FINANCIAL REVIEW

Introduction

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

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

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

Basis of Accounting

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

Turnover

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

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

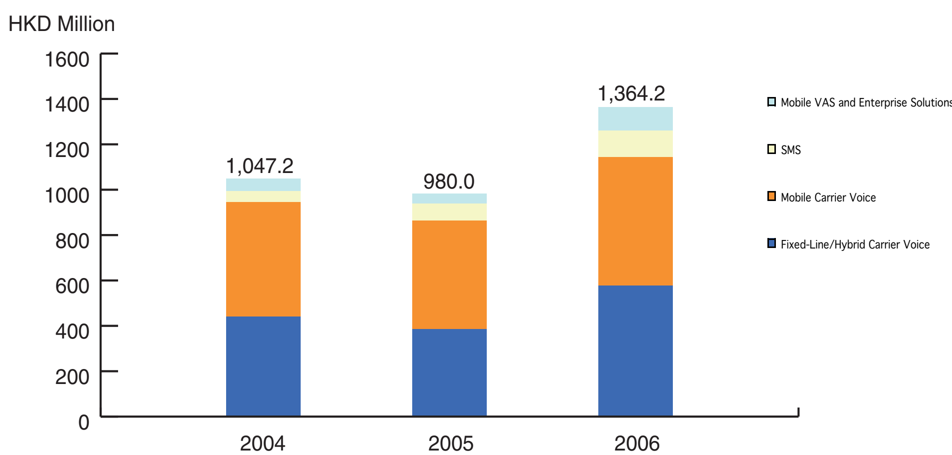
Fixed-Line/Hybrid Carrier Voice Hubbing Services turnover increased from HK$385.3 million for the year 2005 to HK$575.5 million for the year 2006, representing a 49.4% increase. The fixed line/hybrid voice call minutes carried by the Group increased from 2,259.0 million minutes for the year 2005 to 3,659.9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

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

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

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

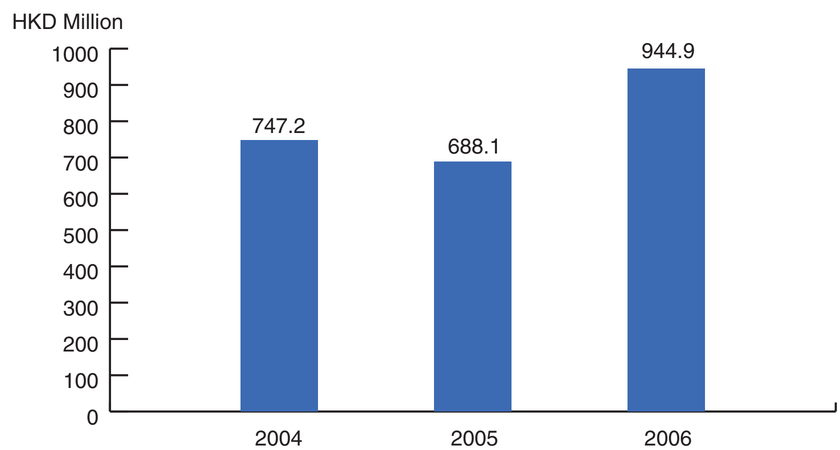
Turnover from telecoms operations 2004-2006



Network, operations and support expenses

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

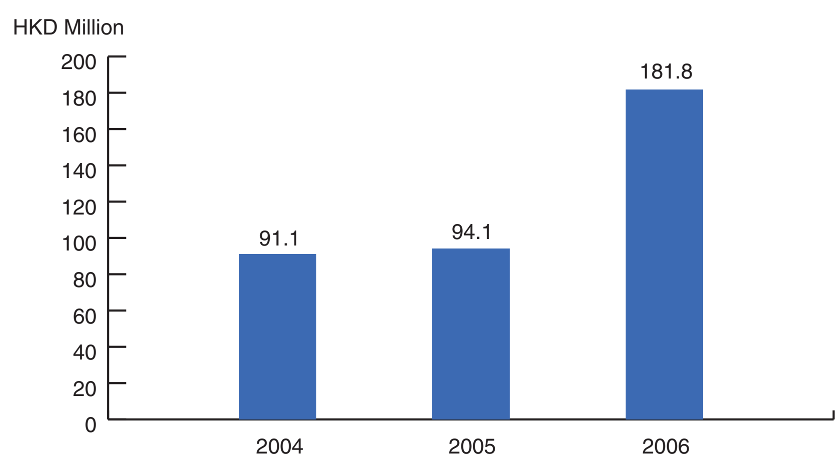
Network, operations and support expenses 2004-2006



