NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

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

(b) Basis of preparation

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

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

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

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

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

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

(c) Subsidiaries and minority interests

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

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

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

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

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

(d) Investment property

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

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

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

(e) Other property, plant and equipment

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

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

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

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

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

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

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

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

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

(f) Leased assets

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

(i) Classification of assets leased to the Group

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

(ii) Operating lease charges

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

(g) Impairment of assets

(i) Impairment of trade and other receivables

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

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

(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 statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals, or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

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

(t) Deferred revenue

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

(u) Deferred expenditure

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

2. TURNOVER

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

Turnover recognised during the year may be analysed as follows:

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

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

3. OTHER REVENUE

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

4. OTHER NET (LOSS)/GAIN

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

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

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

6. INCOME TAX

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

Continuing operations —

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

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

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

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

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

Discontinued operations —

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

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

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

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

7. DIRECTORS' REMUNERATION

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

	2006	**2005**
	HK$'000	*HK$'000*
Salaries, allowances and benefits	211	272
Retirement scheme contributions	1	–
Discretionary bonus	3,000	–
	3,212	272

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

8. DISCONTINUED OPERATIONS

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

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

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

9. DIVIDENDS

Dividends attributable to the year

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

10. RELATED PARTY TRANSACTIONS

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

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

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

(a) Recurring transactions

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

Notes:

(i) Management fees were paid/payable to the ultimate holding company for the provision of financial and administrative services.

(ii) Goldon Investment Limited, leases a property in Hong Kong to the Group under an operating lease. The amount represents the leases charges and building management fees paid to Goldon Investment Limited.

(b) Non-recurring transactions

	2006 HK$'000	2005 HK$'000
A wholly owned subsidiary of CITIC Pacific Limited		
Disposal of Crown Gain Group *(note 20)*	162,051	–

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

The Group	2006 HK$'000	2005 HK$'000
CITIC Pacific Limited:		
Continuing operations	(2,237)	253,240
Discontinued operations *(note 21)*	–	(125,552)
	(2,237)	127,688

The Company	2006 HK$'000	2005 HK$'000
CITIC Pacific Limited	(2,237)	253,317

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

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

(d) Trade receivables/(trade payables)

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

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

11. PROPERTY, PLANT AND EQUIPMENT

The Group

Cost/Valuation:

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

	Tele-communications equipment HK$'000	Other assets HK$'000	Construction in progress HK$'000	Continuing operations HK$'000	Discontinued operations — Investment property HK$'000	Total assets HK$'000
Accumulated depreciation:						
At 1 January 2005	178,960	12,358	—	191,318	—	191,318
Charge for the year	57,473	10,078	—	67,551	—	67,551
Written back on disposals	(82)	(1)	—	(83)	—	(83)
At 31 December 2005	236,351	22,435	—	258,786	—	258,786
At 1 January 2006	236,351	22,435	—	258,786	—	258,786
Charge for the year	62,352	10,097	—	72,449	—	72,449
Written back on disposals	—	(80)	—	(80)	—	(80)
At 31 December 2006	298,703	32,452	—	331,155	—	331,155
Net book value:						
At 31 December 2006	243,192	18,426	16,455	278,073	—	278,073
At 31 December 2005	266,553	24,635	29,221	320,409	141,000	461,409

The Company

	Other assets HK$'000
Cost:	
At 1 January 2005	39,192
Additions	6
Disposals	(10)
At 31 December 2005 and 1 January 2006	39,188
Disposals	(120)
At 31 December 2006	39,068
Accumulated depreciation:	
At 1 January 2005	11,446
Charge for the year	9,114
Written back on disposals	(1)
At 31 December 2005 and 1 January 2006	20,559
Charge for the year	8,222
Written back on disposals	(78)
At 31 December 2006	28,703
Net book value:	
At 31 December 2006	10,365
At 31 December 2005	18,629

Notes:

(i) The investment property of the Group, Honest Motor Building, No. 9-11 Leighton Road, Causeway Bay, Hong Kong, was revaluated at 31 December 2005 by an independent firm of surveyors, Knight Frank, who have among their staff Fellows of the Hong Kong Institute of Surveyors, on an open market value basis.

