kennedy Town, Hong Kong</td>
<td>No commercial value</td>
</tr>
<tr>
<td>3. Flat A on 2nd Floor, La Maison Du Nord, No. 12 North Street, Kennedy Town, Hong Kong</td>
<td>No commercial value</td>
</tr>
<tr>
<td>4. Flat B (including Flat Roof) on 2nd Floor, La Maison Du Nord, No. 12 North Street, Kennedy Town, Hong Kong</td>
<td>No commercial value</td>
</tr>
<tr>
<td>5. Flat C on 2nd Floor, La Maison Du Nord, No. 12 North Street, Kennedy Town, Hong Kong</td>
<td>No commercial value</td>
</tr>
<tr>
<td>6. Flat A on 7th Floor, La Maison Du Nord, No. 12 North Street, Kennedy Town, Hong Kong</td>
<td>No commercial value</td>
</tr>
</tbody>
</table>
APPENDIX III

PROPERTY VALUATION

<table>
<thead>
<tr>
<th>Property</th>
<th>Market Value in existing state as at 31 December 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>7. Flat D4 on 13th Floor of Block D, Smithfield Terrace, No. 71 Smithfield, Kennedy Town, Hong Kong</td>
<td>No commercial value</td>
</tr>
<tr>
<td>8. Flat C on 15th Floor of Block A, Yick Fung Garden, No. 20 Praya Kennedy Town, Kennedy Town, Hong Kong</td>
<td>No commercial value</td>
</tr>
<tr>
<td>9. 8th Floor, CITIC Tower, No. 1 Tim Mei Avenue, Admiralty, Hong Kong</td>
<td>No commercial value</td>
</tr>
<tr>
<td>10. Suites 908-16 on 9th Floor, CITIC Tower, No. 1 Tim Mei Avenue, Admiralty, Hong Kong</td>
<td>No commercial value</td>
</tr>
</tbody>
</table>

Sub-total: Nil
Group II — Property rented and occupied by the Group in the PRC

<table>
<thead>
<tr>
<th>Property</th>
<th>Market Value in existing state as at 31 December 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>11. Room 1609, Wanda Plaza, Block 10, 93 Jianguo Road, Chaoyang District, Beijing, The PRC</td>
<td>No commercial value</td>
</tr>
</tbody>
</table>

| Sub-total: | Nil |
| Grand-total: | Nil |
# VALUATION

## Group I — Properties rented by the Group in Hong Kong

<table>
<thead>
<tr>
<th>Property</th>
<th>Description</th>
<th>Particulars of occupancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Flat No. 6 on 20th Floor and Roof No. 6, together with Car Port No. 17 on 1st Floor of Block A, Coral Court, Nos. 51-67 Cloud View Road and Nos. 116-126 Tin Hau Temple Road, North Point, Hong Kong</td>
<td>The property comprises a residential unit on the 20th Floor and the roof thereabove, together with a car port on the 1st Floor of a 20-storey residential block erected over a 5-storey carparking podium on which three high-rise residential blocks are erected. The whole development, known as Coral Court, comprises totally 6 residential blocks. The property was completed in about 1972. The property (excluding the carparking space) has a saleable area of approximately 1,197 sq.ft. plus roof of 888 sq.ft.</td>
<td>The property is rented from Leung Suk Chiu and Shum Sui Bing Clare, independent third parties to the Company (formerly known as World Navigation Limited) for a term of two years from 1 February 2006 at a rent of HK$43,500 per month inclusive of rates, Government rent and management fee. The property is occupied by the Group as staff quarters.</td>
</tr>
</tbody>
</table>

**Market Value in existing state as at 31 December 2006**

<table>
<thead>
<tr>
<th>Property Description</th>
<th>Particulars of occupancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>No commercial value</td>
<td></td>
</tr>
</tbody>
</table>

**Notes:**

1. According to the tenancy agreement, either the landlord or tenant is entitled to terminate the agreement by serving not less than two months’ written notice or by paying two months’ rent in lieu to the other party provided that the written notice shall not be served before the expiration of 12 months of the term of tenancy.

2. The property is situated within an area zoned for “Residential (Group B)” use under North Point Outline Zoning Plan No. S/H8/19 dated 1 February 2005.
## Property Valuation

### Market Value in existing state as at 31 December 2006

<table>
<thead>
<tr>
<th>Property</th>
<th>Description</th>
<th>Particulars of occupancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Unit No. 2 on 6th Floor of Tower II, Harbour View Garden, No. 2 Catchick Street, Kennedy Town, Hong Kong</td>
<td>The property comprises a residential unit on the 6th Floor of a 32-storey residential block which, together with another high rise residential block, are erected over a 6-storey carparking/recreation podium. The property was completed in 1994. The property has a gross floor area of approximately 532 sq.ft. including bay window area of 18 sq.ft.</td>
<td>The property is rented from Lee Ka Kuen and Cheung Yuk Lung, independent parties to the Company (formerly known as World Navigation Limited) for a term of two years from 15 May 2005 at a monthly rent of HK$7,200 inclusive of rates and management fee. The property is occupied by the Group as staff quarters.</td>
</tr>
</tbody>
</table>

### Notes:

1. According to the tenancy agreement, either the landlord or tenant is entitled to terminate the agreement by serving not less than one month’s written notice or by paying one month’s rent in lieu to the each other provided that this Agreement shall not be terminated at a date earlier than 13 months from the commencement date of the tenancy.

2. The property is situated within an area zoned for “Residential (Group A)” use under Kennedy Town & Mount Davis Outline Zoning Plan No. S/H1/14 dated 2 November 2004.
<table>
<thead>
<tr>
<th>Property</th>
<th>Description</th>
<th>Particulars of occupancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>3. Flat A on 2nd Floor, La Maison Du Nord, No. 12 North Street, Kennedy Town, Hong Kong</td>
<td>The property comprises a residential unit on the 2nd Floor of a 25-storey residential block erected over a 2-storey Government Institution and Community/recreation podium. The property was completed in 2003. The property has a gross floor area of approximately 508 sq.ft. including bay window and utility platform areas of respectively 36 sq.ft. and 16 sq.ft.</td>
<td>The property is rented from Ho Yee Bing Regina, an independent third party to CITIC Telecom 1616 Limited, a wholly-owned subsidiary of the Company for a term of two years from 16 March 2006 at a monthly rent of HK$5,500 inclusive of rates, Government rent and management fee. The property is occupied by the Group as staff quarters.</td>
</tr>
</tbody>
</table>

Notes:

(1) According to the tenancy agreement, after 15 March 2007, both the landlord and the tenant are entitled to terminate the agreement by giving one month’s notice.

<table>
<thead>
<tr>
<th>Property</th>
<th>Description</th>
<th>Particulars of occupancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>4. Flat B (including Flat Roof thereof) on 2nd Floor, La Maison Du Nord, No. 12 North Street, Kennedy Town, Hong Kong</td>
<td>The property comprises a residential unit and the attached Flat Roof on the 2nd Floor of a 25-storey residential block erected over a 2-storey Government Institution and Community/recreation podium. The property was completed in 2003. The property has a gross floor area of approximately 496 sq.ft. including bay window area 28 sq.ft. plus flat roof 134 sq.ft.</td>
<td>The property is rented from Regina Ho, an independent third party to CITIC Telecom 1616 Limited, a wholly-owned subsidiary of the Company for a term of two years from 16 March 2006 at a monthly rent of HK$7,000 inclusive of rates, government rent and management fee. The property is occupied by the Group as staff quarters.</td>
</tr>
</tbody>
</table>

**Notes:**

1. According to the tenancy agreement, after 15 March 2007, both the landlord and the tenant are entitled to terminate the agreement by giving one month’s notice.

## Market Value in existing state as at 31 December 2006

<table>
<thead>
<tr>
<th>Property</th>
<th>Description</th>
<th>Particulars of occupancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flat C on 2nd Floor, La Maison Du Nord, No. 12 North Street, Kennedy Town, Hong Kong</td>
<td>The property comprises a residential unit on the 2nd Floor of a 25-storey residential block erected over a 2-storey Government Institution and Community/recreation podium. The property was completed in 2003. The property has a gross floor area of approximately 546 sq.ft. including bay window and utility platform areas of respectively 40 sq. ft. and 16 sq.ft.</td>
<td>The property is rented from Ho Yee Bing Regina, an independent third party to CITIC Telecom 1616 Limited, a wholly-owned subsidiary of the Company for a term of two years from 23 April 2006 at a monthly rent of HK$6,500 inclusive of rates, Government rent and management fee. The property is occupied by the Group as staff quarters.</td>
</tr>
</tbody>
</table>

### Notes:

1. According to the tenancy agreement, after 22 April 2007, both the landlord and the tenant are entitled to terminate the agreement by giving one month’s notice.

<table>
<thead>
<tr>
<th>Property</th>
<th>Description</th>
<th>Particulars of occupancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flat A on 7th Floor, La Maison Du Nord, No. 12 North Street, Kennedy Town, Hong Kong</td>
<td>The property comprises a residential unit on the 7th Floor of a 25-storey residential block erected over a 2-storey Government Institution and Community/recreation podium. The property was completed in 2003. The property has a gross floor area of approximately 508 sq.ft. including bay window and utility platform areas of respectively 36 sq.ft. and 16 sq.ft.</td>
<td>The property is rented from Regina Ho, an independent third party to CITIC Telecom 1616 Limited, a wholly-owned subsidiary of the Company for a term of two years from 23 April 2006 at a monthly rent of HK$6,500 inclusive of rates, Government rent and management fee. The property is occupied by the Group as staff quarters.</td>
</tr>
</tbody>
</table>

**Notes:**

(1) According to the tenancy agreement, after 22 April 2007, both the landlord and the tenant are entitled to terminate the agreement by giving one month's notice.

