# Global Communication Hub

## that Delivers Promises

CITIC 1616 HOLDINGS LIMITED

Annual Report 2007

Stock Code: 1883




# Our Vision

- To become the International Telecommunications hubbing provider of choice providing voice, mobile and data services to mobile operators, ISPs, and carriers.

# Our Mission

- To capitalise on the Mainland as the marketing base and Hong Kong as the Communications Hub for Asia to deliver telecommunications services on a global basis.
- To provide best-of-breed services and exceed customer expectations.
- To be the partner of choice in dealing with today's dynamic and changing market.
- To deliver telecoms solutions and to provide a diverse range of services to enable our partner customer's to capture new revenue.

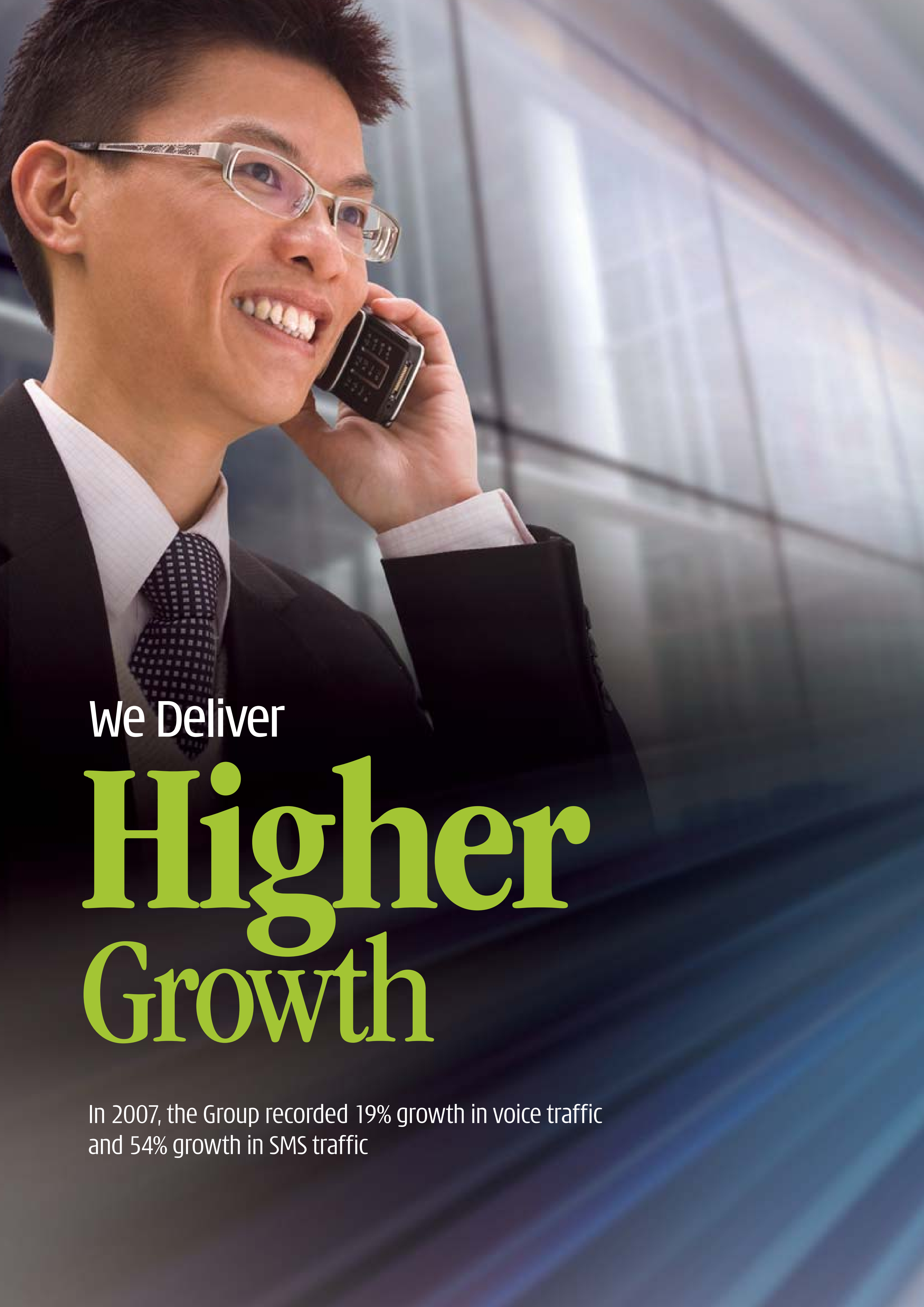
# Contents

# We Take Global Initiative

The Group has connected with operators in Austria, Palau, Cyprus and Kuwait during the year, extending our coverage to 53 countries

# Connect 261 Telecoms Operators in 53 countries

The Group provided services to 261 telecoms operators and 886 multi-national enterprises



We Deliver

# Higher Growth

In 2007, the Group recorded 19% growth in voice traffic
and 54% growth in SMS traffic


International
Voice Traffic exceeded
5.6 bn
Minutes
International SMS Traffic
exceeded 1.8 bn
The Group handled over 5.6 bn mins
and 1.8 bn SMS in 2007

We Provide

# Leading Services

The Group offers hubbing services on voice, sms and data traffics to 261 telecoms operators spread across 53 countries

## Reliable

# 7x24

## Operations Support & Customer Services

The Group's network operation centre and customer services centre provide 7x24 support services to ensure quality traffic routing as well as providing prompt solution to customer's inquiries

# Milestones 2007

## February

Established direct connection with Austria's telecoms operator

## April

Listed on the Main Board of Hong Kong Stock Exchange with stock code 1883

## June

Signed SMS Hubbing Agreement with Telenor Global Services AS

Established direct connection with Palau's telecoms operator

## July

Signed a "Memorandum of Understanding" with Vietnam Telecoms International to render services to the entire Vietnam Posts and Telecommunications (VNPT) Group


## November

Voice call minutes carried by the Group reached 5,000 million minutes

SMS messages handled by the Group reached 1,500 million messages

## November

Hosted C7 planning meeting in Hong Kong with 107 delegates from 47 operators in 34 countries attended


## December

Acquisition of the entire interests of CPCNet Hong Kong Limited from CITIC Pacific Limited

Established direct connection with Cyprus's telecoms operator

# Financial Highlights

| in HK$ million | 2007 | 2006 | Increase / (decrease) (%) |
|---|---|---|---|
| Turnover | | | |
| Voice Hubbing Services | **1,162.5** | 1,141.6 | 1.8% |
| SMS Hubbing Services | **186.8** | 117.1 | 59.5% |
| Mobile VAS | **59.4** | 30.9 | 92.2% |
| Enterprise Solutions | **77.4** | 74.6 | 3.8% |
| | **1,486.1** | 1,364.2 | 8.9% |
| Profit for the year from continuing operations | **262.7** | 181.8 | 44.5% |
| Profit attributable to equity holders of the Company | **262.7** | 201.5 | 30.4% |
| Total assets | **1,817.4** | 826.9 | 119.8% |
| Shareholders' fund | **1,287.9** | 372.9 | 245.4% |
| Cash and cash equivalents | **780.6** | 43.4 | 1698.6% |
| in HK cents | | | |
| Earnings per share | | | |
| from continuing operations | **14.3** | 10.7 | 33.6% |
| from discontinued operations | **–** | 1.2 | N/A |
| from continuing and discontinued operations | **14.3** | 11.9 | 20.2% |
| Dividends per share | **4.1** | N/A* | N/A |

* Not applicable as the dividend was declared and paid before the Company listed on Hong Kong Stock Exchange.

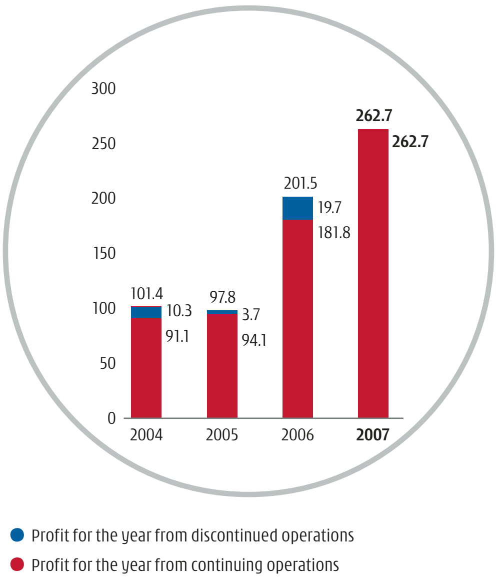
- Recorded high turnover and net profit. Net profit increased by 30.4% to **HK$262.7 million**, while turnover rose 8.9% to HK$1,486.1 million
- All business delivered sound results in 2007. In particular, the revenue of SMS Hubbing Services and Mobile VAS rose **59.5%** and **92.2%** respectively, as compared to 2006
- Voice traffic totalled 5.6 billion minutes, up **19.3%**
- **1.9 billion SMS** carried, an increase of 54.4%
- Mobile value-added services (VAS) reported consistent expansion, revenue leaped by **92.2%**





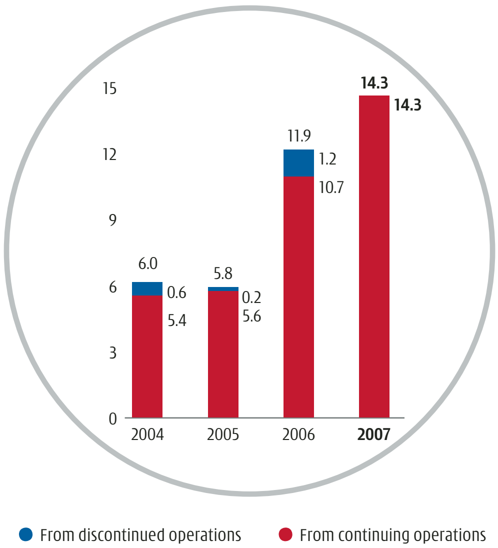
## Profit attributable to equity holders of the Company

HKD million




## Earnings per share

HK cents



**Mr. Shi Cuiming**
*Chairman*

# Chairman's Statement

## I am pleased to present the annual results of CITIC 1616 Holdings Limited for the year 2007.

## In 2007, turnover of the Group amounted to HK$1,486.1 million, representing an increase of 8.9% as compared with the previous year. The Group recorded a net profit of HK$262.7 million, a 30.4% increase from the previous year. Earnings per share rose 20.2% to 14.3 cents.

The year 2007 will be remembered as an eventful year in the corporate history of CITIC 1616 Holdings Limited.

With the successful public offering of our shares and listing on the Hong Kong Stock Exchange on 3 April 2007, our financial strength was substantially strengthened in equity terms and our reputation in the international market greatly enhanced. During the year, the Group diversified into the new businesses of internet virtual private network and internet access services by acquiring CPCNet Hong Kong Limited ("CPCNet"). With further synergies among the Group's various telecommunications operations created through this acquisition, we are well-positioned for future business expansion.

On the back of well-established business relationships with telecoms operators in the PRC and overseas and strong growth momentum of China's telecommunications market, and coupled with the benefit of improved marketing strategies, internal management and customer services, the Group delivered sound results in all of its business segments in 2007. The Board recommended a final dividend of 3.1cents for the year 2007.

## 1. Review for the year 2007

**EFFECTIVE MARKETING STRATEGIES ADOPTED TO SECURE STABLE GROWTH IN VOICE HUBBING SERVICES**

Competition in the market for voice hubbing services remained intense during the past year, with mounting pressure for rate cuts. In the face of fierce market competition, the Group adopted effective marketing strategies such as making pro-active moves to understand the operating environment and business needs of various telecommunications operators in order to provide more timely services with better quality. We also actively expanded overseas markets and established business connections with more overseas telecoms operators. As a result of these efforts, we were able to secure steady growth in voice hubbing services.

Voice traffic carried by the Group rose to 5,605.4 million minutes, representing a 19.3% increase as compared with the previous year. China inbound and outbound voice traffic grew by 23.9% to reach 4,524.1 million minutes. Revenue generated from voice hubbing services amounted to HK$1,162.5 million, representing a 1.8% increase as compared with the previous year. Revenue generated from mobile voice traffic increased by 14.1%, amounting to HK$645.9 million.

**RAPID GROWTH IN SMS HUBBING BUSINESS DRIVEN BY ESTABLISHMENT OF AN EXTENSIVE NETWORK OF OVERSEAS TELECOMS OPERATORS**

As SMS becomes an increasingly dominant form of communication for mobile phone users around the world, telecoms operators has been enjoying tremendous growth in SMS volume. In response to market demands, the Company established a new network exchange platform and upgraded relevant software during the year. As a result, the capacity and capability of our SMS hubs increased substantially, meeting requirements of the growing SMS market. Our marketing efforts for international businesses were also strengthened by an agreement with Vodafone Group to provide hubbing services for all SMS in-bound to China from mobile telecoms operators under Vodafone Group in 18 countries and regions.

The Group carried 1,896.9 million SMS messages during the year, an increase of 54.4% as compared with the previous year. Revenue generated from SMS hubbing services rose by 59.5% to reach HK$186.8 million.

### ENORMOUS GROWTH IN REVENUE FROM MOBILE VALUE-ADDED SERVICES ("MOBILE VAS") FOLLOWING ACTIVE BUSINESS DEVELOPMENT

Growing interaction between PRC companies and individuals and their foreign counterparties in tandem with China's rapid economic growth and the ongoing substantial increase in visitors from Hong Kong and other parts of the world to China for business or leisure as well as Chinese tourists visiting overseas destinations had created increasing demand for cross-border telecommunications services, resulting in considerable growth of our Single IMSI Multiple Number ("SIMN") service and Mobile Roaming Call Back service. Through cooperation with PRC mobile telecoms operators, the Group succeeded in growing its Mobile VAS business and extending its services to the two largest mobile operators in China. Meanwhile, the Group is also vigorously promoting its international Mobile VAS services in the Southeast Asian market. In this connection, contracts had been signed with mobile telecoms operators in Vietnam, the Philippines and Malaysia for the provision of Mobile VAS services. Revenue from the Group's Mobile VAS services amounted to HK$59.4 million, representing a substantial increase of 92.2% as compared with the previous year.

### NEW DEVELOPMENT MOMENTUM GENERATED THROUGH THE ACQUISITION OF CPCNET

With the support of CITIC Pacific, the parent company, the Group had completed the acquisition of CPCNet from the parent company towards the end of 2007, after which CPCNet became a wholly-owned subsidiary of the Group. With its in-depth technological expertise in internet virtual private network, internet access services and network solutions, CPCNet presented a new frontier for the Group's business development as well as improved capabilities in data services and network solutions. With sound profitability and prospects, CPCNet is set to make significant contributions to the Group's profit growth. In 2007, net profit of CPCNet amounted to HK$26.8 million.