(ii) The Group leased out investment property under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

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

	2006	2005
	HK$'000	*HK$'000*
Within 1 year	—	5,655
After 1 year but within 5 years	—	3,401
	—	9,056

(iii) The investment property is held under long-term lease in Hong Kong.

(iv) Other assets included electronic data processing equipment ("EDP equipment"), furniture and fixtures, motor vehicles and office equipment.

12. INTERESTS IN SUBSIDIARIES

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

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

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

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

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

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

* Represented ordinary shares, unless otherwise stated.

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

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

13. DEFERRED TAXATION

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

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

The Group

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

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

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

The Company

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

(b) Deferred tax assets not recognised

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

	2006	2005
	HK$'000	*HK$'000*
Deferred tax assets in respect of cumulative tax losses not recognised		
Discontinued operations	—	89,764

14. TRADE AND OTHER RECEIVABLES

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

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

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

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

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

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

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

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

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

	The Group		The Company	
	2006	2005	2006	2005
	'000	*'000*	*'000*	*'000*
United States dollars	US$53,455	US$34,363	US$—	US$9,657

15. CASH AND CASH EQUIVALENTS

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Continuing operations	43,432	31,884
Discontinued operations	—	2,205
	43,432	34,089

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

	The Group		The Company	
	2006	2005	2006	2005
	'000	*'000*	*'000*	*'000*
United States dollars	US$4,124	US$1,579	US$1,399	US$640
Renminbi	RMB1,126	RMB331	RMB—	RMB—

16. TRADE AND OTHER PAYABLES

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

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.

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

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

	The Group		The Company	
	2006	**2005**	**2006**	**2005**
	'000	*'000*	*'000*	*'000*
United States dollars	US$40,206	US$29,224	US$206	US$2,138

17. CAPITAL AND RESERVES

(a) Authorised and issued share capital

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

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 every member present in person shall have one vote on a show of hands or one vote per share on a poll at general meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(b) Capital redemption reserve

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

(c) Profit attributable to equity shareholders of the Company

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

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

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

18. COMMITMENTS AND CONTINGENCIES

(a) Capital commitments

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

	2006 *HK$'000*	**2005** *HK$'000*
Contracted for	23,769	5,765
Authorised but not contracted for	17,440	—

(b) Commitments under operating leases

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

Land and buildings

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

International leased circuits

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

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

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

19. FINANCIAL INSTRUMENTS

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

(a) Credit risk

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

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

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

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

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

(b) Liquidity risk

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

(c) Interest rate risk

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

Effective interest rates and repricing analysis

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

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

(d) Foreign currency risk

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

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

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

(e) Fair values

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

20. DISPOSAL OF SUBSIDIARIES

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

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

Net assets disposed

	HK$'000
Property, plant and equipment	164,000
Trade and other receivables	731
Cash and cash equivalents	1,733
Trade and other payables	(4,413)
Total consideration	162,051
Satisfied by	
Cash	162,051

Analysis of net inflow of cash and cash equivalents in respect of the disposal of subsidiaries

Cash and cash equivalents disposed	(1,733)
Cash consideration received	162,051
	160,318

21. ASSETS CLASSIFIED AS HELD FOR SALE

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

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

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

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

	HK$'000
Total assets	166,464
Total liabilities	(132,452)
Net assets	34,012

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

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

22. EQUITY SHARE-BASED TRANSACTIONS

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

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

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

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

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

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

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

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

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

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

(c) Fair value of share options and assumptions

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

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

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

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

23. ACCOUNTING ESTIMATES AND JUDGEMENTS

Key sources of estimation uncertainty

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

(a) Depreciation

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

(b) Impairments

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

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

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

(c) Recognition of deferred tax assets

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

24. PARENT AND ULTIMATE HOLDING COMPANY

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

25. COMPARATIVE INFORMATION

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

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

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

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

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

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