Profit for the year from continuing operations

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

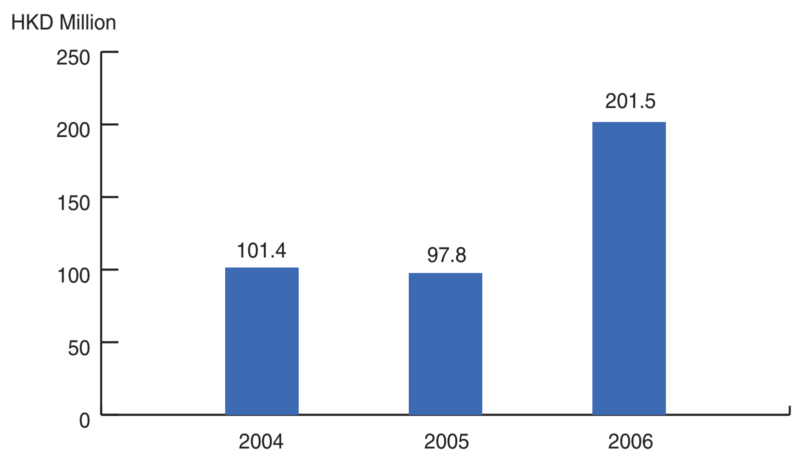
Profit for the year from continuing operations 2004-2006



Profit attributable to equity holders of the Company

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

Profit attributable to equity holders of the Company 2004-2006



Taxation

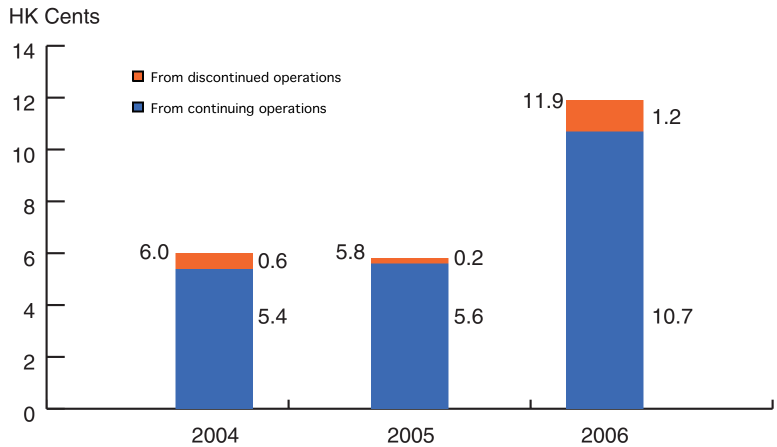
The Group's income tax increased by HK$20.0 million, or 110.5%, from HK$18.1 million for the year 2005 to HK$38.1 million for the year 2006. This increase was mainly due to the increase in profit from operations. The effective tax rate for continuing operations increased from 16.2% for the year 2005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

Earnings per share

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

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

Earnings per share 2004-2006



Note:

(i) From continuing and discontinued operations

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

(ii) From continuing operations

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

(iii) From discontinued operations

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

(iv) Diluted earnings per share

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

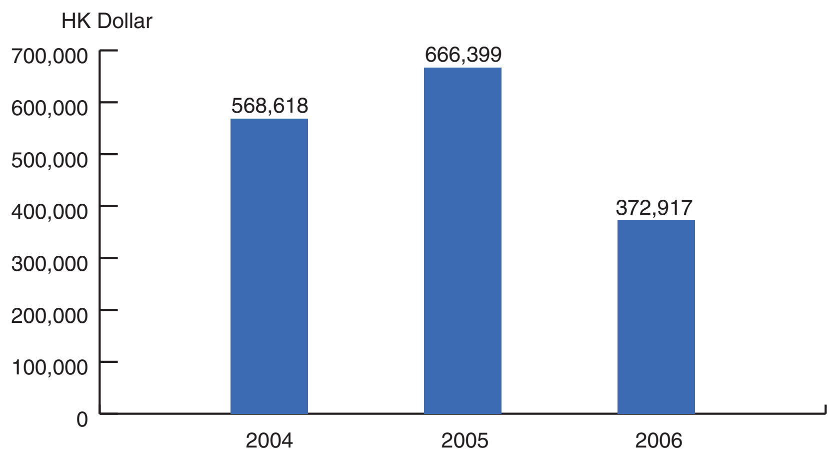
Disposal of subsidiaries

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

Total equity per share

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

Total equity per share for 2004-2006



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

Dividend per share

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

Segment reporting

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

Capital expenditure

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

Group liquidity and capital resources

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

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

Funding and banking facilities

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

Securities and guarantees

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

Capital commitments

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

Contingent liabilities

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

Exchange rate risk

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

Credit risk

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

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

Forward looking statements

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

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