<table>
<thead>
<tr>
<th>Property</th>
<th>Description</th>
<th>Particulars of occupancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>7. Flat D4 on 13th Floor of Block D, Smithfield Terrace, No. 71 Smithfield, Kennedy Town, Hong Kong</td>
<td>The property comprises a residential unit on the 13th Floor of a 27-storey residential block which, together with another 3 residential blocks, are erected over a 4-storey commercial/carparking podium. The property was completed in 1986. The property has a gross floor area of approximately 614 sq.ft. including bay window of 36 sq.ft.</td>
<td>The property is rented from Wong Yuet Ying and Chan Wai Yee, independent third parties to CITIC Telecom 1616 Limited, a wholly-owned subsidiary of the Company for a term of two years from 1 April 2006 at a monthly rent of HK$8,500 inclusive of rates, Government rent and management fee. The property is occupied by the Group as staff quarters.</td>
</tr>
</tbody>
</table>

**Notes:**

(1) According to the tenancy agreement, after 31 March 2007, both the landlord and the tenant are entitled to terminate the agreement by giving one month's notice.

(2) The property is situated within an area zoned for “Residential (Group A)” use under Kennedy Town & Mount Davis Outline Zoning Plan No. S/H1/14 dated 2 November 2004.
<table>
<thead>
<tr>
<th>Property</th>
<th>Description</th>
<th>Particulars of occupancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>8. Flat C on 15th Floor of Block A, Yick Fung Garden, No. 20 Praya Kennedy Town, Kennedy Town, Hong Kong</td>
<td>The property comprises a residential unit on the 15th Floor of a 30-storey residential block which, together with another residential block, are erected over a 2-storey commercial/carparking podium. The property was completed in 1993. The property has a gross floor area of approximately 544 sq.ft. including bay window 25 sq.ft.</td>
<td>The property is rented from Chan Moh Gew, an independent third party to CITIC Telecom 1616 Limited, a wholly-owned subsidiary of the Company for a term of two years from 1 May 2006 at a monthly rent of HK$8,500 inclusive of rates, Government rent and management fee. The property is occupied by the Group as staff quarters.</td>
</tr>
</tbody>
</table>

**Notes:**

(1) According to the tenancy agreement, after 30 April 2007, both the landlord and the tenant are entitled to terminate the agreement by giving one month’s notice.

(2) The property is situated within an area zoned for “Residential (Group A)” use under Kennedy Town & Mount Davis Outline Zoning Plan No. S/H1/14 dated 2 November 2004.
<table>
<thead>
<tr>
<th>Property</th>
<th>Description</th>
<th>Particulars of occupancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>9. 8th Floor, CITIC Tower, No. 1 Tim Mei Avenue, Admiralty, Hong Kong</td>
<td>The property comprises the whole of the 8th Floor of a 26-storey office tower erected over an 8-storey commercial/carparking podium. The building was completed in 1996. The property has a lettable area of approximately 18,071 sq.ft.</td>
<td>The property is rented from Goldon Investment Limited, which is related to CITIC 1616 Holdings Limited (formerly known as World Navigation Limited), for a term of 3 years from 16 November 2006 at a monthly rent of HK$1,120,402 exclusive of rates, Government rent and service charge. The property is occupied by the Group as office and data center.</td>
</tr>
</tbody>
</table>

Note: The property is situated within an area zoned for “Commercial” use under Central District (Extension) Outline Zoning Plan No. S/H24/6 dated 17 December 2002.
<table>
<thead>
<tr>
<th>Property</th>
<th>Description</th>
<th>Particulars of occupancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>10. Suites 908-16 on 9th Floor, CITIC Tower, No. 1 Tim Mei Avenue, Admiralty, Hong Kong</td>
<td>The property comprises nine adjoining office units on the 9th Floor of a 26-storey office tower erected over an 8-storey commercial/carparking podium. The building was completed in 1996. The property has a lettable area of approximately 10,967 sq.ft.</td>
<td>The property is rented from Goldon Investment Limited, which is related to CITIC 1616 Holdings Limited (formerly known as World Navigation Limited), for a term of 3 years from 16 November 2006 at a monthly rent of HK$679,954 exclusive of rates, Government rent and service charge. The property is occupied by the Group as office.</td>
</tr>
</tbody>
</table>

Note: The property is situated within an area zoned for “Commercial” use under Central District (Extension) Outline Zoning Plan No. S/H24/6 dated 17 December 2002.
## Group II — Property rented and occupied by the Group in the PRC

<table>
<thead>
<tr>
<th>Property</th>
<th>Description</th>
<th>Particulars of occupancy</th>
<th>Market Value in existing state as at 31 December 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>11. Room 1609, Wanda Plaza, Block 10, 93 Jianguo Road, Chaoyang District, Beijing, The PRC</td>
<td>The property comprises an office unit on Level 16 of a 24-storey office tower including Ground Level commercial podium completed in about 2005. The property has a gross floor area of approximately 200 sq.m. (2,153 sq.ft.). The property is sub-leased to the Group for term as detailed as notes below.</td>
<td>The property is currently occupied by the Group for office use.</td>
<td>No commercial value</td>
</tr>
</tbody>
</table>

### Notes:

1. The property is sub-leased from 神州風采 (北京) 網絡科技有限公司 (Shenzhou Feng Cai (Beijing) Network Technology Co., Ltd*), an independent third-party to 中信電訊1616有限公司北京代表處 (Beijing Representative Office of CITIC Telecom 1616 Limited) from 1 January 2007 to 31 January 2008 at a monthly rental of RMB38,025 (equivalent to approximately HK$37,911).

2. We have been provided with the Group’s PRC legal adviser’s opinion, which inter-alia, contains the following:
   - According to the PRC legal opinion in regard to the sub-lease, the following documents have been inspected by the PRC lawyer:
     i. Assignment of Lease dated 31 August 2006 made between Beijing Representative Office of CITIC Telecom 1616 Limited and Guangzhou Guang Tong Communication Development Company Limited;
     ii. Lease Termination Agreement dated 31 December 2006 made between Beijing Representative Office of CITIC Telecom 1616 Limited and Guangzhou Guang Tong Communication Development Company Limited;
     iii. Assignment of Lease dated 31 December 2006 made among Guangzhou Guang Tong Communication Development Company Limited, Shengzhou Feng Cai (Beijing) Network Technology Company Limited and Mr. Chen Ru Ming;
     iv. Assignment of Lease dated 31 December 2006 made between Beijing Representative Office of CITIC Telecom 1616 Limited and Shengzhou Feng Cai (Beijing) Network Technology Company Limited;
     v. Declaration of Assignment of Lease and Confirmation made by Mr. Chen Ru Ming dated 1 June 2006 and 2 January 2007 respectively.
   - the sub-lease has been consented by the landlord on 1 January 2007 and 神州風采 (北京) 網絡科技有限公司 (Shenzhou Fengcai (Beijing) Network Technology Co., Ltd*) is legally capable to sub-lease the property to Beijing Representative Office of CITIC Telecom 1616 Limited; and
   - the sub-lease is legal and valid.

3. The property is a sub-lease from a tenant of the property. We are advised by the Company that it is not in a position to obtain necessary documentation for the PRC legal adviser’s confirmation on title and other matters concerning the property.

4. We understand from the Group’s PRC legal adviser that they are of the opinion that the sub-lease is legal and valid based on various documents and representations provided by the tenant and landlord.

5. Though the property is a leased property, given the ample supply of similar office spaces in Beijing, there would not be any difficulty to find a replacement tenancy of comparable size and location.

6. Although the lease agreement is not registered, we understand from the Group’s PRC legal adviser that the sub-lease is legal and valid.

* The English translation of the official Chinese name is for identification purpose only.
The existing Articles of Association of the Company were conditionally adopted on 16 March 2007, subject to registration of this Prospectus. The following is a summary of certain provisions of the Articles of Association.

**CHANGES IN CAPITAL**

The Company may exercise any powers conferred or permitted by the Companies Ordinance or any other ordinance from time to time to purchase or otherwise acquire its own shares and warrants (including any redeemable shares) at any price or to give, directly or indirectly, by means of a loan, guarantee, the provision of security or otherwise, financial assistance for the purpose of or in connection with a purchase or other acquisition made or to be made by any person of any shares or warrants in the Company and should the Company purchase or otherwise acquire its own shares or warrants neither the Company nor the Board will be required to select the shares or warrants to be purchased or otherwise acquired ratably or in any other particular manner as between the holders of shares or warrants of the same class or as between them and the holders of shares or warrants of any other class or in accordance with the rights as to dividends or capital conferred by any class of shares provided always that any such purchase or other acquisition or financial assistance may only be made or given in accordance with any relevant rules or regulations issued by the Stock Exchange or the SFC from time to time in force.

The Company in general meeting may from time to time, whether or not all the shares for the time being authorised have been issued and whether or not all the shares for the time being issued have been fully paid up, by ordinary resolution increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution prescribes.

The Company may from time to time by ordinary resolution:—

(i) consolidate or divide all or any of its share capital into shares of larger amount or smaller than its existing shares;

(ii) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled; and

(iii) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Ordinance.

The Company may may from time to time by special resolution:—

(i) divide its shares into different classes of shares, subject to the provisions of the Companies Ordinance; and

(ii) reduce its share capital, any capital redemption reserve fund or any share premium account in any manner authorised and subject to any conditions prescribed by law.
APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY

MODIFICATION OF RIGHTS

All or any of the special rights attached to the shares or any class of shares (unless otherwise provided for by the terms of issue of the shares of that class) may, subject to the provisions of the Companies Ordinance, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares (or issued shares of that class if the capital is divided into different classes) or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares or at a separate general meeting of the holders of shares of that class (if the capital is divided into different classes). To every such separate general meeting the provisions of the Articles of Association relating to general meetings apply mutatis mutandis, but so that the necessary quorum is not less than two persons holding or representing by proxy one-third in nominal value of the issued shares of that class, and at an adjourned meeting one person holding shares of that class or his proxy, and that any holder of the shares of the class present in person or by proxy may demand a poll.

TRANSFERS OF SHARES

All transfers of shares may be effected by transfer in writing in the usual common form or in such other form as the Board may accept and may be under hand only or if the transferor or the transferee is a recognised clearing house, by hand or by machine imprinted signature or such other manner as the Board may resolve. All instruments of transfer must be left at the registered office of the Company or at such other place as the Board may appoint. The instrument of transfer of any share must be executed by or on behalf of the transferor and transferee, and the transferor is deemed to remain the holder of the share until the name of the transferee is entered in the register in respect thereof.