### IMPROVED CORPORATE GOVERNANCE STRUCTURE WITH A SOUND SYSTEM FOR BUSINESS OPERATIONS

Subsequent to its listing, the Group strengthened the decision-making and supervisory functions of the Board of Directors and fully leveraged the office of independent non-executive directors in corporate governance. A system for management's business objectives was established and a new performance appraisal mechanism was adopted. In addition, the Risk Management Committee and Capital Expenditure Assessment Committee of the Group continued to play effective roles in internal audit and supervision, which further improved our corporate governance standards. Based on characteristics of our various businesses, the Group further improved its operational procedures and formulated specific regulations for internal controls in various business functions. With continuous improvement in the corporate governance regime, the Group was able to further strengthen its internal controls to assure stronger risk aversion abilities.

## 2. Prospects for the year 2008

In 2008, the Group will focus on the integration of businesses, optimization of resources and enhancement of the customer services centres. At the same time, the Group will implement stated marketing strategies, increase overall business promotion to strengthen ties with customers, continue internal revamp efforts on technological innovations and cost reductions, and enhance competitiveness in areas such as international telecoms hubbing services, internet virtual private network services and internet access services.

### TO MAINTAIN STEADY GROWTH IN VOICE HUBBING SERVICES

For our voice hubbing services, the Group will strive to continue the provision of quality services to China and overseas telecoms operators and maintain steady growth in this sector. As a traditional form of telecommunications services, voice hubbing operations are experiencing enormous pressure in terms of development pace and pricing. However, in emerging markets such as Southeast Asia, Middle East and Africa, voice hubbing is still a growth business enjoying rapid development. In view of this, the Group intends to explore these emerging markets in a pro-active and orderly manner to establish a firm foothold for business development, thereby maintaining steady growth in its voice hubbing services.

The Group will continue to strengthen business ties with strategic partners, conduct investigations on mergers and acquisitions, identify new investment opportunities in a timely manner and select right targets for acquisition. We shall enlarge our market share by expanding our network and coverage through acquisition, in order to maintain our leading position in the market of voice hubbing services.

**TO SUSTAIN RAPID GROWTH IN SMS HUBBING SERVICES**

Given enormous growth opportunities in the market for SMS hubbing services, the Group aims to further enhance businesses ties with mobile telecoms operators in the PRC and Hong Kong and overseas mobile operators by providing the best services to these mobile operators. We will also strive to extend the reach of our SMS hubbing services to cover mature markets such as Europe and North America as well as emerging markets such as Southeast Asia and Middle East, in order to maintain rapid growth in SMS hubbing services and increase the contribution from SMS hubbing services to our total revenue. This will result in a more rationalized income mix for the Group that would cope better with market risks.

**TO DRIVE FOR EXPANSION AND MARKET DOMINANCE OF OUR MOBILE VAS BUSINESS**

For our mobile VAS business, the Group will continue to develop new services while promoting existing packages to a more diverse customer base of mobile operators. Our mobile VAS business will be expanded to cover more international mobile telecoms operators and other new business operators, especially mobile operators in the Asia-Pacific region. The Group will continue to develop and offer more valuable, marketable and innovative mobile VAS.

**TO LEVERAGE ON GROUP SYNERGIES**

Following the inclusion of CPCNet as a wholly-owned subsidiary of the Group, the competitiveness of the Group in data businesses, such as internet virtual private network business and internet access services, has been enhanced. Capitalising on CPCNet's technological advantages in virtual private networks and its operating network and experience in the PRC, synergies will be created between CPCNet and the original businesses of the Group in terms of marketing, customer services, capacity expansion for data centres, international private lease lines and data services, thereby providing new momentum for further enhancement of the Group's profitability.

In 2008, the Group will be greeted with new business opportunities presented by the Beijing Olympic Games, the restructuring of the PRC telecommunication sector and the issuance of 3G licences. I am confident that, with the concerted efforts of our staff, our business will continue to grow at a rapid pace, and our operational efficiency will be further enhanced in 2008.

In January, Mr. Xin Yue Jiang joined the Group as Vice Chairman of the Board. Mr. Xin brings with him extensive experience and expertise in corporate management and is set to give further boost to the Board in the discharge of its duties. On behalf of the Board, I would like to extend my warm welcome to Mr. Xin in joining the Group as Vice Chairman of the Board.

It gives me great pleasure that the Group can count on a trustworthy management team and a group of high-calibre staff with utmost dedication in growing the business of the Group. On behalf of the Board, I would like to express gratitude to the management and the staff for their efforts in the past year.

Shi Cuiming
*Chairman*
**Hong Kong, 11 March 2008**



# Business Review

## Voice Hubbing Service

Total traffic volume of 2007 increased by 19.3% from 4,698.2 million minutes in 2006 to 5,605.4 million minutes. Turnover was HK$1,162.5 million, a growth of 1.8% as compared with 2006. Voice Hubbing Service turnover represented 78.2% of the Group's total turnover.

China outbound business contributed significant turnover growth at 9.8% as compared with 2006. The Group continues to strengthen the service level and capabilities on mobile traffic termination which are critical to the Mobile Network Operators. Total growth of mobile traffic increased by 6.9% in 2007.

Despite the adverse factors such as network interruptions caused by the Taiwan earthquakes in January 2007 and the intensive competitions in the voice hubbing market, the Group's continuous improvements on business management system and network efficiency enable the Group to out-perform its competitors.

In March 2007, the Group installed its 2nd international gateway switch (NGN). By implementing VoIP technology on both dedicated network and public internet, total capacity was increased by 40% providing business growth capability

In 2007, a total of 26 new customers have been added enchancing our total number of customers to 294. They include international carriers, incumbent operators, mobile operators, major calling card operators and niche market service providers. These new customers are located in different parts of the world including high value destinations such as Thailand, Austria and Poland. Upon the signing of the strategic co-operation framework agreement with Vietnam Telecom International in the 3rd quarter of 2007, direct connection with Vietnam has been set up and bilateral business has commenced since October 2007. Beside Vietnam Telecom International, the Company has also sped up the business development with other countries such as Laos, Myanmar and Bangladesh.

and network resilience. The new NGN platform operates and caters for different type of signaling protocols which shorten the service set up time as well as support further expansion of business with the Group's existing and new customers.

A special routing engine for VIP customers was put in service in mid 2007. This routing engine enables more efficient use of suppliers' services which would allow the Group to achieve more effective cost management and maximse the profit margin on different kind of services. The Group was able to maintain its profit margin with the engine against an average 14.7% drop in the selling price throughout the year.

2008 will be a year of many challenges. Focus will be put on network expansion and resilience enforcement, new and high value market and customers development, and maintenance of high quality service level to our customers. A powerful routing and margin management system is vital to the success of the Group's voice hubbing service. In order to maintain the Group's competitiveness and profitability, further enhancement on the Group's business management system will be implemented. Extra effort will also be put into mobile hubbing and roaming terminations and to develop new service and coverage to further strengthen our overall return.



# Enterprise Solutions

Overall contribution from Enterprise Solution increased by 3.8% as compared with 2006. The growth has been contributed from Data Centre business of 4.6% while Data Connectivity recorded a growth of 26.0%.

After operating for 2 years, the Group's IFC2 data centre collocation business began to pick up. The premium location not only attracted high-end enterprise customers, but also different market segment customers such as government departments, service providers and overseas operators who find the Group's collocation facilities most ideal to house their IT and telecoms properties. We expect the occupancy rate would continue to grow and more multi-national and global organizations would collocate with us in 2008.

# SMS

SMS's turnover has grown by 59.5% in comparison with 2006. The Group's ISMS service leads the ASEAN market coupled with positive gain in the international arena.

Major success outside Asia includes the Vodafone Group (service roll out in 7 additional countries during 2007), Sonara Group, and Telenor Group.

In 2007, the Group's Mobile Services took major involvement in the international GSM Association (GSMA) OC SMS hubbing scheme development. This lays a solid foundation for future SMS business growth. The GSMA OC-SMS Hubbing complaint platform has also given CITIC 1616 a stronger position in the SMS Hubbing business in the region.

Mobile services also signed up new direct SMS customers in Cambodia, Japan, Korea, Australia, New Zealand, Vietnam, Ireland, Egypt, Palau, Greece, Italy, Netherlands, and Ukraine. In addition, by leveraging the well established international SMS gateway in China, Mobile Services is in a perfect position to capitalize the enormous SMS growth in 2008 Olympics games in Beijing, China.

# MVAS


The Group offers Mobile value added services (VAS) to telecoms operators through their connections to the Group's hub.

Mobile VAS achieved an overall growth of 92.2% among all its services including single-SIM-card-multiple-numbers (SIMN), roaming signaling service (SCCP), prepaid roaming service(PRS), and mobile roaming call back service (USSD).

## SIMN:

SIMN's turnover has grown by 40.5% in comparison with 2006. During 2007, SIMN has demonstrated a high acceptance in Greater China region (i.e. China, Hong Kong and Macau) and the number of subscriptions reaches half a million.

Mobile Services secured new customer contracts with KTF (a South Korea operator) to further roll out this service in Asia Pacific while strong interests had been shown in Japan, Malaysia, Philippines, and Thailand for our SIMN service.

CITIC 1616 is the first in the market to offer this service as a hubbing solution. This solution provides a very cost effective and short time to market means for the partner operators.

## SCCP:

SCCP's turnover has grown by 140.2% in comparison with 2006. The Group has gained its reputation as a next generation SCCP service provider on the global front and was elected as the chair of the International C7 planning committee in 2007.

The Group successfully expanded its market share in Asia by signing up new customers in Vietnam, Japan, Malaysia, and Indonesia. In addition, Mobile Services also participated in direct connection with other SCCP providers in Europe and North America to enhance its service quality and coverage.

The real time Network Management System (NMS) that offers as a bundle solution to our customers has given CITIC 1616 a very unique position to offer this service.

## PRS:

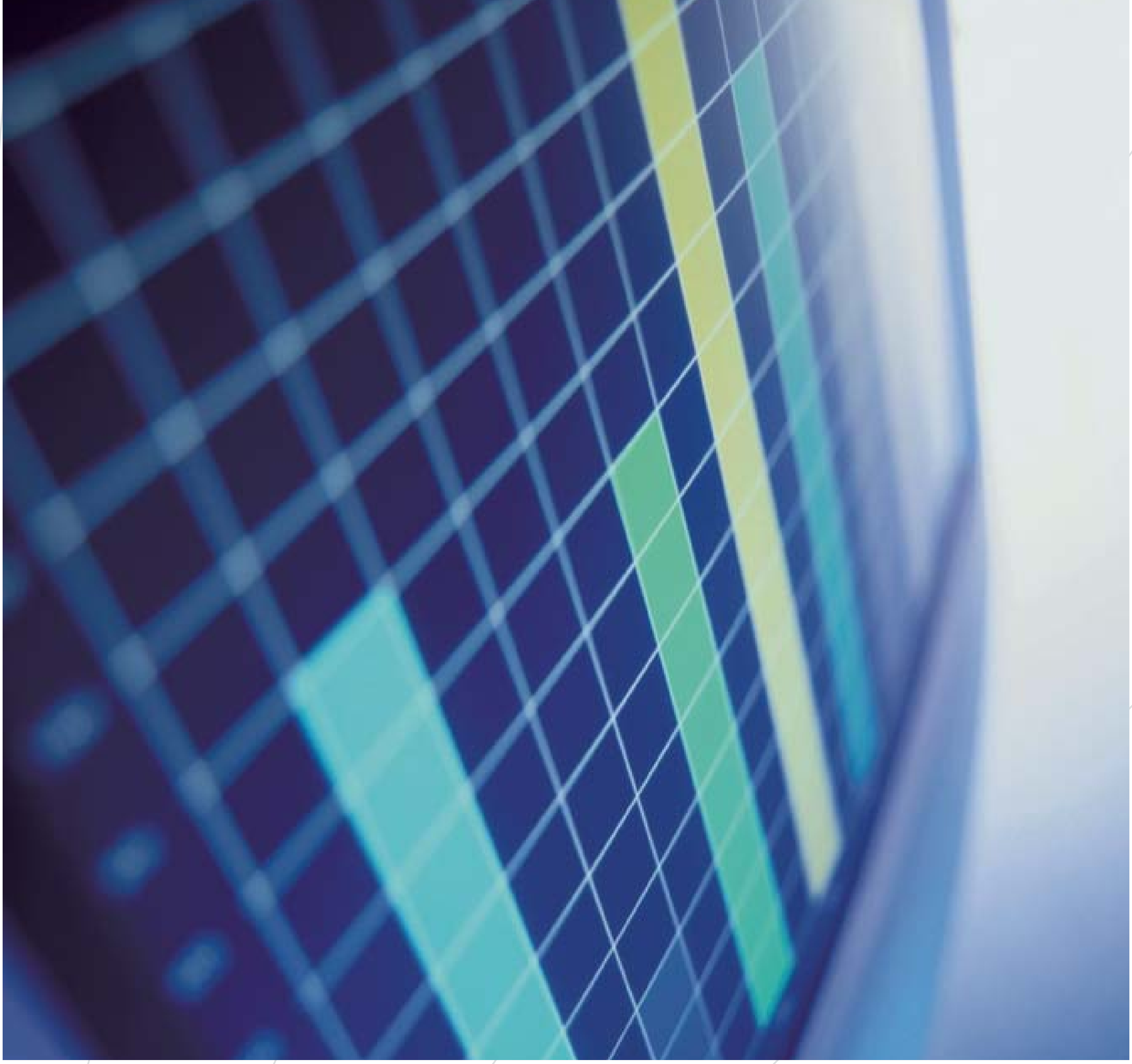
PRS's turnover has grown by 111.1% and has gained popularity amongst Asia mobile operator's community.

The robustness and flexibility of CITIC 1616's PRS solution technology generated high level of interests from our potential customers in 2007. The platform has solutions for the main problems encountered by most of the mobile operators in the deployment of prepaid roaming services.

CITIC 1616 have secured multiple new customer contracts in Hong Kong, China, Malaysia, Philippines, Taiwan, Singapore, and Indonesia. The PRS shall also be a key service to be rolled out in preparation for the Beijing Olympics.

## USSD:

USSD's (Mobile Roaming Call Back) turnover has grown by 57.5% in comparison with 2006. Mobile Roaming call back minutes reached 20 million minutes in 2007 and demonstrated strong growth trend as more and more Chinese nationals are traveling abroad.





# Financial Review

## INTRODUCTION

This Financial Review is designed to assist the reader in understanding the statutory information by discussing the performance, and the financial position of the Group as a whole.

Pages 53 to 59 of the Annual Report contain the Consolidated Income Statement, Consolidated Balance Sheet, Statement of Changes in Equity and Consolidated Cash Flow Statement. Following these financial information, on pages 60 to 113 of the Annual Report, are Notes that further explain certain figures presented in the report.

On page 114 is the report of CITIC 1616's auditor – KPMG – of their independent audit of the Group's Annual Accounts.

# BASIS OF ACCOUNTING

The Group prepares its financial report 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.