The Board may, in its absolute discretion and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve, or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien. The Board may also decline to recognise any instrument of transfer unless:

(i) a fee not exceeding the maximum fee prescribed or permitted from time to time by the Stock Exchange in the Listing Rules or such lesser sum as the Board may from time to time require is paid to the Company in respect thereof;

(ii) the instrument of transfer is accompanied by the certificate of the shares to which it relates, and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer;

(iii) the instrument of transfer is in respect of only one class of share;

(iv) the shares concerned are free of any lien in favour of the Company; and

(v) the instrument of transfer is properly stamped.

No transfer of share (not being a fully paid up share) shall be made to an infant or to a person of unsound mind or under other legal disability.
VOTING AT GENERAL MEETINGS

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a show of hands every member who (being an individual) is present in person or (being a corporation) is present by a representative duly authorised under section 115 of the Companies Ordinance has one vote, and on a poll every member present in person or by proxy or being a corporation, by its duly authorised representative has one vote for every share of which he is the holder which is fully paid up or credited as fully paid up (but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share).

A member, being a recognised clearing house within the meaning of the SFO may authorise such person or persons as it thinks fit to act as its representative (or representatives) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person so authorised shall have the same powers on behalf of such clearing house which he represents as that clearing house could exercise as an individual member.

Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

PROCEDURES FOR DEMANDING VOTING BY POLL

At any general meeting, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the results of the show of hands or on the withdrawal of any other demand for a poll) demanded:

(a) by the chairman of the meeting in question;

(b) by at least three members present in person or by proxy for the time being entitled to vote at the meeting;

(c) by any member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(d) by any member or members present in person or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that rights.
QUALIFICATION OF DIRECTORS

A director of the Company is not required to hold any qualification shares. No person is required to vacate office or ineligible for re-election or re-appointment as a director, and no person is ineligible for appointment as a director, by reason only of his having attained any particular age.

BORROWING POWERS

The Board may from time to time in its discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and uncalled capital or any part thereof. The Board may raise or secure the payment or repayment of such sum or sums in such manner and upon such terms and conditions in all respects as it thinks fit and, in particular by the issue of debentures, debenture stock, bonds or other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

DIRECTORS’ REMUNERATION AND PENSIONS

The directors of the Company are entitled to receive by way of remuneration for their services such sum as is from time to time determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the directors in such proportions and in such manner as the Board may agree, or failing agreement, equally, except that in such event any director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. The foregoing shall not apply to a director who holds any salaried employment or office in the Company except in the case of sums paid in respect of directors’ fees. The directors are also entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them respectively in or about the performance of their duties as directors, including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or on the discharge of their duties as directors. The Board may grant special remuneration to any director who, being called upon, performs any special or extra services to or at the request of the Company. Such special remuneration may be made payable to such director in addition to or in substitution for his ordinary remuneration as a director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be arranged.

Notwithstanding the foregoing the remuneration of a managing director, joint managing director, deputy managing director or other executive director or a director appointed to any other office in the management of the Company is fixed from time to time by the Board and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Board may from time to time decide. Such remuneration is in addition to his remuneration as a director.
The Board may establish and maintain or procure the establishment and maintenance of any contributory or non-contributory pension or superannuation funds for the benefit of, or give or procure the giving of donations, gratuities, pensions, allowances or emoluments to any persons who are or were at any time in the employment or service of the Company, or of any company which is a subsidiary of the Company, or is allied or associated with the Company or with any such subsidiary company, or who are or were at any time directors or officers of the Company or of any such other company as aforesaid, and holding or who have held any salaried employment or office in the Company or such other company, and the wives, widows, families and dependants of any such persons, and may make payments for or towards the insurance of any such persons. Any director holding any such employment or office is entitled to participate in and retain for his own benefit any such donation, gratuity, pension, allowance or emolument.

DIRECTORS’ INTERESTS

Subject to the Companies Ordinance, no director or proposed or intending director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatever, nor shall any such contract or any other contract or arrangement in which any director is in any way interested be liable to be avoided, nor shall any director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such director holding that office or of the fiduciary relationship thereby established, provided that such director shall disclose the nature of his interest in any contract or arrangement in which he is interested at the meeting of the Board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case at the first meeting of the Board after he knows that he is or has become so interested.

A director may not vote or be counted in the quorum in respect of any contract or arrangement or proposal in which he or his associate(s) is/are materially interested, and if he does so his vote will not be counted, but this prohibition does not apply to:

(i) the giving of any security or indemnity either (a) to the director or his associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries, or (b) to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the director or his associate(s) has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;

(ii) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
(iii) any proposal concerning any other company in which the director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or shareholder or in which the director or his associate(s) is/are beneficially interested in shares of that company, provided that he and any of his associates is/are not in aggregate beneficially interested in 5% or more of the issued shares of any class of such company (or of any third company through which his interest or that of his associate(s) is derived) or of the voting rights;

(iv) any proposal or arrangement concerning the benefit of employees of the Company or its subsidiaries including (a) the adoption, modification or operation of any employees' share scheme or any share incentive or share option scheme under which the director or his associate(s) may benefit, or (b) the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates both to directors, his associate(s) and employees of the Company or any of its subsidiaries and does not provide in respect of any director or his associate(s), as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

(v) any contract or arrangement in which the director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

A director may hold any other office or place of profit with the Company (except that of auditor) in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine. A director may also be a director or other officer of, or otherwise interested in, any company promoted by the Company or any other Company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profit or other benefit received by him as a director or officer of or from his interest in such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

A director shall not vote or be counted in the quorum on any resolution of the Board concerning his own appointment as the holder of any office or place of profit with the Company or any other company in which the Company is interested (including the arrangement or variation of the terms thereof, or the termination thereof).
DIVIDENDS

No dividend shall be payable except out of the profits of the Company. No dividend shall carry interest.

Subject to the rights of persons, if any, entitled to shares with special rights as to dividend, all dividends will be declared and paid according to the amounts paid or credited as paid up on the shares in respect whereof the dividend is paid, but no amount paid up or credited as paid up on a share in advance of calls will for this purpose be treated as paid up on the share. The Board may retain any dividends or other monies payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Board may deduct from any dividend or bonus payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

In respect of any dividend which the Board or the Company in general meeting have resolved that a dividend be paid or declared, the Board may determine (a) that shareholders entitled thereto will receive in lieu of such dividend (or such part thereof as the Board may think fit) an allotment of shares credited as fully paid provided that the shareholders are at the same time accorded the right to elect to receive such dividend (or part thereof as the case may be) in cash in lieu of such allotment, or (b) that the shareholders entitled to such dividend be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit. The Company may upon the recommendation of the Board by special resolution resolve in respect of any particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Whenever the Board or the Company in General Meeting has resolved that a dividend be paid or declared the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of the Company until claimed and the Company will not be constituted as a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the Board and will revert to the Company.
1. FURTHER INFORMATION ABOUT THE COMPANY

A. Incorporation

The Company was incorporated in Hong Kong under the Companies Ordinance on 25 June 1997 under the name of World Navigation Limited. The Company changed its name from World Navigation Limited to CITIC 1616 Holdings Limited on 5 January 2007. The Company’s registered office is at 8th Floor, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong. A summary of various parts of the Company’s Memorandum and Articles of Association is set out in Appendix IV to this Prospectus.

B. Changes in share capital of the Company

On 25 June 1997, the Company was incorporated with an authorised share capital of HK$10,000 divided into 10,000 shares of HK$1 each.

On 25 June 1997, one share of HK$1.00 was allotted and issued to Sheen Friendship Limited for cash at par value as subscriber which share was transferred to Roots Holdings Limited at par value on 14 February 1998.

On 25 June 1997, one share of HK$1.00 was allotted and issued to True Friendship Limited for cash at par value as subscriber which share was transferred to Mr. Chan Kwong Shik at par value on 14 February 1998.

On 25 June 1997, one share of HK$1.00 was allotted and issued to Sheen Friendship Limited for cash at par value as subscriber which share was transferred to Roots Holdings Limited at par value on 14 February 1998.

On 24 June 1998, the authorised share capital of the Company was increased to HK$2,000,000 by the creation of 1,990,000 shares of HK$1.00 each.

On 24 June 1998, 1,999,998 shares of HK$1.00 each were allotted and issued to Fineland Holding Limited, all at HK$1.00 each.

On 1 May 2000, the authorised share capital of the Company was increased to HK$2,001,000 by the creation of 1,000 new shares of HK$1.00 each; and the existing 2,000,000 shares of HK$1.00 each of the Company in issue prior to the passing of the special resolution were converted into Non-Voting Deferred Shares of HK$1.00 each. On 2 May 2000, 999 ordinary shares of HK$1.00 were (upon the then existing 2,000,000 shares of HK$1.00 each being converted into Non-Voting Deferred Shares) allotted and issued to Ease Action Investments Corp. and 1 ordinary share of HK$1.00 was issued to On Yip Nominees Limited, all at HK$1.00 each. On 2 August 2006, the Company repurchased the 2,000,000 Non-Voting Deferred Shares of HK$1.00 each for a total consideration of HK$40.00 and the Non-Voting Deferred Shares were then cancelled. On 23 February 2007, one ordinary share of HK$1.00 was transferred from On Yip Nominees Limited to Ease Action Investments Corp.

On 16 March 2007, it was resolved that:

(a) all unissued non-voting deferred shares of the Company be redesignated into ordinary shares of HK$1.00 each;

(b) subject to (a) above, each of the issued and unissued shares of HK$1.00 each in the share capital of the Company be divided into ten shares of HK$0.10 each;
(c) subject to (b) above, the authorised share capital of the Company be increased from HK$2,001,000 to HK$500,000,000 by the creation of 4,979,990,000 new ordinary shares of HK$0.10 each; and

(d) subject to (c) above, 1,691,990,000 shares of HK$0.10 each be allotted and issued to Ease Action Investments Corp., a wholly-owned subsidiary of CITIC Pacific and the sole shareholder of the Company, by capitalising retained earnings of the Company in the amount of HK$169,199,000.

Upon completion of the Global Offering and the issue of Shares as mentioned in this Prospectus being made, the Company's issued share capital will be HK$188,000,000, comprising 1,880,000,000 Shares, fully paid or credited as fully paid.

Save as disclosed in this Appendix, there has been no alteration in the share capital of the Company since its incorporation.

C. Resolutions of the sole shareholder of the Company

Written resolutions of the sole shareholder of the Company were signed on 16 March 2007 which resolved on, amongst other resolutions, effecting the following:

(a) (i) all unissued non-voting deferred shares of the Company was redesignated into ordinary shares of HK$1.00 each;

(ii) subject to (a)(i) above, each of the issued and unissued shares of HK$1.00 each in the share capital of the Company was divided into ten shares of HK$0.10 each;

(iii) subject to (a)(ii) above, the authorised share capital of the Company was increased from HK$2,001,000 to HK$500,000,000 by the creation of 4,979,990,000 new ordinary shares of HK$0.10 each; and

(iv) subject to (a)(iii) above, 1,691,990,000 shares of HK$0.10 each were allotted and issued to Ease Action Investments Corp., the sole shareholder of the Company, by capitalising retained earnings of the Company in the amount of HK$169,199,000 (the “Capitalisation Issue”);

(b) conditional on the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares and any Shares which may be issued as mentioned in this Prospectus (including the Capitalisation Issue and the Global Offering), and on the obligations of the Underwriters under each of the Underwriting Agreements becoming unconditional and not having been terminated in accordance with the terms of the respective agreements or otherwise within 30 days from the date of this Prospectus, the Global Offering was approved and the Directors were authorised to allot and issue up to 188,000,000 new Shares pursuant to the terms as set out in this Prospectus, provided that this resolution does not constitute approval of the Offer Price without the further written consent of the sole member of the Company;
(c) the Articles of Association were adopted, subject to the registration of this Prospectus;

(d) a general unconditional mandate was given to the Directors to allot, issue and deal with Shares, otherwise than pursuant to, or in consequence of, the Capitalisation Issue, the Global Offering, a rights issue, the exercise of any subscription rights under the options granted under such shares option scheme as may be duly adopted by the Company from time to time, any scrip dividend or similar arrangement, any adjustment of rights to subscribe for Shares under options or a specific authority granted by shareholders of the Company, with an aggregate nominal value not exceeding the sum of (i) 20% of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of the Global Offering; and (ii) the aggregate nominal amount of the share capital of the Company which may be purchased by the Company under the authority referred to in (e) below, such mandate to be exercisable after the commencement of dealings in the Shares on the Stock Exchange and expire (aa) at the conclusion of the next annual general meeting of the Company, (bb) on the date of the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association or the Companies Ordinance or any other applicable laws of Hong Kong to be held or (cc) when it is revoked or varied by an ordinary resolution of the shareholders in general meeting of the Company, whichever is the earliest;

(e) a general unconditional mandate was given to the Directors to exercise all powers of the Company to repurchase on the Stock Exchange or on any other stock exchange on which the Shares may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, such number of the Shares as will represent up to 10% of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of the Global Offering, such mandate to expire (aa) at the conclusion of the next annual general meeting of the Company, (bb) on the date of the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association or the Companies Ordinance or any other applicable laws of Hong Kong to be held or (cc) when it is revoked or varied by an ordinary resolution of the shareholders in general meeting of the Company, whichever is the earliest; and

(f) subject to paragraph (e) above, the general unconditional mandate mentioned in paragraph (d) above was extended by the addition to the aggregate nominal value of the share capital of the Company which may be allotted or agreed to be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of the Company repurchased by the Company pursuant to the mandate to repurchase Shares referred to in paragraph (e) above, provided that such extended amount shall not exceed 10% of the aggregate nominal value of the share capital of the Company in issue immediately following completion of the Global Offering.
2. SUBSIDIARIES

The Company’s principal subsidiaries are listed in the Accountants’ Report set out in Appendix I to this Prospectus.

Changes in the share capital of subsidiaries of the Company

The Company’s principal subsidiaries are referred to in the Accountants’ Report for the Company, the text of which is set out in Appendix I to this Prospectus. The following alterations in the share capital of the Company’s subsidiaries have taken place within the two years preceding the date of this Prospectus:

Fasini Corp.

On 10 March 2004, Fasini Corp. was incorporated with an authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each.

On 20 May 2004, one share of US$1.00 each was allotted and issued to Logic Way Holdings Inc. for cash at par value.

Joy Trend Holdings Inc.

On 24 August 2004, Joy Trend Holdings Inc. was incorporated with an authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each.

On 19 October 2004, one share of US$1.00 each was allotted and issued to Logic Way Holdings Inc. for cash at par value.

CITIC Media 1616 Limited (formerly known as Invest Network Limited)

On 17 September 2004, CITIC Media 1616 Limited was incorporated with an authorised share capital of HK$10,000 divided into 10,000 shares of HK$1.00 each. On 17 September 2004, one share of HK$1.00 was allotted and issued to Harefield Limited as subscriber which share was transferred to Joy Trend Holdings Inc. at par value on 19 October 2004.

APIX

On 18 October 2004, APIX was incorporated with an authorised share capital of HK$10,000 divided into 10,000 shares of HK$1.00 each. On 18 October 2004, one share of HK$1.00 was allotted and issued to Harefield Limited as subscriber. On 15 December 2004,

(a) one share of HK$1.00 was transferred from Harefield Limited to CITIC Data 1616 at par value;

(b) the authorised share capital of APIX was increased to HK$100,000 by the creation of 90,000 new shares of HK$1.00 each;
(c) 74,999 shares of HK$1.00 each were allotted and issued to CITIC Data 1616 for cash at par value; and

(d) 25,000 shares of HK$1.00 each were allotted and issued to HKIX Co for cash at par value.

3. REPURCHASE BY THE COMPANY OF ITS OWN SECURITIES

This section sets out information required by the Stock Exchange to be included in this Prospectus concerning the repurchase by the Company of its own securities.

A. Provisions of the Listing Rules

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their own securities on the Stock Exchange subject to certain restrictions, the more important of which are summarised below:

(a) Shareholders’ approval

All proposed repurchase of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

(b) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the Memorandum of Association and Articles of Association and the Listing Rules and the applicable laws of Hong Kong. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Subject to the foregoing, any repurchases by the Company may be made out of the Company’s funds which would otherwise be available for dividend or distribution or out of the proceeds of a new issue of shares made for the purpose of the repurchase. Any amount of premium payable on the purchase over the par value of the shares to be repurchased must be out of the funds which would otherwise be available for dividend or distribution or from sums standing to the credit of the Company’s share premium account.

(c) Trading restrictions

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing
market price for the five preceding trading days on which its shares were traded on the Stock Exchange. The Listing Rules also prohibit a listed company from repurchasing its securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

(d) **Status of Repurchased Shares**

All repurchased securities (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those securities must be cancelled and destroyed.

(e) **Suspension of repurchase**

A listed company may not make any repurchase of securities after a price sensitive development has occurred or has been the subject of a decision until such time as the price sensitive information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of: (i) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company’s results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for publication of an announcement of a listed company’s results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.

(f) **Reporting requirements**

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a listed company’s annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such purchase, where relevant, and the aggregate prices paid.

(g) **Connected persons**

A listed company is prohibited from knowingly repurchasing securities on the Stock Exchange from a “connected person”, that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or their associates (as defined in the Listing Rules) and a connected person is prohibited from knowingly selling his securities to the company.
APPENDIX V  STATUTORY AND GENERAL INFORMATION

B. Reasons for repurchase

The Directors believe that it is in the best interest of the Company and its shareholders for the Directors to have general authority from the shareholders to enable the Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where the Directors believe that such repurchases will benefit the Company and its shareholders.

C. Funding of repurchases

In repurchasing securities, the Company may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws of Hong Kong.

On the basis of the Company's current financial position as disclosed in this Prospectus and taking into account the Company's current working capital position, the Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the Company's working capital and/or the Company's gearing position as compared with the position disclosed in this Prospectus. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the Company's working capital requirements or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

D. General

Exercise in full of the Repurchase Mandate, on the basis of 1,880,000,000 Shares in issue after completion of the Global Offering, could accordingly result in up to 188,000,000 Shares being repurchased by the Company during the period prior to:

• the conclusion of the next annual general meeting of the Company;

• the expiration of the period within which the Company's next annual general meeting is required by the Articles of Association or the Companies Ordinance or any other applicable laws of Hong Kong to be held; or

• the revocation or variation of the Repurchase Mandate by an ordinary resolution of the shareholders of the Company in general meeting.

whichever is the earliest.

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates (as defined in the Listing Rules) currently intends to sell any Shares to the Company or its subsidiaries.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules, the Memorandum and Articles of Association and the applicable laws in Hong Kong.
If, as a result of a repurchase of Shares, a shareholder's proportionate interest in the voting rights of the Company is increased, such increase will be treated as an acquisition for the purpose of the Code on Takeovers and Mergers (the “Takeovers Code”). Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

No connected person (as defined in the Listing Rules) has notified the Company that he or she has a present intention to sell Shares to the Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

4. FURTHER INFORMATION ABOUT THE BUSINESS

A. Summary of material contracts

The Company has entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date of this Prospectus that are or may be material:

(a) an instrument of transfer dated 2 June 2006 in respect of a transfer of 1 share of US$1.00 in Crown Gain Limited by Logic Way Holdings Inc. to Newmarket Holdings Limited for the consideration of HK$34,011,677;

(b) a deed of assignment dated 2 June 2006 entered into between Fasini Corp., CITIC Pacific and Wise Guide Development Limited whereby Fasini Corp. assigned a loan in the amount of HK$314,290,114 owed by Wise Guide Development Limited in favour of CITIC Pacific for the consideration of HK$128,039,305;

(c) a share sale and repurchase agreement dated 1 August 2006 between the Company and Century Communications Limited whereby the 1,999,999 Non-Voting Deferred Shares of HK$1.00 each were repurchased for a total consideration of HK$20.00;

(d) a share sale and repurchase agreement dated 1 August 2006 between the Company and Mr. Chan Kwong Shik whereby the 1 Non-Voting Deferred Share of HK$1.00 was repurchased for a total consideration of HK$20.00;