# REVIEW OF FINANCIAL PERFORMANCE

## TURNOVER

The Group's turnover for 2007 was HK$1,486.1 million, an increase of 8.9%, as compared to HK$1,364.2 million achieved in 2006.

Voice Hubbing Services revenue increased from HK$1,141.6 million for 2006 to HK$1,162.5 million for 2007, representing an increase of 1.8%. The traffic carried by the Group in 2007 reached 5,605.4 million minutes, an increase of 19.3% compared with 4,698.2 million minutes in the previous year. Owing to the change of traffic pattern, the overall revenue per minute had decreased. During the year, the Group handled 623.1 million minutes and 3,901.0 million minutes for China Outbound traffic and China Inbound traffic respectively.

In respect of SMS Hubbing Services, the Group recorded a 59.5% growth, from HK$117.1 million for 2006 to HK$186.8 million for 2007. 1,896.9 million messages were handled in 2007, an increase of 54.4% as compared to 2006.

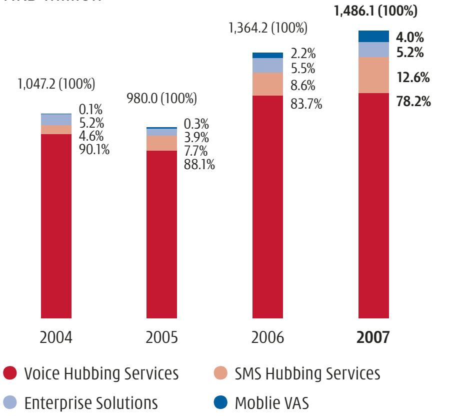
Mobile VAS revenue was HK$59.4 million for 2007, an increase of 92.2% as compared to HK$30.9 million for 2006. This favorable result was mainly due to the full year impact of the products launched in the second quarter of 2006, the increase in demand of these services to new customers and the sign up of new customers during the year.

Enterprise Solutions revenue was HK$77.4 million for 2007, an increase of 3.8% as compared with HK$74.6 million for 2006. The increase was mainly due to the incorporation of the result of CPCNet Hong Kong Limited.

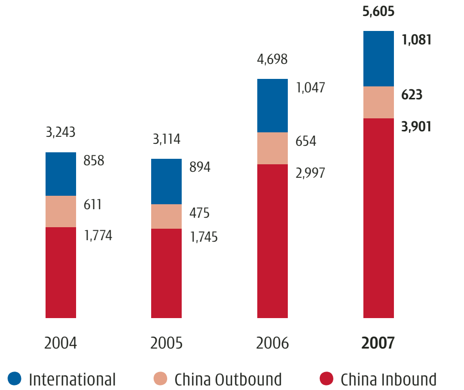
## OTHER REVENUE

The Group's other revenue increased from HK$2.1 million in 2006 to HK$62.4 million in 2007. The increase was mainly attributable to HK$40.5 million bank interest income from the proceeds of initial public offer.

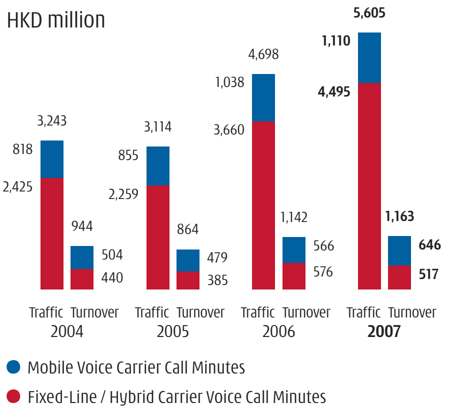
**Turnover**
HKD million




**Traffic (by geographic)**
Minutes in million

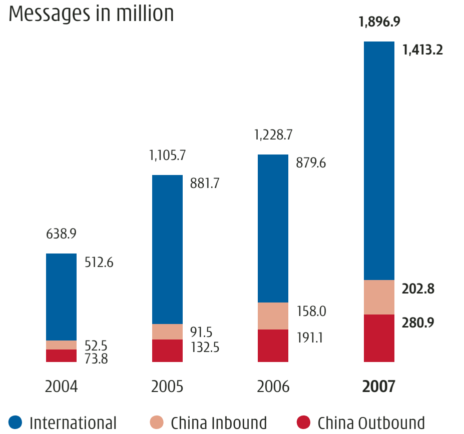



**Traffic & Revenue (by type of call)**
Minutes in million
HKD million

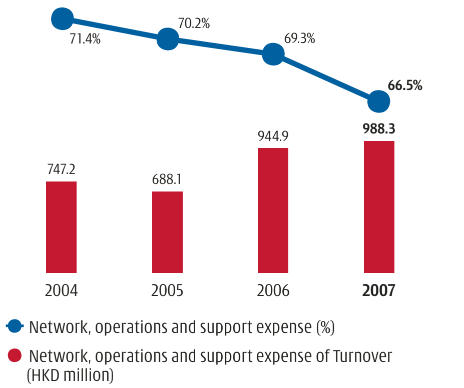


**Number of SMS**

Messages in million

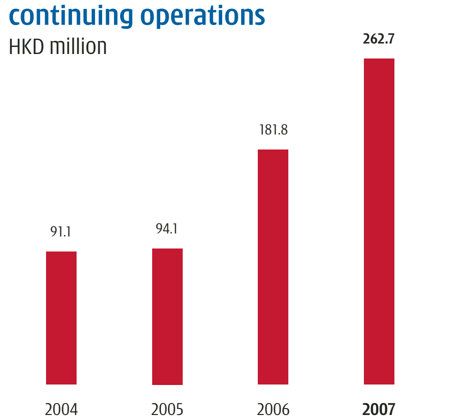



**Network, operations and support expenses**




**Profit for the year from continuing operations**

HKD million




## NETWORK, OPERATIONS AND SUPPORT EXPENSES

In the year 2007, network, operations and support expenses amounted to HK$988.3 million, representing an increase of 4.6% compared with HK$944.9 million in 2006. The increase was mainly due to the increase of network costs of HK$55.3 million as a result of the increase in traffic volume.

In terms of percentage of turnover, network, operations and support expenses represented 66.5% (2006: 69.3%) of turnover in 2007. The reason for the decrease in percentage was mainly due to the increase in cost efficiency.

## STAFF COSTS

Starting from January 2007, the Group had ceased the management fee arrangement with CITIC Pacific Limited and therefore those senior staffs previously under the management fee arrangement with CITIC Pacific was now included under the Group's payroll. Staff costs from continuing operations for 2007 amounted to HK$103.3 million, representing an increase of HK$35.9 million compared with HK$67.4 million in 2006. The increase was mainly due to HK$12.9 million share option payment expenses incurred in 2007 and the staff costs previously paid under CITIC Pacific's management fee (2007: Nil, 2006: HK$15.9 million) has now been included in 2007's staff costs.

## OTHER OPERATING EXPENSES

Other operating expenses from continuing operations for 2007 amounted to HK$71.7 million, representing an increase of 16.4% compared with HK$61.6 million in 2006. The increase was principally due to an increase in office rental expenses, which the Company had renewed in November 2006.

## INCOME TAX

The Group's income tax expenses increased from HK$38.1 million in 2006 to HK$43.7 million in 2007. This increase was in line with the increase of profit from operations.

## PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS

Profit from continuing operations for the year ended 31 December 2007 was HK$262.7 million, an increase of 44.5% compared with HK$181.8 million for the year ended 31 December 2006. If the special item like bank interest income from the proceeds of initial public offering of HK$40.5 million, IPO related listing expenses of HK$1.5 million, and the non-cash item share option expenses of HK$12.9 million were excluded, profit from operations amounted to HK$236.6 million, an increase of 30.1% over the last year.

**PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY**

Profit attributable to equity holders of the Company for the year ended 31 December 2007 was HK$262.7 million, an increase of 30.4% compared with HK$201.5 million in 2006.

**EARNINGS PER SHARE**

Earnings per share from continuing and discontinued operations was 14.3 cents for 2007, an increase of 20.2% compared with 11.9 cents in 2006. The increase in earnings per share from continuing and discontinued operations was mainly due to the increase in profit attributable to the equity holders of the Company.

Earnings per share from continuing operations was 14.3 cents for 2007, an increase of 33.6% compared with 10.7 cents for 2006. The increase in earnings per share from continuing operations was mainly attributable to the increase in profit from continuing operations.

**DIVIDEND PER SHARE**

A final dividend of 3.1 cents per share are proposed for 2007.

**CAPITAL EXPENDITURE**

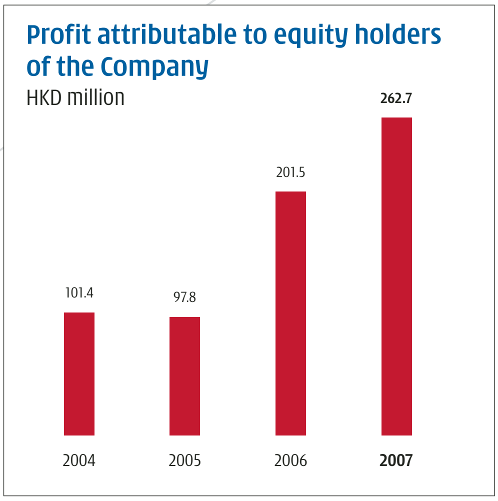
Capital expenditure was HK$62.4 million for 2007, which mainly comprised HK$48.1 million for upgrading the Group's network system, and HK$9.9 million for enhancing the Group's application development activities.

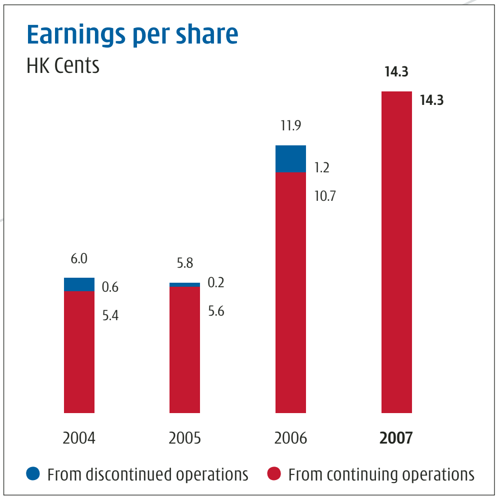
**USE OF PROCEEDS**

The Company raised net proceeds of HK$461.0 million as a result of the initial public offering. During 2007, the Group utilised HK$48.1 million for upgrading the Group's network system and HK$9.9 million for enhancing the Group's application development activities. The remaining proceeds were held as bank deposits within Hong Kong as at 31 December 2007.

**ACQUISITION OF SILVER LINKAGE INVESTMENTS INC. AND ITS SUBSIDIARIES ("SILVER LINKAGE GROUP")**

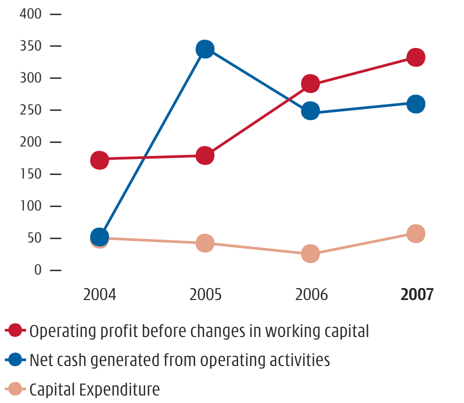
On 17 December 2007, the Company acquired the entire share capital and shareholders' loan of Silver Linkage Group from Smooth Tone Enterprises Inc., an indirect wholly owned subsidiary of the Company's controlling shareholder, CITIC Pacific Limited. Silver Linkage is the holding company of CPCNet Hong Kong Limited, a communications and network solution provider mainly offering corporate data services and network security solutions such as Multi-Protocol Label Switching Virtual Private Network (MPLS VPN) for multinational corporations and business enterprises requiring seamless connection to Greater China and Asia. The purchase consideration was satisfied by the issuance of 98,066,283 new ordinary shares of the Company.



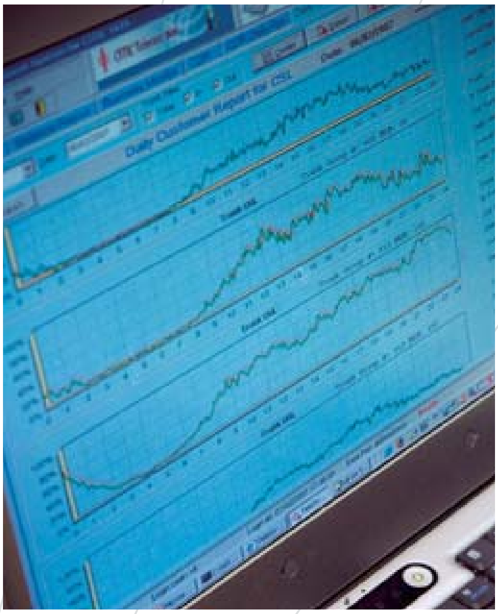



**Liquidity and Capital Expenditure**

HKD million




Note: The exceptionally high net cash generated from operating activities from 2004 to 2005 was due to the significant reduction in average trade receivable days as a result of customer revamp during the year.



## GROUP LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2007, the Group had cash and cash equivalents of HK$780.6 million, as compared with 31 December 2006 of amount HK$43.4 million, there was an increase of HK$737.2 million. The increase was mainly due to the Group's net proceeds of HK$461.0 million from the initial public offer in April 2007, and Group's net cash generated from operating activities of HK$262.1 million in 2007.

## BORROWINGS

As at 31 December 2007, the Group had no outstanding borrowings.

## BANKING FACILITIES

As at 31 December 2007, the Group had banking facilities amounting to US$3.85 million and HK$100.0 million (equivalent to a total of HK$130.0 million). Of the total banking facilities, US$0.1 million (equivalent to HK$0.8 million) was utilised as guarantees for the Group's purchase from telecoms operators.

## SECURITIES AND GUARANTEES

As at 31 December 2007, the Group had not made any pledge of or created any securities over its assets and had not provided any corporate guarantee.

## CONTINGENT LIABILITIES

As at 31 December 2007, the Group did not have any contingent liabilities.

## CAPITAL COMMITMENTS

As at 31 December 2007, the Group had outstanding capital commitments of HK$17.1 million, mainly for the acquisition of network equipment which had yet to be delivered to the Group of which HK$7.9 million were outstanding contractual capital commitments and HK$9.2 million were capital commitments authorised but for which contracts had yet to be entered into.

## EXCHANGE RATE RISK

Currently, a substantial portion of the Group's sales revenue and its cost of sales are denominated in US dollar, to which the Hong Kong dollar is pegged. The Group is not exposed nor anticipates itself to be 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 trade receivables due from the Group's 5 largest customers and customers from China, with the 5 largest customers accounting for approximately 46% and 49% of the Group total trade receivables as at 31 December 2007 and 31 December 2006 respectively. The credit risk exposure to the 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.