(e) a deed of non-competition dated 21 March 2007 entered into by CITIC Pacific in favour of the Company the particulars in which are set out in the section “Relationship with CITIC Pacific” of the Prospectus;

(f) Public Offer Underwriting Agreement;

(g) Deed of Indemnity dated 21 March 2007 entered into by CITIC Pacific in favour of the Company;

(h) Cornerstone Placing Agreement dated 15 March 2007 between the Company, CITIC Pacific, Diamond Season Limited, Nina Kung and BNP Paribas in relation to the purchase of Shares up to the amount of US$15.0 million;
B. Intellectual Property

The following intellectual property rights which are owned by members of the Group are or may be material in relation to the Group’s business:—

Details of the Group’s registered trade marks are as follows:

<table>
<thead>
<tr>
<th>Name of Owner</th>
<th>Trade mark</th>
<th>Class (Note)</th>
<th>Territory of registration</th>
<th>Expiry date</th>
<th>Registration number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia Pacific Internet Exchange Limited</td>
<td>HKIX</td>
<td>38</td>
<td>Hong Kong</td>
<td>9 January 2015</td>
<td>300350928</td>
</tr>
</tbody>
</table>

Notes:

Class Specification

38 Telecommunications

Detail of the Group’s registered domain names are as follows:—

<table>
<thead>
<tr>
<th>Domain Name</th>
<th>Registered Owner</th>
<th>Expiry Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>citic1616.com</td>
<td>CITIC Telecom 1616 Limited</td>
<td>18/5/2007</td>
</tr>
<tr>
<td>telecom1616.cn</td>
<td>CITIC Telecom 1616 Limited</td>
<td>23/2/2011</td>
</tr>
<tr>
<td>telecom1616.com</td>
<td>CITIC Telecom 1616 Limited</td>
<td>23/2/2011</td>
</tr>
<tr>
<td>telecom1616.net</td>
<td>CITIC Telecom 1616 Limited</td>
<td>23/2/2011</td>
</tr>
<tr>
<td>ct1616.cn</td>
<td>CITIC Telecom 1616 Limited</td>
<td>23/2/2011</td>
</tr>
<tr>
<td>ct1616.com</td>
<td>CITIC Telecom 1616 Limited</td>
<td>23/2/2011</td>
</tr>
<tr>
<td>ct1616.net</td>
<td>CITIC Telecom 1616 Limited</td>
<td>23/2/2011</td>
</tr>
<tr>
<td>citic1616.net.cn</td>
<td>CITIC Telecom 1616 Limited</td>
<td>16/6/2010</td>
</tr>
<tr>
<td>citic1616.cn</td>
<td>CITIC Telecom 1616 Limited</td>
<td>12/5/2010</td>
</tr>
<tr>
<td>电讯1616.中国</td>
<td>CITIC Telecom 1616 Limited</td>
<td>23/2/2016</td>
</tr>
<tr>
<td>电讯1616.cn</td>
<td></td>
<td></td>
</tr>
<tr>
<td>電訊1616.中國</td>
<td></td>
<td></td>
</tr>
<tr>
<td>電訊1616.cn</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Domain Name Registered Owner Expiry Date

<table>
<thead>
<tr>
<th>Domain Name</th>
<th>Registered Owner</th>
<th>Expiry Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>電訊1616.com</td>
<td>CITIC Telecom 1616 Limited</td>
<td>23/2/2016</td>
</tr>
<tr>
<td>電訊1616.net</td>
<td>CITIC Telecom 1616 Limited</td>
<td>23/2/2016</td>
</tr>
<tr>
<td>中信電訊1616.中國</td>
<td>CITIC Telecom 1616 Limited</td>
<td>11/5/2010</td>
</tr>
<tr>
<td>中信電訊1616.cn</td>
<td>CITIC Telecom 1616 Limited</td>
<td>23/2/2016</td>
</tr>
<tr>
<td>中信電訊1616.net</td>
<td>CITIC Telecom 1616 Limited</td>
<td>23/2/2016</td>
</tr>
<tr>
<td>中信1616.cn</td>
<td>CITIC Telecom 1616 Limited</td>
<td>23/2/2016</td>
</tr>
<tr>
<td>中信1616.com</td>
<td>CITIC Telecom 1616 Limited</td>
<td>23/2/2016</td>
</tr>
<tr>
<td>中信1616.net</td>
<td>CITIC Telecom 1616 Limited</td>
<td>23/2/2016</td>
</tr>
<tr>
<td>中信電訊.中國</td>
<td>CITIC Telecom 1616 Limited</td>
<td>11/5/2010</td>
</tr>
<tr>
<td>中信電訊.cn</td>
<td>CITIC Telecom 1616 Limited</td>
<td>23/2/2016</td>
</tr>
<tr>
<td>中信電訊.中國</td>
<td>CITIC Telecom 1616 Limited</td>
<td>23/2/2016</td>
</tr>
<tr>
<td>中信電訊.cn</td>
<td>CITIC Telecom 1616 Limited</td>
<td>23/2/2016</td>
</tr>
</tbody>
</table>

Details of the Group’s internet keyword are as follows:-

<table>
<thead>
<tr>
<th>Internet Keyword</th>
<th>URL</th>
<th>Expiry Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>中信電訊</td>
<td><a href="http://www.citic1616.com">www.citic1616.com</a></td>
<td>19/11/2011</td>
</tr>
</tbody>
</table>
5. DISCLOSURE OF INTERESTS

A. Interests of Directors in the share capital of the Company and its associated corporations

Immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised), the interests or short positions of the Directors and the chief executives of the Company in the Shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XI of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, will be as follows:

(i) **CITIC Pacific (being a holding of the Company and therefore an associated corporation)**

<table>
<thead>
<tr>
<th>Name of Director</th>
<th>Nature of Interest</th>
<th>Number of Shares in CITIC Pacific</th>
<th>Approximate percentage of issued Shares in CITIC Pacific immediately after the Global Offering (assuming the number of issued shares of CITIC Pacific remains unchanged after the Latest Practicable Date until completion of the Global Offering)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shi Cuming</td>
<td>beneficial owner – shares</td>
<td>25,000</td>
<td>0.001%</td>
</tr>
<tr>
<td></td>
<td>beneficial owner – underlying shares</td>
<td>200,000 (Note 1)</td>
<td>0.009%</td>
</tr>
<tr>
<td>Yuen Kee Tong</td>
<td>beneficial owner – shares</td>
<td>33,000</td>
<td>0.001%</td>
</tr>
<tr>
<td></td>
<td>beneficial owner – underlying shares</td>
<td>1,500,000 (Note 2)</td>
<td>0.07%</td>
</tr>
<tr>
<td>Li Bin</td>
<td>beneficial owner – shares</td>
<td>2,000 (Note 3)</td>
<td>0.0001%</td>
</tr>
<tr>
<td>Chan Tin Wai, David</td>
<td>beneficial owner – shares</td>
<td>40,000</td>
<td>0.002%</td>
</tr>
<tr>
<td>Lee Chung Hing</td>
<td>beneficial owner – shares</td>
<td>500,000</td>
<td>0.02%</td>
</tr>
<tr>
<td></td>
<td>beneficial owner – underlying shares</td>
<td>3,200,000 (Note 4)</td>
<td>0.15%</td>
</tr>
<tr>
<td>Kwok Man Leung</td>
<td>beneficial owner – underlying shares</td>
<td>650,000 (Note 5)</td>
<td>0.03%</td>
</tr>
<tr>
<td>Kwong Che Keung, Gordon</td>
<td>beneficial owner – shares interests in controlled corporations</td>
<td>20,000</td>
<td>0.001%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>50,000</td>
<td>0.002%</td>
</tr>
</tbody>
</table>
Note 1: On 20 June 2006, options to subscribe for a total of 200,000 shares in CITIC Pacific at the exercise price of HK$22.10 per share were granted to Mr. Shi under the CITIC Pacific Share Incentive Plan 2000. Such options can be exercised in whole or in part from 20 June 2006 to 19 June 2011. The vesting period is from 20 June 2006 to 19 June 2011.

Note 2: On 28 May 2002, options to subscribe for a total of 500,000 shares in CITIC Pacific at the exercise price of HK$18.20 per share were granted to Mr. Yuen under the CITIC Pacific Share Incentive Plan 2000. Such options can be exercised in whole or in part from 28 May 2002 to 27 May 2007. The vesting period is from 28 May 2002 to 27 May 2007.

On 1 November 2004, options to subscribe for a total of 500,000 shares in CITIC Pacific at the exercise price of HK$19.90 per share were granted to Mr. Yuen under the CITIC Pacific Share Incentive Plan 2000. Such options can be exercised in whole or in part from 1 November 2004 to 31 October 2009. The vesting period is from 1 November 2004 to 31 October 2009.

On 20 June 2006, options to subscribe for a total of 500,000 shares in CITIC Pacific at the exercise price of HK$22.10 per share were granted to Mr. Yuen under the CITIC Pacific Share Incentive Plan 2000. Such options can be exercised in whole or in part from 20 June 2006 to 19 June 2011. The vesting period is from 20 June 2006 to 19 June 2011.

Note 3: 2,000 shares are held by Mr. Li and his wife in joint names.

Note 4: On 28 May 2002, options to subscribe for a total of 1,000,000 shares in CITIC Pacific at the exercise price of HK$18.20 per share were granted to Mr. Lee under the CITIC Pacific Share Incentive Plan 2000. Such options can be exercised in whole or in part from 28 May 2002 to 27 May 2007. The vesting period is from 28 May 2002 to 27 May 2007.

On 1 November 2004, options to subscribe for a total of 1,000,000 shares in CITIC Pacific at the exercise price of HK$19.90 per share were granted to Mr. Lee under the CITIC Pacific Share Incentive Plan 2000. Such options can be exercised in whole or in part from 1 November 2004 to 31 October 2009. The vesting period is from 1 November 2004 to 31 October 2009.

On 20 June 2006, options to subscribe for a total of 1,200,000 shares in CITIC Pacific at the exercise price of HK$22.10 per share were granted to Mr. Lee under the CITIC Pacific Share Incentive Plan 2000. Such options can be exercised in whole or in part from 20 June 2006 to 19 June 2011. The vesting period is from 20 June 2006 to 19 June 2011.