## 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.

# Four Year Summary

| | At 31 December | | | |
|---|---|---|---|---|
| | 2004 | 2005 | 2006 | **2007** |
| | HK$'000 | HK$'000 | HK$'000 | **HK$'000** |
| **Assets and liabilities** | | | | |
| Property, plant and equipment | 341,029 | 320,409 | 278,073 | **326,489** |
| Intangible assets | – | – | – | **28,717** |
| Goodwill | – | – | – | **9,455** |
| Non-current other receivables | 24,034 | 26,910 | 37,891 | **34,772** |
| Deferred tax assets | 5,994 | 5,288 | 7,478 | **42,096** |
| Net current assets | 238,955 | 352,529 | 86,925 | **881,446** |
| Total assets less current liabilities | 610,012 | 705,136 | 410,367 | **1,322,975** |
| Deferred tax liabilities | (41,394) | (38,737) | (37,450) | **(35,125)** |
| **NET ASSETS** | 568,618 | 666,399 | 372,917 | **1,287,850** |

| | | | | |
|---|---|---|---|---|
| **Capital and reserves** | | | | |
| Share capital | 2,001 | 2,001 | 1 | **197,807** |
| Reserves | 566,592 | 664,398 | 372,916 | **1,090,043** |
| Total equity attributable to equity holders of the Company | 568,593 | 666,399 | 372,917 | **1,287,850** |
| Minority interests | 25 | – | – | **-** |
| **TOTAL EQUITY** | 568,618 | 666,399 | 372,917 | **1,287,850** |

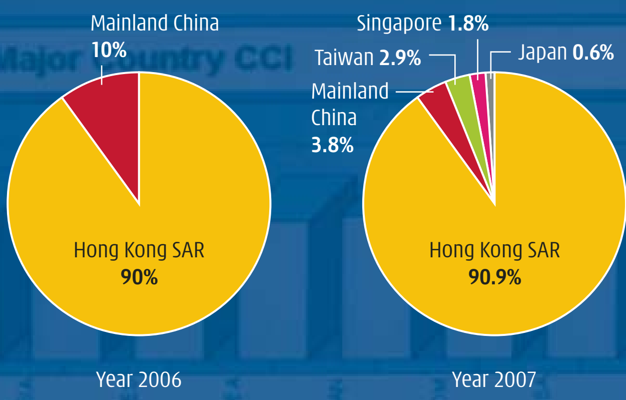
| | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|
| | For The Year Ended 31 December | | | |
| | HK$'000 | HK$'000 | HK$'000 | **HK$'000** |
| **Results** | | | | |
| Turnover | 1,047,152 | 980,046 | 1,364,209 | **1,486,071** |
| Profit from operations and before taxation | 108,699 | 112,167 | 219,903 | **306,377** |
| Income tax | (17,564) | (18,130) | (38,095) | **(43,678)** |
| Profit for the year from continuing operations | 91,135 | 94,037 | 181,808 | **262,699** |
| Discontinued operations | | | | |
| Profit for the year from discontinued operations | 10,343 | 3,744 | 19,710 | **-** |
| Profit for the year | 101,478 | 97,781 | 201,518 | **262,699** |
| Attributable to: | | | | |
| Equity holders of the Company | 101,478 | 97,806 | 201,518 | **262,699** |
| Minority interests | – | (25) | – | **-** |
| | 101,478 | 97,781 | 201,518 | **262,699** |
| Basic and diluted earnings per share | | | | |
| From continuing and discontinued operations (HK cents) | 6.0 | 5.8 | 11.9 | **14.3** |
| From continuing operations (HK cents) | 5.4 | 5.6 | 10.7 | **14.3** |
| From discontinued operations (HK cents) | 0.6 | 0.2 | 1.2 | **-** |

Note: The results of the Group for the year ended 31 December 2005, 2006 and 2007 were prepared in accordance to note 1 to the Financial Statements. The results for the year ended 31 December 2004 were extracted from the prospectus of the Company dated 22 March 2007.

# Human Resources

As at the end of December 2007, the Group employed 341 staff (2006 : 173) in its headquarters in Hong Kong and its principal subsidiaries. The increase of number of employees in this year are mainly from the acquired company, Sliver Linkage (Silver Linkage is the holding company of CPCNet Hong Kong Limited).

**Headcount by Territory**




## Human resources management

CITIC 1616 is an equal opportunity employer and adheres to non-discriminatory employment practices and procedures in recognizing and respecting individual's rights. Striving to administer a fair and consistent human resources management policy to the mutual benefit of its employees and the Group, it also upholds a high standard of business ethics and personal conduct of its employees. Every employee of the Group is required to strictly follow the Code of Conduct which covers the professional and technical standard of requirements in conducting business, and all heads of business units are charged with the responsibility of disseminating the Group's requirements to the people concerned.

## Employee compensation

CITIC 1616 aims to attract, retain and motivate employees who have the relevant skills, knowledge and competencies to develop, support and sustain the continued success of the Group. Employee's cash remuneration typically comprises a base salary and a variable compensation, mainly in the form of a performance-linked discretionary bonus which is based on the company's result and the individual's performance. Its compensation strategy is to cultivate a pay-for-performance culture to incentivize and reward employee performance that will lead to a long-term enhancement of the overall caliber of the Group. On an annual basis, the Group review the cash compensation and benefit programmes provided for its

employees to ensure that the total compensation is internally equitable, externally competitive, as well as in support of the Group's business strategy.

## Remuneration committee

The remuneration committee established on 16 March 2007, comprises three independent non-executive directors. Mr. Yang Xianzu is the Chairman of the remuneration committee.

The primary duties of the remuneration committee are to make recommendations to the Board on the Group'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.

## Retirement benefits

For the Hong Kong employees, the Group has set up the Mandatory Provident Fund Scheme (the "MPF Scheme"). 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.

Retirement benefit for employees in the mainland and overseas is based primarily on local mandatory requirements.

## Training & development

In relation to positions which require special skills and professional qualifications, the Group will provide special training and/or sponsor outside training sessions for the employees. Newly recruited employees are required to attend an introduction course covering topics including the Group's introduction, general employment terms & conditions, benefits, staff obligations, 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 Group has adopted a sponsorship programme whereby employees may apply for a tuition sponsorship for studies relevant to their employment. The award of the sponsorship is at the sole discretion of the Group and the employee should comply with such conditions and terms imposed by the Group on the award of the sponsorship, including commitment to work for the Group for a pre-determined period after completion of the studies.

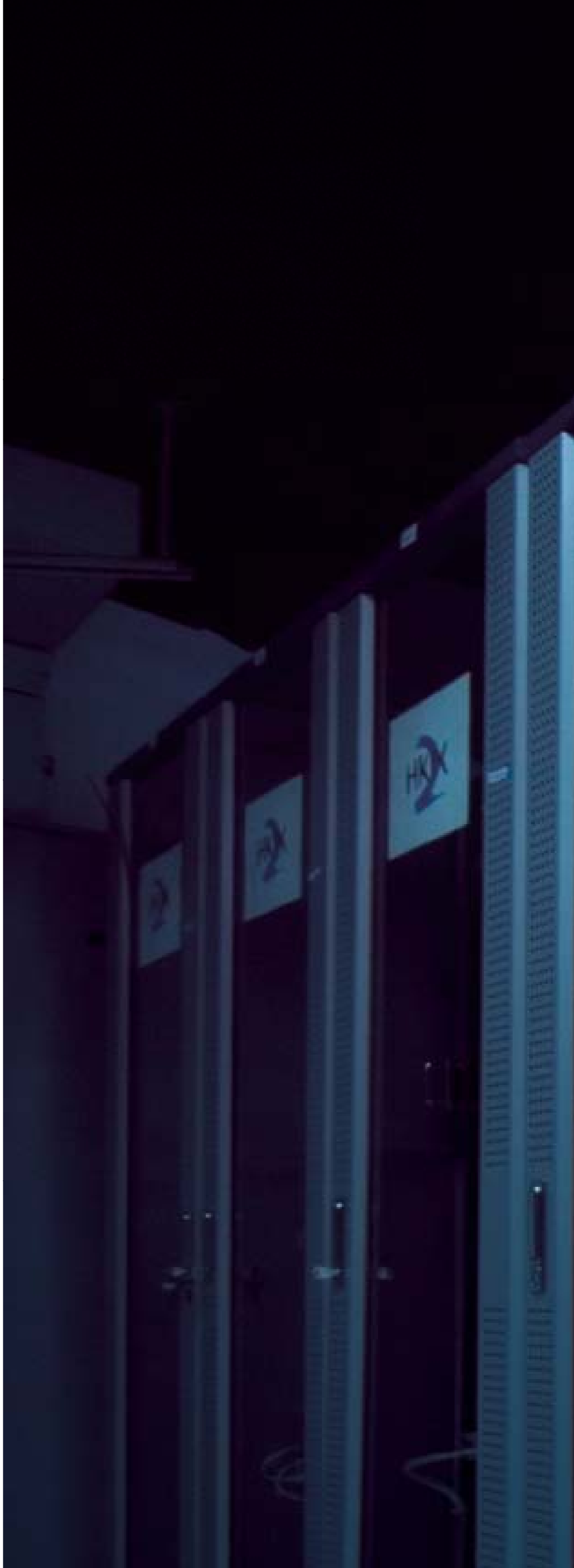
# In the Community

As a committed corporate citizen, the Group supports community work on technology sector. Hong Kong Internet eXchange 2 (HKIX2) was launched in November 2004 and function as the mirror site of the Hong Kong Internet eXchange (HKIX) which is operated by Chinese University since 1995.

The Group (CITIC 1616) sponsors the whole project from networking equipment, two protected 10Gbps optical fiber connections between HKIX to co-location spaces and daily operation.

Same as HKIX, HKIX2 is a non-profit organization that applies the same policy and free services to local ISPs for interconnection. By ensuring full redundancy for Hong Kong Internet service, HKIX2 enhance the availability and performance of local data exchange on the Internet which benefit to local ISPs and content providers, as well as Internet users in Hong Kong for continuous and non-stop local internet activities.

The Group had also made donations to the Community Chest of Hong Kong during the year.




# 20 Gbps

optical fiber connections between HKIX and HKIX2

# Corporate Governance

## Corporate Governance Practices

The Company is committed to ensuring high standards of corporate governance and first class business practices. The Board believes that good corporate governance practices are increasingly important for maintaining and promoting investor confidence. Corporate governance requirements keep changing, therefore the Board reviews its corporate governance practices to ensure they meet stakeholders' expectations, comply with legal and professional standards and reflect the latest local and international developments. The Board will continue to commit itself to achieving a high quality of corporate governance.

During the period from 3 April 2007 (on which the Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange")) to 31 December 2007, the Company has complied with all code provisions in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("the Listing Rules"). The Company has also applied all the principles in the aforesaid Code and the manner in which they are applied are explained in the following parts of the Corporate Governance Report.

## Directors' Securities Transactions

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Companies ("the Model Code") contained in Appendix 10 of the Listing Rules. Having made specific enquiry, all Directors have fully complied with the required standard set out in the Model Code during the period from 3 April 2007 to 31 December 2007.



## Board of Directors

The Board currently comprises four executive and five non-executive directors of whom three are independent as defined by the Stock Exchange (the biographies of the directors are set out on pages 38 to 39). Independent non-executive directors are one-third and the non-executive directors are more than half of the Board.

There is no nomination committee in the Group for the time being. Candidates to be nominated as directors are experienced, high calibre individuals and the appointment of all the new directors during the year was put to the full Board for approval. Under the Company's Articles of Association, every director, including the non-executive director, is subject to retirement by rotation at least once every three years. One-third of the directors must retire from office at each annual general meeting and their re-election is subject to a vote of shareholders. This means that the specific term of appointment of a director cannot exceed three years.

The Board determines the overall strategies, monitors and controls operating and financial performance and sets appropriate policies to manage risks in pursuit of the Group's strategic objectives. Day-to-day management of the Group's businesses is delegated to the executive director or officer in charge of each division. The functions and power that are so delegated are reviewed periodically to ensure that they remain appropriate. Matters reserved for the Board are those affecting the Group's overall strategic policies, finances and shareholders including financial statements, dividend policy, significant changes in accounting policy, material contracts and major investments. All Board members have separate and independent access to the Group's senior management to fulfil their duties. They also have full and timely access to relevant information about the Group and are kept abreast of the conduct, business activities and development of the Group. Independent professional advice can be sought at the Group's expense upon their request.

The Board meets regularly to review the financial and operating performance of the Group and other business units, and approve future strategy. Four Board meetings were held in 2007. Individual attendance of each director, except for Mr. Xin Yue Jiang, who was appointed in January 2008, at the Board meetings, the Audit Committee meetings and the Remuneration Committee meetings during 2007 is set out below:

| | Attendance/Number of Meetings | | |
|---|---|---|---|
| Director | Board | Audit Committee | Remuneration Committee |
| Executive Director | | | |
| Mr. Shi Cuiming | 4/4 | | |
| Mr. Yuen Kee Tong | 4/4 | | |
| Dr. David Chan Tin Wai | 4/4 | | |
| Dr. Li Bin (resigned on 27 November, 2007) | 3/3 | | |
| Non-executive Director | | | |
| Mr. Lee Chung Hing | 4/4 | | |
| Mr. Kwok Man Leung | 4/4 | | |
| Independent Non-executive Director | | | |
| Mr. Yang Xianzu (Chairman of the Remuneration Committee) | 4/4 | 2/2 | 2/2 |
| Mr. Liu Li Qing | 4/4 | 2/2 | 2/2 |
| Mr. Gordon Kwong Che Keung (Chairman of the Audit Committee) | 4/4 | 2/2 | 2/2 |

To implement the strategies and plans adopted by the Board effectively, executive directors and senior managers meet on a regular basis to review the performance of the businesses of the Group, co-ordinate overall resources and make financial and operational decisions. In addition, a risk management committee, comprising the executive directors and senior managers, will meet regularly to enhance the risk management and corporate governance of the Group. The Capex Review Board is also set up in which the Chief Executive Officer and the Chief Financial Officer will review the capital investments initialled by different departments, that will materially affect the profitability and cashflow of the Company, to ensure that the proposed investments are in the best interests of the Group, both commercially and strategically.

## Chairman and Chief Executive Officer

The Group has appointed a Chairman, Mr. Shi Cuiming and a Chief Executive Officer, Mr. Yuen Kee Tong. The roles of the Chairman and the Chief Executive Officer are segregated. The primary role of the Chairman is to provide leadership for the Board and to ensure that it works effectively in the discharge of its responsibilities. The Chief Executive Officer is responsible for the day-to-day management of the Group's business. Their respective roles and responsibilities are set out in writing which has been approved and adopted by the Board.

## Remuneration of Directors

The Remuneration Committee, established in March 2007, has clear terms of reference and is accountable to the Board. The terms of reference can be found in the Group's website (www.citic1616.com). The principle role of the committee is to exercise the powers of the Board to determine and review the remuneration packages of individual executive directors and senior management, including salaries, bonuses, benefits in kind and the terms on which they participate in any share option and other plans considering 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-based remuneration so as to align management incentives with shareholder interests.

During 2007, the Remuneration Committee reviewed the remuneration policies and approved the salary and bonus of the executive directors and senior management. No executive director has taken part in any discussion about his own remuneration. Its members comprise:

Mr. Yang Xianzu – Chairman
Mr. Liu Li Qing
Mr. Gordon Kwong Che Keung

Two meetings were held in 2007. All Committee members including the Chairman are independent non-executive directors.

The fee for each individual director sitting on the Board is HK$120,000 per annum. The additional fees for the directors serving in the Audit Committee and the Remuneration Committee are HK$80,000 per annum and HK$40,000 per annum respectively.

Details of the Company's remuneration policies are set out in the Human Resources section on pages 28 to 29. Directors' emoluments and retirement benefits are disclosed on pages 77, 78 and 112. Details of the Company's Share Option Plan and the granting of options are disclosed on pages 46 to 48.

## Auditor's Remuneration

KPMG has been appointed by the shareholders annually as the Company's external auditors since 2005. During the year, the fees charged to the accounts of the Company and its subsidiaries for KPMG's statutory audit amounted to approximately HK$1.62 million (including the audit fee for the newly acquired company, Silver Linkage Investments Inc. and its subsidiaries), in addition approximately HK$0.46 million was charged for non-audit related services.

## Audit Committee

The Board established an Audit Committee in 2007. The Audit Committee has clear terms of reference and is accountable to the Board. The terms of reference can be found in the Group's website (www.citic1616.com). It assists the Board in meeting its responsibilities for ensuring an effective system of internal control and compliance, and in meeting its external financial reporting objectives. All Committee members including the Chairman are independent non-executive directors. Its members comprise:

Mr. Gordon Kwong Che Keung – Chairman
Mr. Yang Xianzu
Mr. Liu Li Qing

The Chairman has appropriate professional qualifications and experience in accounting matters, and the other Committee members possess experience in telecommunications industry. The Committee meets two times each year, together with senior management and auditors, both internal and external.

During 2007, the Audit Committee considered the external auditors' projected audit fees; discussed with the external auditors their independence and the nature and scope of the audit; reviewed the interim financial statements, particularly judgmental areas, before submission to the Board; reviewed the internal audit plan, findings and management's response. As a result, they recommended the Board to adopt the interim and annual report for 2007.

## Internal Audit

Upon listing, the Group has continued to engage the Group Internal Audit Department ("Internal Audit Department") of CITIC Pacific Limited ("CITIC Pacific", the listed parent company of the Company) to perform internal audits for the Group. The Internal Audit Department performs independent internal audit reviews for all business units and functions in the Group on a systematic and ongoing basis. The frequency of review of individual business unit or function is determined after an assessment of the risks involved. The Audit Committee endorses the internal audit plan annually. The Internal Audit Department has unrestricted access to all parts of the business, and direct access to any level of management including the Chairman, or the Chairman of the Audit Committee, as it considers necessary. It submits regular reports for the Audit Committee's review in accordance with the approved internal audit plan. Concerns which have been reported by the Internal Audit Department are monitored by management until appropriate remedial actions have been taken.

## Internal Controls

The Board is responsible for maintaining an adequate system of internal control and reviewing its effectiveness.

The internal control system is designed to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorized use and disposition, ensure the maintenance of proper accounting records and the truth and fairness of the financial statements, and ensure compliance with relevant legislation and regulations. It provides reasonable, but not absolute, assurance against material misstatement or loss and management rather than elimination of risks associated with its business activities.

During the year, the Board has reviewed the effectiveness of the Group's internal control system covering all material controls and risk management functions. The review is conducted annually in accordance with the requirement of the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules. The management assessed the risks and the internal controls with reference to the five components of the COSO (The Committee of Sponsoring Organisation of the Treadway Commission) internal control framework. The result of the review has been summarised and reported to the Audit Committee and the Board.

In addition, the Internal Audit Department conducts regular and independent reviews of the effectiveness of the Group's internal control system. The Audit Committee reviews the findings and opinion of the Internal Audit Department on the effectiveness of the Group's internal control system bi-annually and reports to the Board on such reviews.

## Codes

To ensure the highest standard of integrity in our businesses, the Group adopted a Code of Conduct defining the ethical standards expected of all employees, and the Group's non-discriminatory employment practices. Briefings on the Code of Conduct are held regularly for our new employees during orientation section. A set of Code of Conduct would be distributed to our employees or can be accessible through the Company intranet.

During the period from 3 April 2007 to 31 December 2007, the Company has complied with the code provisions in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules.

## Notifiable Transaction and Connected Transaction

During the year of 2007, the Company has issued a press announcement in respect of a notifiable transaction and connected transaction which can be viewed in the Group's website (www.citic1616.com).

## Non-competition Undertaking

CITIC Pacific has executed a deed of non-competition dated 21 March 2007 ("Non-competition Undertaking") in favour of the Company, details of which are set out in the prospectus of the Company, mainly to the effect that at any time during which the shares of the Company are listed on the Stock Exchange and CITIC Pacific and/or its associates are 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 in the provisions of telecommunications hub based service ("Restricted Activity") globally or in any other business that may compete with the Restricted Activity, and (ii) in the event that any opportunity is made available to CITIC Pacific to invest in any independent third party's business engaging in the Restricted Activity, CITIC Pacific will use its best efforts to procure that such investment opportunity is offered to the Group and the Group shall have a first right of refusal.

CITIC Pacific has reviewed the business of its group (excluding the Group) and advised that their business do not compete with the Restricted Activity and that during the period from 3 April 2007 to 31 December 2007, there was no opportunity made available to CITIC Pacific to invest in any independent third party which was engaged in the Restricted Activity. CITIC Pacific had given a written confirmation to the Company that it has fully complied with the terms of the Non-competition Undertaking. The Independent Non-executive Directors of the Company have reviewed the confirmation and concluded that CITIC Pacific has made the compliance.

## Communication with Shareholders



The Company's Annual General Meeting ("AGM") is one of the principal channels of communication with its shareholders. It provides an opportunity for shareholders to ask questions about the Company's performance. Separate resolutions will be proposed for each substantially separate issue at the AGM.

The Company's Articles of Association contain the rights of shareholders to demand for a poll voting on resolutions at shareholders' meetings. Details of such rights to demand a poll and the poll procedures are included in all circulars in relation to shareholders' meetings and will be explained during the proceedings of shareholders' meetings. In case poll voting is conducted, the poll results will be posted on the websites of the Stock Exchange and the Company on the same day following the shareholders' meeting.

## Fair Disclosure and Investor Relations

The Company uses its best endeavours to distribute material information about the Group to all interested parties as widely as possible. When announcements are made through the Stock Exchange, same information will be sent to the press and investment analysts where an e-mail address or fax number is known and will be available to shareholders on the Company's website.

The Company recognises its responsibility to explain its activities to those with a legitimate interest and to respond to their questions. Investors are regularly received and visited to explain the Group's businesses. In 2007, the Company's management met over 293 investors and investment analysts, as well as during conferences and roadshows in the U.S., Europe, China, Japan and Singapore. In addition, questions received from the general public and individual shareholders were answered promptly. In all cases great care has been taken to ensure that no price sensitive information is disclosed.

The Group is committed to maintain a high degree of corporate transparency as well as good communication with banks, research analysts and investors. The Group has used various channels including regular meetings with investors, fund managers and analysts; investor conferences; result briefings and the website (www.citic1616.com) to disseminate information on the Group's latest developments. In the past one year, we have participated in investor conferences and non-deal roadshows as follows:

| | Type | Country/City | Organiser |
|---|---|---|---|
| March 07 | IPO Roadshow | Hong Kong<br>Tokyo and Singapore<br>London and Edinburgh<br>Amsterdam and Milan<br>Boston and New York | BNP |
| August 07 | Non-deal Roadshow | Hong Kong and Singapore | BNP |
| September 07 | Non-deal Roadshow | Singapore | BNP |
| October 07 | Conference | Xiamen | BNP |
| November 07 | Conference | London and New York | Macquarie |
| November 07 | Conference | Beijing | Goldman Sachs |
| November 07 | Conference | Singapore | Lehman Brothers |
| December 07 | Conference &<br>Non-deal Roadshow | Shanghai | BNP |
| January 08 | Conference | Singapore | DBS Vickers |
| January 08 | Conference | Shanghai | UBS |

Information about the Company can be found in the Group's website including descriptions of the business and the annual report/interim report.

## Financial Reporting

The Directors acknowledge their responsibility for preparing the Company's accounts which give a true and fair view and are in accordance with generally accepted accounting standards published by the Hong Kong Institute of Certified Public Accountants. The Directors endeavour to ensure a balanced, clear and understandable assessment of the Group's performance, position and prospects in financial reporting. Accordingly, appropriate accounting policies are selected and applied consistently; judgments and estimates made are prudent and reasonable. Hong Kong accounting standards have always broadly followed international accounting standards. The adoption of new or amended accounting standards that became effective during the year has not resulted in substantial changes to the Group's accounting policies and has no significant impact on the results reported for the year ended 31 December 2007.

The responsibilities of the external auditors with respect to financial reporting are set out in the Independent Auditors' Report on page 114.

# Directors and Senior Management

## Executive Directors

**Mr. Shi Cuiming**, aged 68, 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, now known as China Mobile (Hong Kong) Group Limited, and Chairman of the Board of Directors and Chief Executive Officer of China Telecom (Hong Kong) Limited, now known as China Mobile Limited. 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 until February 2004. Since February 2004, Mr. Shi has acted as the Chairman of CITIC Telecom 1616 Limited. He is also an independent non-executive director of TCL Communication Technology Holdings Limited 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.



**Mr. Xin Yue Jiang**, aged 59, is the Vice Chairman of the Company and he joined the Company in January 2008. Mr. Xin graduated from China Qingdao Naval Aeronautic Engineering Institute and Central University of Finance and Economics and obtained a Master degree in Economics and Management from the Graduate School of Chinese Academy of Social Sciences. Mr. Xin has served in government departments relating to technology information and economics, management and has extensive knowledge and experience in technology information, operation, management and capital market operation. He has worked in various major companies as senior management, researcher and chief engineer. He was senior vice president and senior consultant of China Netcom (Hong Kong) Operations Limited.

**Mr. Yuen Kee Tong**, J.P. aged 59, is the Chief Executive Officer of the Company. Mr. Yuen 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 Limited ("CITIC Pacific") in 2001 as the Deputy Managing Director. Mr. Yuen resigned from the Board of CITIC Pacific on 8 January 2007 and assumed the position of director and Chief Executive Officer of the Company on the same day. Mr. Yuen has more than 20 years extensive experience in all aspects of telecoms industry. Mr. Yuen was the Deputy Chief Executive of Hong Kong Telecommunications Ltd. and later, Pacific Century CyberWorks Ltd. Mr. Yuen served many public bodies and advisory committees.

**Dr. Chan Tin Wai, David**, aged 43, is the Chief Financial Officer of the Company and he joined the Company in June 2006. Dr. Chan obtained a LLB (Hons) degree and a Master degree of Law from the University of London in UK, a Master degree of Accounting from Curtin University in Australia and a Doctor degree of Business Administration from University of Newcastle 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 Secretaries and Administrators, the Hong Kong Institute of Certified Public Accountants, the Taxation Institute of Hong Kong and the Hong Kong Institute of Chartered Secretaries. Dr. Chan worked in CITIC Pacific during the period from 1994 to 2000. He had worked in several multi-national and Hong Kong blue chip companies and has over 20 years of experience in overseeing corporate finance, merger and acquisition activities, accounting, company secretarial, administration, human resources and legal matters. Before joining the Company, he was the General Manager – Finance of Sino Land Company Limited.

## Non-executive Directors

**Mr. Lee Chung Hing**, aged 54, 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 Steel Co., Ltd., the Vice Chairman of CITIC Guoan Co., Ltd. ("CITIC Guoan") and a director of Daye Special Steel Co., Ltd. and CITIC Pacific Mining Management Pty Ltd. He joined CITIC Pacific in 1990.

**Mr. Kwok Man Leung**, aged 39, 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 an executive director of CITIC Pacific. He is also a non-executive director of Dah Chong Hong Holdings Limited (a Hong Kong listed company), a director of Adaltis Inc. (a Canadian listed company), CITIC Guoan and New Hong Kong Tunnel Company Limited. He joined CITIC Pacific in 1993 after experience in sales and business development with a major Hong Kong listed company.

## Independent non-executive Directors

*Δ**Mr. Yang Xianzu**, age 68, joined the Company as an Independent Non-Executive Director in 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 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 the period from 2000 to August 2003, Mr. Yang was the Chairman of the Board of Directors and Chief Executive Officer of China Unicom Limited. Mr. Yang is currently a member of the Chinese People's Political Consultative Conference, 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 non-executive director of Dongfeng Motor Group Company Limited and China Wireless Technologies Limited.

*Δ**Mr. Liu Li Qing**, aged 67, joined the Company as an Independent Non-Executive Director in March 2007. Mr. Liu, a senior economist, graduated from Management Engineering in Beijing University of Posts and Telecommunications in 1963. Mr. Liu served as a Vice Minister of Ministry of Posts and Telecommunications during the period 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.

*Δ**Mr. Kwong Che Keung, Gordon**, aged 58, joined the Company as an Independent Non-Executive Director in March 2007. Mr. Kwong is also an Independent Non-executive Director of a number of companies listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange"), including 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, OP Financial Investments Limited (formerly known as Concepta Investments Limited), China Chengtong Development Group Limited, Global Digital Creations Holdings Limited, Ping An Insurance (Group) Company of China, Ltd., Quam Limited, China Power International Development Limited, Henderson Land Development Company Limited, Henderson Investment Limited and Agile Property Holdings Limited. Mr. Kwong 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, he was a partner of Price Waterhouse and was a council member of the Stock Exchange from 1992 to 1997.

* Member of the Audit Committee
Δ Member of the Remuneration Committee

## Senior Management

**Mr. Yap Foo Loy**, aged 45, is the Director of Commercial of the Company. He joined the Company in 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 during 1993 to 2003. To date, Mr. Yap has around 18 years of sales and operational experience in the telecoms industry.

**Mr. Wong Chi Yin, Jimmy**, aged 42, is the Director of Technical of the Company. He joined the Company in 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, now known as Nortel Networks (Asia) Limited, Hong Kong Telecommunications Limited ("Hong Kong Telecom"), Hong Kong CSL Limited and Hutchison Telecommunications International Limited, during 1988 to 2005, responsible in overseeing the technical operations including the provision of mobile telephone services, 3G mobile multimedia services and fixed line communications. To date, Mr. Wong has around 19 years of operational experience in the telecoms industry.