Note 5: On 1 November 2004, options to subscribe for shares in CITIC Pacific (of which options to subscribe for 150,000 shares remain unexercised) at the exercise price of HK$19.90 per share were granted to Mr. Kwok under the CITIC Pacific Share Incentive Plan 2000. Such options can be exercised in whole or in part from 1 November 2004 to 31 October 2009. The vesting period is from 1 November 2004 to 31 October 2009.

On 20 June 2006, options to subscribe for a total of 500,000 shares in CITIC Pacific at the exercise price of HK$22.10 per share were granted to Mr. Kwok under the CITIC Pacific Share Incentive Plan 2000. Such options can be exercised in whole or in part from 20 June 2006 to 19 June 2011. The vesting period is from 20 June 2006 to 19 June 2011.
(ii) Principal terms of CITIC Pacific Share Incentive Plan

CITIC Pacific Share Incentive Plan 2000 was adopted on 31 May 2000. A summary of its principal terms which implementation is subject to the requirements of the Listing Rules from time to time, are set out below:

(a) In order to promote the interests of CITIC Pacific and its shareholders by (i) providing certain Employees (as defined in the rules of the Plan – see paragraph (b) below) with additional incentives to continue and increase their efforts in achieving success in the business of CITIC Pacific, and (ii) attracting and retaining the best available personnel to participate in the ongoing business operations of CITIC Pacific, the board of CITIC Pacific (the “CP Board”) may invite selected Employees to subscribe for options over CITIC Pacific's ordinary shares (“CP Options”) on payment of HK$1 per acceptance of such invitation.

(b) Employees eligible to be invited to accept CP Options to subscribe for shares of CITIC Pacific (“CP Shares”) are directors, executives or employees of CITIC Pacific and its subsidiaries (“Employee(s)”).

(c) No option may be granted to any one Employee which if exercised in full would result in the total number of CP Shares already issued and issuable to him under all the CP Options previously granted to him and under the said Option exceeding 25% of the maximum aggregate number of CP Shares subject to the Plan. In addition, the total number of the CP Shares underlying CP Options subscribed by each Employee in any 12 month period may not exceed 0.5% of the CP Shares in issue from time to time.

(d) Conditions, restrictions and limitations may be placed on CP Options including, but not limited to, the subscription price, the time or times when CP Options will vest (which may be based on performance criteria), as the CP Board, in its sole discretion shall determine, however no Option will be granted for a period in excess of 10 years or with a subscription price lower than 100% of the average of the closing prices of the CP Shares on the Stock Exchange as stated in the Stock Exchange’s daily quotations sheets for the five trading days immediately preceding the date of grant (which is deemed to be the date of the offer) on which there were dealings in CP Shares on the Stock Exchange, nor will options be granted over more than 10% of the CP Shares in issue from time to time (excluding for this purpose from the number of CP Shares in issue any CP Shares which have been duly allotted and issued upon the exercise of options granted pursuant to the Plan).

(e) The invitation to subscribe for CP Options may require that CP Shares allotted on the exercise of an option may only be sold after CITIC Pacific has been given 24 hours’ notice. No option may be granted more than 10 years after the date of approval of the Plan.

(f) An Option may not be transferred and is personal to the Grantee of the Option (“Grantee”).
(g) The unexercised portion of an Option will vest immediately if the Grantee ceases to be an Employee due to (i) his death, or (ii) retirement under normal retirement conditions then prevailing in CITIC Pacific, or (iii) total physical or mental disablement, and the Grantee (or his legal representative) may exercise the Option up to the end of the option period.

(h) If the CP Board considers a Grantee has ceased to be an Employee due to the sale, or separate listing, of the business to which he is providing services; or CITIC Pacific is merged, reorganised or consolidated with another entity (but the general offer provisions referred to in paragraph (m) below do not apply) the CP Board may at its sole discretion (i) arrange for substitute options or share purchase rights of not less than equivalent fair value, in the purchasing, surviving or newly-listed company, or (ii) provide cash compensation equivalent to their fair value, or (iii) declare the CP Options to fall under paragraph (l), or (iv) permit the continuation of the Option according to its original terms.

(i) An Option shall lapse immediately upon the Grantee ceasing to be an Employee for reason of misconduct.

(j) A Grantee ceasing to be an Employee for any reason other than as set out in (g) and (i) above shall only be entitled to exercise the portion of an Option vested on the date of cessation of employment, but only for three months from the date he ceases to be an Employee, following which the Option will lapse.

(k) The CP Board may exercise its powers in respect of options through the appointment of a CP Board committee, and may suspend or terminate the Plan at any time as its sole discretion. The Plan will automatically terminate 10 years after its approval by Shareholders. No CP Options may be granted while the Plan is suspend or after it is terminated.

(l) The CP Board may, at its absolute discretion, remove or waive any performance criteria or permit earlier vesting than permitted in relation to any Option on compassionate or any other grounds.

(m) If a general offer is made to all the holders of CP Shares (or all holders other than the offeror and any person he controls or acts in association or in concert with) and such offer becomes or is declared unconditional or becomes or is declared effective, the Option will immediately vest and the Grantee shall be entitled to exercise any unexercised CP Options at any time within one month (or for such longer time as the CP Board may determine as may be necessary to permit the Grantee to participate in the offer on a similar basis with the holders of CP Shares) after the date on which the offer becomes or is declared unconditional, following which the Option shall lapse.

(n) If an effective resolution is passed for a members’ voluntary winding-up of CITIC Pacific, the Option will immediately vest and the Grantee shall be entitled to exercise the Option (to the extent not already exercised) and may by notice in writing to CITIC Pacific within 21 days after the date of such
resolution elect to be treated as if the Option had been exercised immediately before the passing of such resolution either to its full extent or to the extent specified in such notice and will rank pari passu with other holders of CP Shares to receive out of the assets available in the liquidation such sum as would have been received in respect of the CP Shares the subject of his election, reduced by the subscription price which would otherwise have been payable in respect thereof.

(o) CP Shares allotted on the exercise of CP Options will rank pari passu with other fully paid CP Shares in issue at the date of allotment and accordingly shall entitle the holders to participate in all dividends or distribution paid or made after the date of allotment, save that they will not rank for any dividend or other distribution declared, paid or made by reference to a record date falling on or before the date of allotment.

(p) In the event of any share split or combination, capital distribution, rights issue or similar alteration in the capital structure of CITIC Pacific, the CP Board shall make a proportionate adjustment to the maximum number of shares authorized to be issued under the Plan and the price and number of unexercised CP Options as the Auditors shall certify in writing to the CP Board to be in their opinion fair and reasonable. The result of such adjustment will be that the Grantee will have, as nearly as possible, the same proportionate interest in the equity capital of CITIC Pacific as that to which he was entitled before the alteration in the capital structure. No adjustment will be made to the number or price of unexercised CP Options due to the issue for good value of any class of shares or securities convertible into shares.

(q) The Plan may be altered in any respect by resolution of the CP Board except that the provisions of the Plan as to:

(i) the definitions of “Employee”, “Grantee” and ‘Option Period”; and

(ii) the provisions relating to the administration of the Plan; relating to the period within which the CP Options must be taken up; relating to the consideration payable by a grantee for the grant of Option; relating to the subscription price; relating to the maximum number of CP Shares for subscription for the Plan as a whole and for each Employee; relating to the maximum life of the Plan; relating to voting, dividend, transfer and other rights, relating to the impact on the Plan of the reorganisation of capital structure of CITIC Pacific, a general offer or the voluntary winding up of CITIC Pacific, and relating to the alteration of the Plan itself shall not be altered to the advantage of Grantees or prospective Grantees except with the prior sanction of a resolution of CITIC Pacific in general meeting.
B. Substantial Shareholder

Information on persons, not being Directors or chief executives of the Company, who will have, immediately following the Global Offering (assuming the Over-allotment Option is not exercised), an interest or short position in the Shares or underlying shares of our Company which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO is set out below:

<table>
<thead>
<tr>
<th>Name of Shareholder</th>
<th>Nature of Interest</th>
<th>Number of Shares in the Company</th>
<th>Approximate percentage of issued Shares in the Company immediately after the Global Offering (assuming the Over-allotment Option is not exercised)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ease Action Investments Corp. (Note 1)</td>
<td>Beneficial Interest</td>
<td>1,064,080,000</td>
<td>56.6%</td>
</tr>
<tr>
<td>Ferretti Holdings Corp. (Note 1)</td>
<td>Interest in controlled corporation</td>
<td>1,064,080,000</td>
<td>56.6%</td>
</tr>
<tr>
<td>Douro Holdings Inc. (Note 1)</td>
<td>Interest in controlled corporation</td>
<td>1,064,080,000</td>
<td>56.6%</td>
</tr>
<tr>
<td>CPC (Note 1)</td>
<td>Interest in controlled corporation</td>
<td>1,064,080,000</td>
<td>56.6%</td>
</tr>
<tr>
<td>Effectual Holdings Corp. (Note 1)</td>
<td>Interest in controlled corporation</td>
<td>1,064,080,000</td>
<td>56.6%</td>
</tr>
<tr>
<td>Crown Base International Limited (Note 1)</td>
<td>Interest in controlled corporation</td>
<td>1,064,080,000</td>
<td>56.6%</td>
</tr>
<tr>
<td>CITIC Pacific (Note 1)</td>
<td>Interest in controlled corporation</td>
<td>1,064,080,000</td>
<td>56.6%</td>
</tr>
<tr>
<td>Government of Singapore Investment Corporation Pte Ltd. (“GIC”) (Note 2)</td>
<td>Interest in controlled corporation</td>
<td>1,064,080,000</td>
<td>56.6%</td>
</tr>
</tbody>
</table>

Notes:

1. CITIC Pacific is deemed to be interested in Ease Action Investments Corp.’s interest in the Company:
   
a. Ease Action Investments Corp. is the registered holder of 1,064,080,000 Shares, representing approximately 56.6% of the entire issued share capital of the Company upon completion of the Global Offering (assuming the Over-allotment Option is not exercised). If the Over-allotment Option is exercised in full, Ease Action Investments Corp. will hold 941,692,000 Shares, representing approximately 50.09% of the entire issued share capital of the Company upon completion of the Global Offering.

b. Ease Action Investments Corp. is a wholly owned subsidiary of Ferretti Holdings Corp., which in turn is wholly owned by Douro Holdings Inc.

c. Douro Holdings Inc. is a wholly owned subsidiary of CPC which in turn is wholly owned by Effectual Holdings Corp.

d. Effectual Holdings Corp. is a wholly owned subsidiary of Crown Base International Limited, which in turn is wholly owned by CITIC Pacific.