**Mr. Ho Wai Chung, Stephen**, aged 49, is the Chief Executive Officer ("CEO") of CPCNet Hong Kong Limited ("CPCNet"). He joined CITIC Pacific Communications Limited, a wholly owned subsidiary of CITIC Pacific, as Executive Vice President in April 2001 and was appointed CEO of CPCNet in 2002. He was transferred to the Group in 2007 when CPCNet was acquired by the Group. Mr. Ho holds an Honor Bachelor Degree in Electrical Engineering specializing in digital communications from McGill University of Canada. Prior to joining the CITIC Pacific Group, Mr. Ho held senior positions at Cable and Wireless Systems Limited, Hong Kong Telecom CSL Limited, Hong Kong Telecom and iAdvantage Limited. Mr. Ho carries with him more than 20 years of extensive industry experience. He was the Project Director for numerous important telecommunication projects on public transportation in both Hong Kong and Taiwan. His experience spans marketing and sales of telecommunications products and services, logistics and strategic purchasing management, operations and technical management for the Hong Kong Telecom engineering support unit at the Hong Kong Kai Tak International Airport and other Hong Kong Government facilities. Mr. Ho also led Hong Kong Telecom's regional market development in mainland China, Taiwan, Singapore, Korea and Japan in the early '90s. He is a founder of two Internet Data Centres, iAdvantage (1999) and Sky Datamann (2000).

# Directors' Report

The Directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2007.

## Principal Place of Business

CITIC 1616 Holdings Limited ("the Company") is a company incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 8/F, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong.

## Principal Activities

The principal activities of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 18 to the financial statements.

## Dividends

The Directors declared an interim dividend of 1 cent per share (2006: HK$495,000 per share) in respect of the year ended 31 December 2007 which were paid on 28 August 2007. The Directors recommended, subject to the approval of the shareholders at the forthcoming Annual General Meeting, the payment of a final dividend of 3.1 cents per share (2006: Nil) in respect of the year ended 31 December 2007 payable on 8 May 2008 to shareholders on the Register of Members at the close of business on 5 May 2008.

## Major Customers and Suppliers

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

| | Percentage of the Group's total | |
|---|---|---|
| | **Sales** | **Purchases** |
| The largest customer | 32.8% | |
| Five largest customers in aggregate | 53.7% | |
| The largest supplier | | 9.8% |
| Five largest suppliers in aggregate | | 34.8% |

At no time during the year have the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

## Financial Statements

The profit of the Group for the year ended 31 December 2007 and the state of the Company's and the Group's affairs as at the date are set out in the financial statements on pages 53 to 113.

## Transfer to Reserves

Profits attributable to shareholders, before dividends, of HK$262,699,000 (2006: HK$201,518,000) have been transferred to reserves. Other movements in reserves are set out in note 23 to the financial statements.

# Charitable Donations

Charitable donations made by the Group during the year amounted to HK$500,000 (2006: Nil).

# Property, Plant and Equipment

During the year there were additions of property, plant and equipment amounting to HK$64,525,000 through the acquisition of subsidiaries. Details of these additions and other movements in property, plant and equipment are set out in note 15 to the financial statements.

# Directors

The Directors of the Company in office during the financial year ended 31 December 2007 were :

Mr. Shi Cuiming, appointed on 8 January 2007
Mr. Yuen Kee Tong, appointed on 8 January 2007
Dr. Li Bin, appointed on 8 January 2007 and resigned on 27 November 2007
Dr. David Chan Tin Wai, appointed on 8 January 2007
Mr. Lee Chung Hing
Mr. Kwok Man Leung
Ms. Frances Yung Ming Fong, resigned on 2 January 2007
Mr. Yang Xianzu, appointed on 12 March 2007
Mr. Liu Li Qing, appointed on 12 March 2007
Mr. Gordon Kwong Che Keung, appointed on 12 March 2007

Mr. Xin Yue Jiang was appointed as Vice Chairman of the Company with effect from 25 January 2008. Thus, in accordance with Article 95 of the New Articles of Association of the Company, he shall hold office only until the forthcoming Annual General Meeting and is then eligible for re-election. In addition, pursuant to Article 104(A) of the New Articles of Association of the Company, Messrs. Shi Cuiming, Lee Chung Hing and Kwok Man Leung shall retire by rotation in the forthcoming Annual General Meeting. Messrs. Shi Cuiming and Kwok Man Leung, being eligible, offer themselves for re-election and Mr. Lee Chung Hing will not seek for re-election. In this respect, the Board recommends to appoint Mr. Chau Chi Yin as a Non-executive Director to fill the vacancy created by the retirement of Mr. Lee Chung Hing and an ordinary resolution for the appointment of Mr. Chau Chi Yin will be put forward for shareholders' approval at the forthcoming Annual General Meeting.

# Directors Service Contracts

As at 31 December 2007, there were no service contracts which were not determinable by the employer within one year without payment of compensation (other than statutory compensation) between any company in the Group and any Director proposed for re-election at the forthcoming Annual General Meeting.

## Management Contract

The Company entered into an agreement with CITIC Pacific Limited ("CITIC Pacific") on 21 March 2007 pursuant to which CITIC Pacific and the Company will share the company secretarial services and the internal audit services with effect from 1 January 2007. CITIC Pacific shall provide company secretarial services to the Company upon request by the Company and CITIC Pacific shall perform internal audit of the Company in accordance with such procedures and at such times as may be agreed between the parties from time to time. The amount payable by the Company to CITIC Pacific for the services received shall be determined on costs basis with payment terms to be agreed between the parties from time to time. The agreement may be terminated if CITIC Pacific shall hold less than 30% of the shares of the Company and is terminable by giving a six months' prior notice in writing by either party. Messrs. Lee Chung Hing, a deputy managing director of CITIC Pacific, and Kwok Man Leung, Director of Business Development Department of CITIC Pacific, had indirect interests in the agreement. A copy of the administrative services agreement will be available for inspection at the Annual General Meeting of the Company to be held on 5 May 2008.

The transactions contemplated under the aforesaid management contract with CITIC Pacific constitute continuing connected transactions exempted from disclosure requirements under Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). They are also classified as related party transactions in Note 14 to the financial statements.

## Directors' Interests in Contracts

No contract of significance to which the Company, or any of its holding companies, subsidiaries or fellow subsidiaries was a party, and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

## Competing Interests

Save as disclosed below, none of the Directors and their respective associates had any direct or indirect interest in a business which competes or may compete with the business of the Group:-

To facilitate the continued operation and oversight of the remaining non-core telecoms businesses of CITIC Pacific Group (excluding the Group), Mr. Yuen Kee Tong, an executive director, was under an agreement with CITIC Pacific to spend some of his time (expected to be less than 5% of his time) on the business of CITIC Pacific on a non-executive and part-time basis. CITIC Pacific would pay Mr. Yuen for such services separately. The agreement has been terminated with effect from 1 January 2008.

Mr. Lee Chung Hing, a non-executive director, is the Vice-Chairman of CITIC Guoan Co., Ltd. ("CITIC Guoan"). Mr. Kwok Man Leung, a non-executive director, is a director of CITIC Guoan. CITIC Guoan's primary business is its 41.63% interest in CITIC Guoan Information Industry Co. Ltd. ("Guoan Information"), a company listed on the Shenzhen Stock Exchange. Guoan Information operates cable television networks in various cities and one province in China with over 6 million subscribers. Guoan Information also has interests in systems integration, software development, hotel management, salt lake consolidated resources development and property development.

The system integration services of Guoan Information and the international hubbing services, leased circuits, data centre and co-location services of Companhia de Telecomunicacoes de Macau S.A.R.L. ("CTM") (a company 20% owned by CITIC Pacific) are the only area of telecoms business of CITIC Pacific Group (excluding the Group) which may compete with the Company's business. Such interests are only passive investment interests of CITIC Pacific.

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 year, 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.

# Connected Transactions

Connected transactions disclosed in accordance with the Listing Rules is as follows:

1. On 18 August 2004, the Company had entered into a shareholders' agreement ("the Shareholders' Agreement") with, inter alia, HKIX Hong Kong Ltd. ("HKIX Co.") (which operates an exchange point providing mainly interconnection amongst internet access providers in Hong Kong ("HKIX")) and The Chinese University of Hong Kong Foundation Limited in relation to the joint venture company, Asia Pacific Internet Exchange Limited ("APIX"), for operating a secondary site ("HKIX2") to HKIX on a non-profit basis. Pursuant to the Shareholders' Agreement, APIX will, inter alia, provide various financial and operational support to HKIX Co. which includes an annual payment of HK$1 million to a wholly owned subsidiary of HKIX Co. Such annual payment is for an initial period of six 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 benefit to the Company is the prestige of involving in the provision of HKIX2, the mirror site of a crucial internet exchange point in Hong Kong. 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 Shareholders' Agreement as a good opportunity whereby it can participate and provide community services to the public. As APIX is a subsidiary of the Company and HKIX Co. is a substantial shareholder of APIX, HKIX Co. and its subsidiaries are connected persons of the Company.

   The independent non-executive directors of the Company had reviewed the aforesaid transaction made for the year ended 31 December 2007 and confirmed that the transaction had been entered into

   - in the ordinary and usual course of business of the Group;
   - on normal commercial terms; and
   - in accordance with the Shareholders' Agreement on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

   The auditors of the Company had also confirmed to the Board that the aforesaid transaction (a) had received the approval of the Board of the Company; (b) had been entered into in accordance with the Shareholders' Agreement; and (c) had not exceeded the annual cap of HK$1 million as stated in the Shareholders' Agreement.

2. On 22 December 2006, the Company and Goldon Investment Limited ("Goldon") had entered into two tenancy agreements ("Tenancy Agreements") pursuant to which the Company leased the Group's office premises located at 8th Floor and portion of 9th Floor, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong, respectively, from Goldon for a term of three years commencing from 16 November 2006. The aggregate rentals and building management fee for each of the three years ending 31 December 2009 will not exceed HK$24 million. As CITIC Pacific, the controlling shareholder of the Company, has a 40% interest in Goldon, Goldon is an associate of CITIC Pacific and therefore a connected person of the Company.

   The aggregate rentals and building management fee paid by the Company for the year ended 31 December 2007 were approximately HK$23.90 million.

The independent non-executive directors of the Company had reviewed the aforesaid transactions made for the year ended 31 December 2007 and confirmed that the transactions had been entered into

- in the ordinary and usual course of business of the Group;
- on normal commercial terms; and
- in accordance with the Tenancy Agreements on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company had also confirmed to the Board that the aforesaid transactions (a) had received the approval of the Board of the Company; (b) had been entered into in accordance with the Tenancy Agreements; and (c) had not exceeded the annual cap of HK$24 million as stated in the prospectus of the Company.

3. On 21 March 2007, the Company and CITIC Pacific Communications Limited ("CPC") had entered into a service agreement ("CPC Services Agreement") pursuant to which the Company and its subsidiaries would procure provision of various telecommunications services in normal course of business to CPC and its subsidiaries for a term of three years commencing from 1 January 2007. Relevant members of the Group and relevant members of CPC Group have entered into separate implementation agreements for specific transactions contemplated under the CPC Services Agreement. As CPC is a wholly owned subsidiary of CITIC Pacific, CPC is a connected person of the Company.

Details of the transactions made for the year ended 31 December 2007 were as follows:-

| | HK$ million (approximately) |
|---|---|
| a) Telecommunications services and related income from CPCNet Hong Kong Limited | 1.06 |
| b) Telecommunications services and related income from CPC | 0.01 |
| Total | 1.07 |

The independent non-executive directors of the Company had reviewed the aforesaid continuing transactions made for the year ended 31 December 2007 and confirmed that the transactions had been entered into

- in the ordinary and usual course of business of the Group;
- on normal commercial terms; and
- in accordance with the CPC Services Agreement on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company had also confirmed to the Board that the aforesaid transactions (a) had received the approval of the Board of the Company; (b) were in accordance with the pricing policies of the Group; (c) had been entered into in accordance with the CPC Services Agreement; and (d) had not exceeded the annual cap of HK$2.5 million as stated in the prospectus of the Company.

4. On 12 November 2007, the Company and Smooth Tone Enterprises Inc. ("Smooth Tone") had entered into a sale and purchase agreement, pursuant to which the Company conditionally agreed to acquire the entire issued share capital of Silver Linkage Investments Inc. ("Silver Linkage") from Smooth Tone. Silver Linkage is the holding company of CPCNet Hong Kong Limited, a communications and network solution provider mainly offering corporate data services and network security solutions such as Multi-Protocol Label Switching Virtual Private Network (MPLS VPN) for multinational corporations and business enterprises requiring seamless connection to Greater China and Asia. The consideration was satisfied by allotment and issue of 98,066,283 shares of the Company. The transaction was completed on 17 December 2007. As Smooth Tone is a wholly owned subsidiary of CITIC Pacific, it is a connected person of the Company.

The aforesaid connected transactions under items 1 to 3 are also classified as related party transactions in Note 14 to the financial statements, in respect of which the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

## Share Option Plan

The Company adopted a share option plan ("the Plan") on 17 May 2007. The major terms of the Plan are as follows:

1. The purpose of the Plan is to attract and retain the best quality personnel for the development of the Company's businesses; to provide additional incentives to Employees (as defined herebelow); and to promote the long term financial success of the Company by aligning the interests of grantees to shareholders.

2. The grantees of the Plan are any person employed by the Company or any subsidiary and any person who is an officer or director (whether executive or non-executive) of the Company or any subsidiary ("Employee") as the Board may in its absolute discretion select.

3. The maximum number of shares over which options may be granted under the Plan must not exceed 10% of (i) the shares of the Company in issue from time to time; or (ii) the shares of the Company in issue as the date of adopting the Plan, whichever is the lower. As at 11 March 2008, the maximum number of shares available for issue under the Plan is 169,280,000, representing approximately 8.56% of the issued share capital.

4. The total number of shares of the Company (the "Shares") issued and to be issued upon exercise of options (whether exercised or outstanding) in any 12-month period granted to each grantee must not exceed 1% of the Shares in issue. Where any further grant of options to a grantee would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant shall be subject to separate approval by the shareholders of the Company in general meeting.

5. The exercise period of any option granted under the Plan must not be more than ten years commencing on the date of grant.

6. The acceptance of an offer of the grant of the option must be made within 28 days from the date of grant with a non-refundable payment of HK$1.00 from the grantee.

7. The subscription price determined by the Board will not be less than the higher of (i) the closing price of the Company's shares as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited ("Stock Exchange") on the date of grant; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

8. The Plan shall be valid and effective till 16 May 2017.

On 23 May 2007, options to subscribe for a total of 18,720,000 shares in the Company, representing approximately 1% of the issued share capital, at the exercise price of HK$3.26 per share, were granted under the Plan. The closing price of the Company's share immediately before the date of grant was HK$3.14. All options granted and accepted can be exercised in whole or in part within 5 years from the date of grant. All were accepted, and none were exercised, cancelled or lapsed during the year ended 31 December 2007.

A summary of the movements during the year ended 31 December 2007 of the share options is as follows:-

## A. DIRECTORS OF THE COMPANY

| | | | Number of Share Options | | | | |
|---|---|---|---|---|---|---|---|
| Name of director | Date of grant | Exercise price HK$ | Balance as at 1.1.07 | Granted during the year ended 31.12.07 | Exercised during the year ended 31.12.07 | Balance as at 31.12.07 | Percentage to issued share capital % |
| Shi Cuiming | 23.5.07 | 3.26 | – | 2,900,000 | – | 2,900,000 | 0.147 |
| Yuen Kee Tong | 23.5.07 | 3.26 | – | 2,500,000 | – | 2,500,000 | 0.126 |
| Li Bin | 23.5.07 | 3.26 | – | 2,145,000 | – (Note 1) | N/A (Note 1) | N/A |
| David Chan Tin Wai | 23.5.07 | 3.26 | – | 1,845,000 | – | 1,845,000 | 0.093 |
| Yang Xianzu | 23.5.07 | 3.26 | – | 300,000 | – | 300,000 | 0.015 |
| Liu Li Qing | 23.5.07 | 3.26 | – | 300,000 | – | 300,000 | 0.015 |
| Gordon Kwong Che Keung | 23.5.07 | 3.26 | – | 300,000 | – | 300,000 | 0.015 |

Note 1: Mr. Li Bin resigned as director on 27 November 2007. During the period from 23 May 2007 to 27 November 2007, Mr. Li has not exercised any of his share options.

### B. EMPLOYEES OF THE COMPANY WORKING UNDER CONTINUOUS CONTRACTS (AS DEFINED IN THE EMPLOYMENT ORDINANCE), OTHER THAN THE DIRECTORS

| | | Number of Share Options | | | |
|---|---|---|---|---|---|
| Date of grant | Exercise price HK$ | Balance as at 1.1.07 | Granted during the year ended 31.12.07 | Exercised during the year ended 31.12.07 | Balance as at 31.12.07 |
| 23.5.07 | 3.26 | – | 8,430,000 | – | 8,430,000 |

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

- Taking into account the probability of early exercise behaviour, the average expected term of the grant was determined to be 3 years
- Expected volatility of CITIC 1616's share price at 30% per annum (based on historical movements of the Company's and its comparators' share prices)
- Expected annual dividend yield of 1%
- Rate of eligible grantees leaving service assumed at 20% per annum
- Early exercise assumption for option holders to exercise their options when the share price is at least 175% of the exercise price
- Risk-free interest rate of 4.05% per annum (based on linearly interpolated yields of the Hong Kong Exchange Fund Notes as at the grant date)

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

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

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

## Directors Interests in Securities

The interests of the Directors in shares of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as at 31 December 2007 as recorded in the register required to be kept under section 352 of the SFO were as follows:

### 1. SHARES IN THE COMPANY AND ASSOCIATED CORPORATION

| | Number of Shares<br>Personal interests unless otherwise stated | Percentage to the issued share capital<br>% |
|---|---|---|
| CITIC 1616 Holdings Limited | | |
| David Chan Tin Wai | 2,000 | 0.0001 |
| CITIC Pacific, an associated corporation | | |
| Shi Cuiming | 22,000 | 0.001 |
| Yuen Kee Tong | 1,033,000 | 0.047 |
| David Chan Tin Wai | 40,000 | 0.002 |
| Lee Chung Hing | 1,000,000 | 0.045 |
| Yang Xianzu | 20,000 | 0.001 |
| Gordon Kwong Che Keung | 70,000<br>(Note 1) | 0.003 |
| Dah Chong Hong Holdings Limited, an associated corporation | | |
| Shi Cuiming | 3,400 | 0.0002 |
| Yuen Kee Tong | 20,000 | 0.001 |
| David Chan Tin Wai | 5,279 | 0.0003 |

Note 1: 20,000 shares are in respect of personal interests and 50,000 shares are in respect of corporate interests.

### 2. SHARE OPTIONS IN THE COMPANY

The interests of the Directors in the share options (being regarded as unlisted physically settled equity derivatives) of the Company are stated in detail in the preceding section of Share Option Plan.

### 3. SHARE OPTIONS IN AN ASSOCIATED CORPORATION, CITIC PACIFIC

| Name of director | Exercise period | Exercise price per share HK$ | Number of share options as at 31.12.07 | Percentage to issued share capital % |
|---|---|---|---|---|
| Lee Chung Hing | 1.11.2004 – 31.10.2009 | 19.9 | 1,000,000 | |
| | 20.6.2006 – 19.6.2011 | 22.1 | 1,200,000 | |
| | 16.10.2007 – 15.10.2012 | 47.32 | 1,200,000 | |
| | | | 3,400,000 | 0.154 |
| Kwok Man Leung | 16.10.2007 – 15.10.2012 | 47.32 | 600,000 | 0.027 |

Save as disclosed above, as at 31 December 2007, none of the Directors of the Company had nor were they taken to or deemed to have, under Part XV of the SFO, any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations or any interests which are required to be entered into the register kept by the Company pursuant to section 352 of the SFO or any interests which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.





Save as disclosed above, at no time during the year was the Company or any of its subsidiary companies a party or parties to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## Substantial Shareholders

As at 31 December 2007, the interests of the substantial shareholders, other than the Directors of the Company or their respective associate(s), in the shares of the Company as recorded in the register of interests in shares and short positions required to be kept under section 336 of the SFO were as follows :

| Name | Number of shares of the Company | Percentage to the issued share capital % |
|---|---|---|
| CITIC Pacific | 1,039,758,283 | 52.564 |
| Crown Base International Limited | 1,039,758,283 | 52.564 |
| Effectual Holdings Corp. | 1,039,758,283 | 52.564 |
| CPC | 1,039,758,283 | 52.564 |
| Douro Holdings Inc. | 1,039,758,283 | 52.564 |
| Ferretti Holdings Corp. | 941,692,000 | 47.607 |
| Ease Action Investments Corp. | 941,692,000 | 47.607 |
| Government of Singapore Investment Corporation Pte Ltd. | 131,699,000 | 6.658 |

CITIC Pacific is the direct holding company of Crown Base International Limited, which is the direct holding company of Effectual Holdings Corp. Effectual Holdings Corp. in turn holds CPC, which is then the direct holding company of Douro Holdings Inc. Douro Holdings Inc. is the direct holding company of Ferretti Holdings Corp. Ferretti Holdings Corp. is the direct holding company of Ease Action Investments Corp. Accordingly, the interests of CITIC Pacific in the Company duplicate the interests in the Company of all its direct and indirect subsidiary companies as described above.

## Contracts of Significance with Controlling Shareholder

The Company and CITIC Pacific, the controlling shareholder of the Company, had entered into the following contracts of significance which were subsisting during the financial year ended 31 December 2007:

1. Deed of non-competition dated 21 March 2007 executed by CITIC Pacific in favour of the Company, mainly to the effect that at any time during which the shares of the Company are listed on the Stock Exchange and CITIC Pacific and / or its associates are 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 in the provisions of telecommunications hub based service ("Restricted Activity") globally or in any other business that may compete with the Restricted Activity, and (ii) in the event that any opportunity is made available to CITIC Pacific to invest in any independent third party's business engaging in the Restricted Activity, CITIC Pacific will use its best efforts to procure that such investment opportunity is offered to the Group and the Group shall have a first right of refusal.

2. Deed of Indemnity dated 21 March 2007 given by CITIC Pacific in favour of the Company (and its subsidiaries), pursuant to which 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 on the listing date of the Company or any event, transaction, act or omission occurring or deemed to occur on or before the listing date of the Company.

3. Trademark licence agreement dated 21 March 2007 pursuant to which CITIC Pacific agreed to licence, on a non-exclusive basis, the trademark , for use in connection with the Group's business. The term of the 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 months' 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.

Save as mentioned in the section of Management Contract, there is no other contract of significance for the provision of services to the Company or any of its subsidiary companies by the controlling shareholder or any of its subsidiary companies.

Save as aforesaid, none of the Company or any of its subsidiary companies has entered into any other contract of significance with the Company's controlling shareholder or its subsidiary companies which were subsisting during the financial year ended 31 December 2007.

## Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors of the Company as at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules.

## Share Capital

During the year ended 31 December 2007, the Company has not made any repurchases of its own shares on the Stock Exchange.

Neither the Company nor any of its subsidiary companies has purchased or sold any of the Company's shares during the period from 3 April 2007 (on which the Company was listed on the Main Board of the Stock Exchange) to 31 December 2007 and the Company has not redeemed any of its shares during the aforesaid period.

On 16 March 2007, a total of 1,691,990,000 shares of HK$0.10 each of the Company were allotted and issued to a wholly owned subsidiary of CITIC Pacific by capitalizing the retained earnings of the Company in the amount of HK$169,199,000.

On 3 April 2007, a total of 188,000,000 shares of HK$0.10 each of the Company were issued pursuant to the initial public offer of the Company, comprising i) the issue and offer of shares of the Company to the public in Hong Kong; and ii) the placing of shares of the Company by international underwriters with professional and institutional investors and in the United States to qualified institutional buyers under Rule 144A of the US Securities Act. The offer price was HK$2.58 per share.

On 17 December 2007, a total of 98,066,283 shares were allotted to a wholly owned subsidiary of CITIC Pacific pursuant to the sale and purchase agreement dated 12 November 2007 as described in the section of Connected Transactions.

Details of movements in share capital of the Company during the year are set out in note 23 to the financial statements.

## Confirmation of Independence

The Company has received from each independent non-executive director an annual confirmation of his independence pursuant to the independence guidelines under the Listing Rules and that the Company still considers such directors to be independent.



## Four Year Summary

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on pages 26 and 27 of the annual report.

## Retirement Scheme

The Group operates a Mandatory Provident Fund Scheme. Particulars of these retirement scheme is set out in note 30 to the financial statements.

## Auditors

In October 2005, PricewaterhouseCoopers had resigned as auditors of the Company and KPMG were appointed as auditors of the Company in their stead.

KPMG retire and being eligible, offer themselves for reappointment. A resolution for the reappointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board
**Shi Cuiming**
Chairman
Hong Kong, 11 March 2008

# Consolidated Income Statement

for the year ended 31 December 2007

(Expressed in Hong Kong dollars)

| | Note | 2007 $'000 | 2006 $'000 |
|---|---|---|---|
| Turnover | 4 | 1,486,071 | 1,364,209 |
| Other revenue | 5 | 62,418 | 2,146 |
| Other net gain/(loss) | 6 | 56 | (211) |
| | | 1,548,545 | 1,366,144 |
| Network, operations and support expenses | 7(c) | (988,333) | (944,860) |
| Depreciation and amortisation | 7(c) | (78,823) | (72,449) |
| Staff costs | 7(b) | (103,327) | (67,380) |
| Other operating expenses | | (71,685) | (61,552) |
| Profit from operations and before taxation | 7 | 306,377 | 219,903 |
| Income tax | 8(a) | (43,678) | (38,095) |
| Profit for the year from continuing operations | | 262,699 | 181,808 |
| Discontinued operations | | | |
| Profit for the year from discontinued operations | 11 | – | 19,710 |
| Profit for the year | | 262,699 | 201,518 |
| Attributable to: | | | |
| Equity holders of the Company | | 262,699 | 201,518 |
| Dividends payable to equity holders of the Company attributable to the year: | 12 | | |
| Interim dividend declared during the year | | 18,800 | 495,000 |
| Final dividend proposed after the balance sheet date | | 61,310 | – |
| | | 80,110 | 495,000 |
| Basic and diluted earnings per share | 13 | | |
| From continuing and discontinued operations (HK cents) | | 14.3 | 11.9 |
| From continuing operations (HK cents) | | 14.3 | 10.7 |
| From discontinued operations (HK cents) | | – | 1.2 |

The notes on pages 60 to 113 form part of these financial statements.

# Consolidated Balance Sheet

at 31 December 2007

(Expressed in Hong Kong dollars)

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

Approved and authorised for issue by the board of directors on 11 March 2008

**Shi Cuiming**
Director

**Yuen Kee Tong**
Director

The notes on pages 60 to 113 form part of these financial statements.

# Balance Sheet

at 31 December 2007

(Expressed in Hong Kong dollars)

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

Approved and authorised for issue by the board of directors on 11 March 2008

**Shi Cuiming**
Director

**Yuen Kee Tong**
Director

The notes on pages 60 to 113 form part of these financial statements.

# Statement of Changes in Equity

for the year ended 31 December 2007

(Expressed in Hong Kong dollars)

**THE GROUP**

| | Attributable to equity holders of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital (Note 23(a)) $'000 | Share premium (Note 23(b)) $'000 | Capital reserve $'000 | Capital redemption reserve (Note23 (b)) $'000 | Exchange reserve $'000 | Retained profits $'000 | Total $'000 |
| At 1 January 2006 | 2,001 | – | – | – | – | 664,398 | 666,399 |
| Profit for the year | – | – | – | – | – | 201,518 | 201,518 |
| Repurchase of shares | (2,000) | – | – | 2,000 | – | – | – |
| Dividends approved and paid during the year | – | – | – | – | – | (495,000) | (495,000) |
| At 31 December 2006 | 1 | – | – | 2,000 | – | 370,916 | 372,917 |

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

## THE COMPANY

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

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

The notes on pages 60 to 113 form part of these financial statements.

# Consolidated Cash Flow Statement

for the year ended 31 December 2007

(Expressed in Hong Kong dollars)

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

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

The notes on pages 60 to 113 form part of these financial statements.

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 1 Significant Accounting Policies

### (a) STATEMENT OF COMPLIANCE

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Information on any changes in accounting policies, if any, resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements are shown in note 2.

### (b) BASIS OF PREPARATION

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



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

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

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

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

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

## 1 Significant Accounting Policies (Continued)

### (c) SUBSIDIARIES

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

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

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

### (d) GOODWILL

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

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(i)(ii)).

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

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

### (e) INVESTMENT PROPERTY

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

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

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

## 1 Significant Accounting Policies (Continued)

### (f) OTHER PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

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

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

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

## 1 Significant Accounting Policies (Continued)

### (g) INTANGIBLE ASSETS (OTHER THAN GOODWILL)

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

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

| | |
|---|---|
| Indefeasible right of use ("IRU") of telecommunication capacity | 10 years |
| Customer relationship | 8 years |
| Customer contract | 1 year |

Both the period and method of amortisation are reviewed annually.

### (h) LEASED ASSETS

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

#### (i) Classification of assets leased to the Group

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

#### (ii) Operating lease charges

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

# 1 Significant Accounting Policies (Continued)

## (i) IMPAIRMENT OF ASSETS

### (i) Impairment of trade and other receivables

Current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

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

If any such evidence exists, any impairment loss is determined and recognised as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

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

# 1 Significant Accounting Policies (Continued)

## (i) IMPAIRMENT OF ASSETS (Continued)

### (ii) Impairment of other assets

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

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

– Calculation of recoverable amount

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

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

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

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the period in which the reversals are recognised.