2. Assuming the mid-point Offer Price of HK$2.355 per Offer Share and the exchange rate adopted being US$1.00 to HK$7.80, GIC will be allocated Offer Shares representing approximately 6.1% of the issued share capital of the Company upon completion of the Global Offering pursuant to the cornerstone placing agreement dated 15 March 2007 between the Company, CITIC Pacific, GIC and the Global Coordinator.
C. Particulars of service contracts and Directors’ remuneration

None of the Directors has or is proposed to have a service contract with any member of the Group other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

During each of the years ended 31 December 2004, 2005 and 2006, the aggregate of the directors’ remuneration (including fees, salaries, housing allowances, other allowances and benefits in kind) paid by the Company was approximately HK$3,000, HK$272,000 and HK$3,212,000 respectively.

There has been no arrangement under which a Director has waived or agreed to waive any emoluments during the Track Record Period.

It is estimated that an aggregate of approximately HK$11,880,000, including benefits and contributions, but excluding discretionary bonus, will be paid to the Directors by members of the Group as remuneration in respect of the year ending 31 December 2007, according to the present arrangements. Discretionary bonus is to be determined with reference to the performance of the Group and the respective director in the relevant year and requires the Board’s approval.

Remuneration Committee

The Company has established a Remuneration Committee with term of reference in accordance with the requirements of the Listing Rules. All members of the Remuneration Committee are independent non-executive Directors. All members of the Remuneration Committee shall be appointed and removed by the Board.

The powers and duties of the Remuneration Committee include:

• making recommendations to the Board on the Company’s policy and structure for all remuneration of directors and senior management;

• determining the remuneration packages of individual executive Directors and senior management, taking into consideration factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors and senior management, employment conditions elsewhere in the Group and desirability of performance-base remuneration;

• reviewing and approving the terms and conditions on which the employment of any executive Director or senior management shall be terminated to ensure that the compensation payments are determined in accordance with relevant contractual terms and that such compensation payments are fair and not excessive for the Company; and

• ensuring that no Director or any of his associates is involved in deciding his own remuneration.

In exercising its power, authorities and discretions to perform its duties, the Remuneration Committee will take full account of the Code on Corporate Governance Practices prescribed in the Listing Rules as well as the Listing Rules itself.
D. **Personal guarantees**

The Directors have not provided personal guarantees in favour of lenders in connection with banking facilities granted to the Company.

E. **Agency fees or commissions received**

Except as disclosed in this Prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of any member of the Group within the two year ended on the date of this Prospectus.

F. **Disclosure under Rule 8.10(2) of the Listing Rules**

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

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

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

Ms. Gu became a director in August 2006 when Mr. Gu (the father of Ms. Gu) resigned as a director of GTI (HK) for health reasons. Ms. Gu is not involved in the business of Galaxy. Currently, she does not have any beneficial interest in both Galaxy and GTI (HK). Dr. Li Bin is not involved, nor does he have any beneficial interest, in the business of Galaxy and GTI (HK). The business of Galaxy and GTI (HK) were developed independently of Dr. Li Bin and prior to his joining the Company in 2006. They were also operated independently of the Company. Other than a transaction in 2006 pursuant to which GTI (HK) acquired IDD capacity from the Company for less than HK$100,000, the Directors are not aware of any transactions between the Company, and Galaxy and/or GTI (HK) during the Track Record Period.
Mr. Yuen Kee Tong, executive Director, will under an agreement with CITIC Pacific spend some of his time on the business of CITIC Pacific but will cease to act as director of all subsidiaries or associated companies of CITIC Pacific upon Listing. CITIC Pacific will pay Mr. Yuen for his such services separately. Mr. Yuen's role in the Retained Group after the Listing will facilitate the continued operation and oversight of the remaining non-core telecoms businesses of CITIC Pacific. Mr. Yuen's continued involvement will be on a non-executive and part-time basis and CITIC Pacific will not engage more than 5% of his time than the time he would spent with the Group.

Mr. Lee Chung Hing, non-executive Director, is the Vice-Chairman of CITIC Guoan. Mr. Kwok Man Leung, a non-executive Director, is a director of CITIC Guoan. The business of CITIC Guoan and CTM is set out in the section headed “Relationship with CITIC Pacific” of this Prospectus.

After the Listing, the Company is required under Rule 8.10(2)(b) and (c) of the Listing Rules to (i) prominently disclose details as required under Rule 8.10(2)(a) of the Listing Rules of any such interests (including any interests acquired after the Listing) in the Company's annual reports; and (ii) prominently disclose in the Company's annual reports any change in details previously so disclosed in the Company's listing document or annual reports.

Each of Mr. Yuen Kee Tong, Dr. Li Bin, Mr. Lee Chung Hing and Mr. Kwok Man Leung has undertaken to the Company that he will, in his capacity as director of the Company, from time to time and to the extent practicable, provide sufficient information to the Board in order for the Company to satisfy the above requirements.

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

6. DISCLAIMERS

Save as disclosed in this Prospectus:

(i) none of the Directors or chief executive of the Company has any interests and short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (including interests and short positions which he is taken or deemed to have taken under such provisions of the Securities and Futures Ordinance or which will be required,
pursuant to section 352 of the Securities and Futures Ordinance, to be entered in the
register referred to therein, or will be required, pursuant to the Model Code for Securities
Transactions by Directors of Listed Companies to be notified to the Company and the
Stock Exchange, in each case once the Shares are listed on the Stock Exchange;

(ii) so far as is known to any of the Directors or chief executive of the Company, no
person has an interest or short position in the Shares and underlying Shares of the
Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of
Part XV of the SFO, or is directly or indirectly interested in 10% or more of the
nominal value of any class of share capital carrying rights to vote in all circumstances
at general meetings of any other member of the Group;

(iii) none of the Directors nor any of the persons whose names are listed in paragraph 7G
of this Appendix is interested in the promotion of, or in any assets which have been,
within the two years immediately preceding the issue of this Prospectus, acquired or
disposed of by or leased to any member of the Group, or are proposed to be acquired
or disposed of by or leased to any member of the Group;

(iv) none of the Directors is materially interested in any contract or arrangement subsisting
at the date of this Prospectus which is unusual in its nature or conditions or which is
significant in relation to the business of the Group;

(v) save in connection with the Underwriting Agreements, none of the persons whose
names are listed in paragraph 7G of this Appendix has any shareholding in any
member of the Group or the right (whether legally enforceable or not) to subscribe for
or to nominate persons to subscribe for securities in any member of the Group;

(vi) save for the Underwriting Agreements, none of the persons whose names are listed in
paragraph 7G of this Appendix is materially interested in any contract or arrangement
subsisting at the date of this Prospectus which is significant in relation to the business
of the Group taken as a whole;

(vii) none of the Directors has entered or has proposed to enter into any service agreements
with the Company or any member of the Company (other than contracts expiring or
determinable by the employer within one year without payment of compensation other
than statutory compensation);

(viii) no cash, securities or other benefit has been paid, allotted or given within the two
years preceding the date of this Prospectus to any promoter of the Company nor is
any such cash, securities or benefit intended to be paid, allotted or given on the basis
of the Global Offering or related transactions as mentioned in this Prospectus;

(ix) so far as is known to the Directors, none of the Directors, shareholders of the Company
who are expected to be interested in 5% or more of the issue shares capital of the
Company and their associates has any interest in the five largest customers or the
five largest suppliers of the Group; and

(x) none of the controlling shareholder and Directors are interested in any business apart
from the Group’s business which competes or is likely to compete, directly or indirectly,
with the business of the Group.
7. OTHER INFORMATION

A. Estate duty

The Directors have been advised that no material liability for estate duty is likely to fall on the Company and its subsidiaries in Hong Kong.

B. Litigation

The Group instituted a civil claim against one of its customers for the invoice amount of approximately US$591,000 (equivalent to approximately HK$4,609,800) on 18 June 2001 in relation to the Group’s provision of telecoms services. The Company is pursuing this action.

On 16 December 2004, the Group also instituted a civil claim against one of its customers for the invoice amount of approximately HK$4.3 million in relation to the Group’s provision of telecoms services as well as against the guarantors of this customer for the guaranteed amount of US$300,000 (equivalent to approximately HK$2,340,000). The Company is actively pursuing this action.

On 6 January 2005, the Group instituted a civil claim against one of its customers for the estimated sum of HK$280,000, being the outstanding balance of the price of goods sold and delivered and/or services rendered pursuant to the End User Purchase and Licence Agreement dated 20 February 2003 and a Sales Agreement dated 2 July 2003 both signed between the Group and the customer. A summary judgment has been applied for to see if the customer would raise any sustainable or triable defence before the parties going through a full trial, which is costly and time consuming.

Prior to the hearing of the summary judgment, the customer has counterclaimed against the Group for an estimated sum of HK$4.4 million for its loss of revenue due to the alleged defects in the software function and telecoms services provided by the Group. Nevertheless, the Group's lawyers had advised the Group that they did not consider such counterclaim meritorious and recommended the Group to object to such counterclaim. As such, no provision has been recognized in financial statements for these years in relation to such counterclaim as the Group’s management considers that loss as a result of such counterclaim is unlikely.

Save as disclosed in this Prospectus, no members of the Group have not been involved in any litigation, arbitration or administrative proceedings that could individually or if taken as a whole, have a materially adverse effect on or threaten any member of the Group as at the Latest Practicable Date.

C. Sponsor

The Sponsor has made an application on behalf of the Company to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, the Shares and the Shares to be issued as mentioned in this Prospectus (including the Capitalisation Issue and the Global Offering). All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The Sponsor has declared pursuant to Rule 3A.08 of the Listing Rules that it is independent pursuant to Rule 3A.07 of the Listing Rules.
D. Deed of Indemnity

Pursuant to a deed of indemnity given by CITIC Pacific in favour of the Company (and its subsidiaries) and conditional upon the fulfilment of the conditions stated in the paragraph headed “Conditions of the Global Offering” in the section headed “Structure and Conditions of the Global Offering” in this Prospectus, CITIC Pacific will keep the Company and its subsidiaries indemnified against any taxation falling on it resulting from or by reference to any revenue, income, profits or gains granted, earned, accrued, received or made (or deemed to be so granted, earned, accrued, received or made) on the Listing Date or any event, transaction, act or omission occurring or deemed to occur on or before the Listing Date whether alone or in conjunction with any other event, act, omission or circumstances whenever occurring and whether or not such taxation is chargeable against or attributable to any other person, firm or company save that the indemnity given shall not apply:

(a) to the extent that provision has been made in the audited accounts of members of the Group for an accounting period ended on or before 31 December 2006;

(b) falling on any Group members in respect of any accounting period commencing on or after 31 December 2006 unless such liability would not have arisen but for some act or omission of, or transaction entered into by, the CITIC Pacific, any Group members or any of them (whether alone or in conjunction with some other act, omission or transaction, whenever occurring), otherwise than in the ordinary course of business, or otherwise than in the ordinary course of acquiring or disposing of capital assets, on or before the date on which the deed becomes effective (the “Effective Date”);

(c) to the extent that such tax liability arises or is incurred as a consequence of any change in the law, rules or regulations, or the interpretation or practice thereof by the Inland Revenue Department or any other statutory or governmental authority (in Hong Kong or elsewhere) having retrospective effect coming into force after the Effective Date or to the extent that such tax liability arises or is increased by an increase in rates of taxation after the Effective Date with retrospective effect;

(d) to the extent that such tax liability is discharged by another person who is not a Group member and that none of the Group member is required to reimburse such person in respect of the discharge of the taxation; or

(e) to the extent of any provision or reserve made for taxation in the audited accounts referred to in (a) above which is finally established to be an over-provision or an excessive reserve provided that the amount of any such provision or reserve applied to reduce CITIC Pacific’s liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

E. Promoter

The Company has no promoter for the purposes of the Listing Rules. Save as disclosed in this Prospectus, within the two years immediately preceding the date of this Prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoter in connection with the Global Offering and the related transactions described in this Prospectus.
F. Preliminary Expenses

No preliminary expenses have been incurred or are proposed to be incurred.

G. Qualifications of experts

The qualifications of the experts who have given opinions in this Prospectus are as follows:

<table>
<thead>
<tr>
<th>Name</th>
<th>Qualifications</th>
</tr>
</thead>
<tbody>
<tr>
<td>BNP Paribas Capital (Asia Pacific) Limited</td>
<td>Licensed corporation holding a licence under the SFO to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO</td>
</tr>
<tr>
<td>KPMG</td>
<td>Certified Public Accountants</td>
</tr>
<tr>
<td>Knight Frank Petty Limited</td>
<td>Independent Property Valuers</td>
</tr>
<tr>
<td>Jingtian &amp; Gongcheng</td>
<td>PRC legal advisers</td>
</tr>
</tbody>
</table>

H. Consents of experts

Each of BNP Paribas, KPMG, Knight Frank Petty Limited and Jingtian & Gongcheng has given and has not withdrawn their respective written consents to the issue of this Prospectus with the inclusion of their reports, valuation report, letters and/or opinions and summaries of opinion (as the case may be) and/or the references to their names included herein in the form and context in which they respectively appear.

I. Taxation of holder of Shares

**Tax on Dividends**

No tax is payable in Hong Kong in respect of dividends paid by us.

**Profits**

No tax is imposed in Hong Kong in respect of capital gains from the sale of property such as the Shares. Trading gains from the sale of property by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong profits tax, which is currently imposed at the rate of 17.5% on corporations and at a rate of 16% on unincorporated businesses. Gains from sales of the Shares effected on the Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of the Shares realised by persons carrying on a business of trading or dealing in securities in Hong Kong.
**Stamp Duty**

Hong Kong stamp duty will be payable by the purchaser on every purchase and by the seller on every sale of the Shares. The duty is charged at the current rate of 0.2% of the consideration or, if higher, the fair value of the Shares being sold or transferred (the buyer and seller each paying half of such stamp duty). In addition, a fixed duty of HK$5 is currently payable on any instrument of transfer of shares.

**Estate Duty**

Estate duty has been abolished in Hong Kong by The Revenue (Abolition of Estate Duty) Ordinance 2005 which came into effect on 11 February 2006. The estate of a person who died before 11 February 2006 is subject to the provisions of the Estate Duty Ordinance (Chapter 111, Laws of Hong Kong), and the Shares are Hong Kong property for this purpose. The estate duty chargeable in respect of estates of persons dying between the transitional period from and including 15 July 2005 to 11 February 2006 with the principal value exceeding $7.5 million shall be a nominal amount of $100.

**Consultation with professional advisors**

Potential investors in the Global Offering are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the Shares. None of the Company, the Global Coordinator, the Sponsor, the Underwriters, any of their respective directors, or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, purchase, holding or disposal of, or dealing in, Shares.

**J. No material adverse change**

The Directors of the Company confirm that there has not been any material adverse change in the financial or trading position of the Group since 31 December 2006 being the date to which the Company's latest audited consolidated financial statements were made up.

**K. Particulars of the Vendor**

The following are the particulars of the Vendor:

- **Name:** CITIC Pacific Limited (selling through its wholly ownedsubsidiary, Ease Action Investments Corp.)
- **Registered Address:** 32nd Floor, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong
- **Number of issued shares:** 2,202,433,160
- **Paid-up share capital:** HK$880,973,264
Directors: Mr. Yung Chi Kin (Chairman)  
Mr. Fan Hung Ling  
Mr. Lee Chung Hing  
Mr. Carl Yung Ming Jie  
Mr. Leslie Chang Li Hsien  
Mr. Vernon Francis Moore  
Mr. Li Shilin  
Mr. Liu Jifu  
Mr. Chau Chi Yin  
Mr. Law Ming To  
Mr. Wang Ande  
Mr. Willie Chang  
Mr. Hamilton Ho Hau Hay  
Mr. Alexander Reid Hamilton  
Mr. Hansen Loh Chung Hon  
Mr. Norman Ho Hau Chong  
Mr. André Desmarais  
Mr. Chang Zhenming  
Mr. Peter Kruyt (alternate director to Mr. André Desmarais)

Description of business: Investment holding

Auditors: PricewaterhouseCoopers

Number of Shares for sale by the Vendor in the Global Offering (assuming that the Over-allotment Option is not exercised): 627,920,000 Shares

L. Binding effect

This Prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

M. Exemption from the Companies Ordinance

The English language and Chinese language versions of this Prospectus are being published separately, in reliance upon the exemption provided in section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong.)

N. Compliance Adviser

The Company has, pursuant to Rule 3A.19 of the Listing Rules, appointed BNP Paribas to act as its compliance adviser for the period commencing from the Listing Date and ending on the date that the Company publishes its first full year results. BNP Paribas will, among other things, provide the Company with advice in relation to compliance with the
Listing Rules and other applicable laws, regulations, rules, codes and guidelines in Hong Kong and will keep the Company informed on a timely basis of any changes in these laws, regulations, codes and guidelines.

O. Miscellaneous

(a) Save as disclosed in this Prospectus:

(i) within the two years preceding the date of this Prospectus, the Company has not issued or agreed to issue any of their share or loan capital fully or partly paid either for cash or for a consideration other than cash;

(ii) no share or loan capital of the Group is under option or is agreed conditionally or unconditionally to be put under option;

(iii) the Company has not issued nor agreed to issue any founder shares, management shares or deferred shares;

(iv) none of the equity and debt securities of the Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought;

(v) the Company has no outstanding convertible debt securities or debentures;

(vi) within the two years immediately preceding the date of this Prospectus, no commission has been paid or payable (except commissions to underwriters) for subscription or purchase, agreeing to subscribe or purchase, procuring subscription or purchase or agreeing to procure subscription or purchase of any Shares in the Company;

(vii) within the two years immediately preceding the date of this Prospectus, no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of the Group.

(b) As at the Latest Practicable Date, there is no restriction affecting the remittance of profits or repatriation of capital of the Company into Hong Kong from outside Hong Kong.
APPENDIX VI  DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE FOR INSPECTION

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this Prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the WHITE, YELLOW, PINK and BLUE application forms, the written consents referred to in the sub-paragraph headed “Consents of experts” in the paragraph headed “Other information” in Appendix V to this Prospectus, statement of adjustments relating to the Accountants’ Report prepared by KPMG, particulars of the Vendor (acting through Ease Action Investments Corp.) and copies of the material contracts referred to in the sub-paragraph headed “Summary of material contracts” in the paragraph headed “Further information about the business” in Appendix V to this Prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Johnson Stokes & Master, 16th to 19th Floors, Prince's Building, 10 Chater Road, Central, Hong Kong during normal business hours up to and including 3 April 2007:

(a) the memorandum of association and Articles of the Company;
(b) the Accountants’ Report of the Group signed by KPMG, the text of which is set out in Appendix I to this Prospectus;
(c) the financial statements of the companies comprising the Group for the three years ended 31 December 2004, 2005 and 2006;
(d) the comfort letter prepared by KPMG in respect of the pro forma financial information of the Group, the text of which is set out in Appendix II to this Prospectus;
(e) the letter, summary of valuation and valuation report prepared by Knight Frank Petty Limited, the text of which is set out in Appendix III to this Prospectus;
(f) a statement of adjustments relating to the Accountants’ Report prepared by KPMG.
(g) the material contracts referred to in the sub-paragraph headed “Summary of material contracts” in the paragraph headed “Further information about the business” in Appendix V to this Prospectus;
(h) the written consents referred to in the sub-paragraph headed “Consents of experts” in Appendix V to this Prospectus;
(i) a list of names, addresses and descriptions of the Vendor (acting through Ease Action Investments Corp.); and
(j) the PRC legal opinion issued by Jingtian & Gongcheng in respect of certain PRC aspects of the Company.