## (j) TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 1(i)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

## (k) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

# 1 Significant Accounting Policies (Continued)

## (l) TRADE AND OTHER PAYABLES

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

## (m) EMPLOYEE BENEFITS

### (i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

### (ii) Share-based payments

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

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the ultimate holding company and the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

## (n) INCOME TAX

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly to equity, in which case they are recognised in equity.

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

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

# 1 Significant Accounting Policies (Continued)

## (n) INCOME TAX (Continued)

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

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

## 1 Significant Accounting Policies (Continued)

### (o) PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligations.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### (p) REVENUE RECOGNITION

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

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

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

#### (ii) Fees from the provision of other telecommunications services

Revenue from the provision of other telecommunications services are recognised when the service is rendered.

#### (iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable.

#### (iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

#### (v) Barter transactions

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

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

# 1 Significant Accounting Policies (Continued)

### (q) TRANSLATION OF FOREIGN CURRENCIES

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

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

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.



### (r) BORROWING COSTS

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

### (s) DISCONTINUED OPERATIONS

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

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

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

- the post-tax profit or loss of the discontinued operation; and

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

### (t) INTEREST-BEARING BORROWINGS

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loess over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

# 1 Significant Accounting Policies (Continued)

## (u) RELATED PARTIES

For the purposes of these financial statements, a party is considered to be related to the Group if:

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

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

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

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

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

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

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

## (v) SEGMENT REPORTING

A segment is a distinguishable component of the Group that is engaged in providing products or services (business segment), or in providing products or services within a particular economic environment (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.

## 1 Significant Accounting Policies (Continued)

### (w) DEFERRED REVENUE

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

### (x) DEFERRED EXPENDITURE

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

## 2 Changes in Accounting Policies

The HKICPA has issued a number of new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

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

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

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

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

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

## 3 Segment Reporting

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

## 4 Turnover

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

Turnover recognised during the year may be analysed as follows:

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

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

## 5 Other Revenue

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

## 6 Other Net Gain/(Loss)

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

## 7 Profit Before Taxation

Profit before taxation is arrived at after charging:

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

# 8 Income Tax

## (a) INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT REPRESENTS:

**Continuing operations:**

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

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

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

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

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

**Discontinued operations:**

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

# 8 Income Tax (Continued)

## (b) INCOME TAX IN THE BALANCE SHEET REPRESENTS:

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

## 9 Directors' Remuneration

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

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

## 9 Directors' Remuneration (Continued)

| | Year ended 31 December 2006 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Directors' fees $'000 | Basic salaries, allowances and benefits in kind $'000 | Discretionary bonuses $'000 | Retirement schemes contributions $'000 | Sub-total $'000 | Share-based payments $'000 | Total $'000 |
| Executive director | | | | | | | |
| Chan Kwong Choi Peter | – | 211 | 3,000 | 1 | 3,212 | – | 3,212 |
| Non-executive directors | | | | | | | |
| Lee Chung Hing | – | – | – | – | – | – | – |
| Frances Yung Ming Fong | – | – | – | – | – | – | – |
| Kwok Man Leung | – | – | – | – | – | – | – |
| Total | – | 211 | 3,000 | 1 | 3,212 | – | 3,212 |

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

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

During the year ended 31 December 2007, no emoluments were paid by the Company to any of the directors as an inducement to join or upon joining the Company or as compensation for loss of office and none of the directors has waived or agreed to waive any emoluments.

## 10 Individuals with Highest Emoluments

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

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

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

| | **2007** | 2006 |
|---|---|---|
| $ | | |
| 1,500,001 – 2,000,000 | **–** | 2 |
| 2,000,001 – 2,500,000 | **–** | 2 |
| 2,500,001 – 3,000,000 | **–** | – |
| 3,000,001 – 3,500,000 | **1** | – |

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

## 11 Discontinued Operations

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

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

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

## 12 Dividends

**DIVIDENDS ATTRIBUTABLE TO THE YEAR**

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

## 13 Earnings Per Share

### (a) BASIC EARNINGS PER SHARE

#### (i) From continuing and discontinued operations

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

Weighted average number of ordinary shares

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

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

#### (ii) From continuing operations

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

#### (iii) From discontinued operations

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

### (b) DILUTED EARNINGS PER SHARE

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

## 14 Related Party Transactions

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

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

## 14 Related Party Transactions (Continued)

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

### (a) RECURRING TRANSACTIONS

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

Notes:

(i) Professional fee/management fees were paid/payable to the ultimate holding company for the provision of administrative services.

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

(iii) The directors are of the opinion that the above transactions with related parties were conducted on normal commercial terms in the ordinary course of business and the terms are fair and reasonable so far as the shareholders of the Company are concerned. The management fees paid by the Group were reimbursement of costs incurred by the related party, the price which the Group received or paid for the relevant services were fair and reasonable with reference to market price, or in the case of the payment in respect of HKIX Hong Kong Ltd, was in accordance with terms of a shareholder agreement.

### (b) NON-RECURRING TRANSACTIONS

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

## 14 Related Party Transactions (Continued)

### (c) AMOUNT DUE TO ULTIMATE HOLDING COMPANY

| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| The Group and the Company | | |
| CITIC Pacific Limited (note 22) | **1,600** | 2,237 |

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

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

### (d) TRADE RECEIVABLES/(TRADE PAYABLES)

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

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

## 14 Related Party Transactions (Continued)

### (e) KEY MANAGEMENT PERSONNEL REMUNERATION

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

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

## 15 Property, Plant and Equipment

### THE GROUP

| | Tele-communications equipment<br>$'000 | Other assets<br>$'000 | Construction in progress<br>$'000 | Continuing operations<br>$'000 | Discontinued operations - investment property<br>$'000 | Total Assets<br>$'000 |
|---|---|---|---|---|---|---|
| Cost/valuation: | | | | | | |
| At 1 January 2006 | 502,904 | 47,070 | 29,221 | 579,195 | 141,000 | 720,195 |
| Additions | – | 1,809 | 28,357 | 30,166 | – | 30,166 |
| Disposals | | | | | | |
| – through disposal of subsidiaries | – | – | – | – | (164,000) | (164,000) |
| – others | – | (133) | – | (133) | – | (133) |
| Reclassification | 38,991 | 2,132 | (41,123) | – | – | – |
| Fair value adjustment (notes 6 and 11) | – | – | – | – | 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 |

## 15 Property, Plant and Equipment (Continued)

**THE GROUP** (Continued)

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

## 15 Property, Plant and Equipment (Continued)

**THE COMPANY**

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

## 15 Property, Plant and Equipment (Continued)

Notes:

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

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

(iii) Other assets included electronic date processing equipment, furniture and fixtures, motor vehicles and office equipment.

## 16 Intangible Assets

**THE GROUP**

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

## 17 Goodwill

| | $'000 |
|---|---|
| Cost and carrying amount: | |
| At 1 January and 31 December 2006 | – |
| Additions through acquisition of subsidiaries (note 26) | 9,455 |
| At 31 December 2007 | 9,455 |

**IMPAIRMENT TEST FOR CASH-GENERATING UNITS CONTAINING GOODWILL**

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

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

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. The discount rates used are pre-tax and reflect specific risks relating to the relevant segment. No cashflow has been projected beyond that period.

## 18 Interests in Subsidiaries

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

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

## 18 Interests in Subsidiaries (Continued)

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

| Name of company | Place of incorporation/ operation | Principal activities | Percentage of equity attributable to the Company | | Issued and fully paid-up capital* |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| Amazing Gains Finance Limited | British Virgin Islands | Provision of leasing services | – | 100% | US$1 |
| Asia Pacific Internet Exchange Limited | Hong Kong | Provision of financial and operational support to HKIX[1] | – | 75% | HK$100,000 |
| CITIC Concept 1616 Limited | Hong Kong | Provision of systems integration services | – | 100% | HK$2 |
| CITIC Consultancy 1616 Limited | Hong Kong | Provision of telecommunications consultancy services in Hong Kong | – | 100% | HK$2 |
| CITIC Data 1616 Limited | Hong Kong | Provision of data services in Hong Kong | – | 100% | HK$2 |
| CITIC Media 1616 Limited | Hong Kong | Provision of content services to licensed telecoms operators in Hong Kong | – | 100% | HK$1 |
| CITIC Networks 1616 Limited | Hong Kong | Provision of systems integration services | – | 100% | HK$2 |
| CITIC Telecom 1616 Limited | Hong Kong | Provision of licensed telecommunications services in Hong Kong | 100% | – | HK$2 |
| CITIC TeleSoft 1616 Limited | Hong Kong | Provision of systems integration services | – | 100% | HK$2 |
| CPCNet Hong Kong Limited | Hong Kong | Provision of telecommunications services | – | 100% | HK$394,866,986 |

(Expressed in Hong Kong dollars)

## 18 Interests in Subsidiaries (Continued)

| Name of company | Place of incorporation/ operation | Principal activities | Percentage of equity attributable to the Company | | Issued and fully paid-up capital* |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| CPCNet Japan Limited | Japan | Provision of telecommunications services | – | 100% | JPY10,000,000 |
| CPCNet Singapore Private Limited | Singapore | Provision of telecommunications services | – | 100% | S$2 |
| Crown Yield (HK) Limited | Hong Kong | Provision of leasing services | – | 100% | HK$2 |
| Data Communication Services Limited | Hong Kong | Equipment holding | 100% | – | HK$1,000<br>HK$38,000,000# |
| Delight Way Holdings Inc. | British Virgin Islands | Investment holding | – | 100% | US$1 |
| Fasini Corp. | British Virgin Islands | Dormant | – | 100% | US$1 |
| Global Link Information Services Limited | Hong Kong | Dormant | – | 100% | HK$3,000,000 |
| Grand Aim Technologies Limited | British Virgin Islands | Investment holding | – | 100% | US$1 |
| Grand Formosa Holdings Inc. | British Virgin Islands | Investment holding | – | 100% | US$1 |
| Grand Pacific Networks Private Limited | Singapore | Dormant | – | 100% | S$1 |
| Hen Fai Engineering Networks Company Limited | Hong Kong | Dormant | – | 100% | HK$2 |
| Joy Trend Holdings Inc. | British Virgin Islands | Investment holding | – | 100% | US$1 |
| Logic Way Holdings Inc. | British Virgin Islands | Investment holding | 100% | – | US$1 |
| Pacific Choice International Limited | British Virgin Islands | Investment holding | 100% | – | US$1 |

## 18 Interests in Subsidiaries (Continued)

| Name of company | Place of incorporation/ operation | Principal activities | Percentage of equity attributable to the Company | | Issued and fully paid-up capital* |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| Pacific Networks Corp. | United States of America | Dormant | – | 100% | US$0.01@ |
| Pacific Networks Limited | United Kingdom | Dormant | – | 100% | £1 |
| Smart Legend Co. Ltd. | British Virgin Islands | Investment holding | – | 100% | US$1 |
| Silver Linkage Investments Inc. | British Virgin Islands | Investment holding | 100% | – | US$1 |
| Vision Network Limited | Hong Kong | Dormant | – | 100% | HK$2,250,000 |
| Unique Star Holdings Inc. | British Virgin Islands | Investment holding | – | 100% | US$1 |
| World Navigation (BVI) Ltd. | British Virgin Islands | Dormant | 100% | – | US$1 |

Notes:

* Represented ordinary shares, unless otherwise stated.

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

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

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

# 19 Deferred Taxation

### (a) DEFERRED TAX ASSETS AND LIABILITIES RECOGNISED – CONTINUING OPERATIONS

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

**The Group**

| | Depreciation allowances in excess of the related depreciation $'000 | Tax losses $'000 | Total $'000 |
|---|---|---|---|
| At 1 January 2006 | 41,302 | (7,853) | 33,449 |
| Credited to consolidated income statement | (2,707) | (770) | (3,477) |
| At 31 December 2006 | 38,595 | (8,623) | 29,972 |
| At 1 January 2007 | 38,595 | (8,623) | 29,972 |
| Through acquisition of subsidiaries | 14,928 | (51,255) | (36,327) |
| Exchange adjustments | 7 | – | 7 |
| (Credited)/ charged to consolidated income statement | (3,382) | 2,759 | (623) |
| At 31 December 2007 | 50,148 | (57,119) | (6,971) |

| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| Represented by: | | |
| Deferred tax assets | **(42,096)** | (7,478) |
| Deferred tax liabilities | **35,125** | 37,450 |
| | **(6,971)** | 29,972 |

## 19 Deferred Taxation (Continued)

### (a) DEFERRED TAX ASSETS AND LIABILITIES RECOGNISED – CONTINUING OPERATIONS (Continued)

**The Company**

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

### (b) DEFERRED TAX ASSETS NOT RECOGNISED

In accordance with the accounting policy set out in note 1(n), the Group has not recognised deferred tax assets in respect of the cumulative tax losses of $3,436,000 (2006: $nil) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under the current tax legislation.

## 20 Trade and Other Receivables

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

## 20 Trade and Other Receivables (Continued)

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

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

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

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

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

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

Trade debtors are due within 7 to 180 days from the date of billing. Further details on the Group's credit policy are set out in note 25(a).

## 20 Trade and Other Receivables (Continued)

### (b) IMPAIRMENT OF TRADE DEBTORS

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

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

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

At 31 December 2007, the Group's and the Company's trade debtors of $35,742,000 (2006: $13,473,000) and $Nil (2006: $Nil) respectively were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of $6,178,000 (2006: $6,312,000) and $Nil (2006: $Nil) were recognised by the Group and the Company respectively. The Group does not hold any collateral over these balances.

### (c) TRADE DEBTORS THAT ARE NOT IMPAIRED

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

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Within 1 year | **495,396** | 408,763 | **–** | – |
| Over 1 year | **15,543** | 7,710 | **–** | – |
| | **510,939** | 416,473 | **–** | – |

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

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

## 21 Cash and Cash Equivalents

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

## 22 Trade and Other Payables

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

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

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

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Within 1 year | **349,021** | 279,451 | **–** | 40 |
| Over 1 year | **47,240** | 50,288 | **2,016** | 1,976 |
| | **396,261** | 329,739 | **2,016** | 2,016 |

## 23 Capital and Reserves

### (a) SHARE CAPITAL

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

**(i) Authorised and issued share capital**

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

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

## 23 Capital and Reserves (Continued)

### (a) SHARE CAPITAL (Continued)

**(ii)** On 2 August 2006, the Company repurchased 2,000,000 non-voting deferred shares of $1 each for a total consideration of $40 and the non-voting deferred shares were then cancelled. The purpose of the repurchase was to ensure that the Company had only one class of shares prior to listing of the Company's shares.

**(iii)** On 16 March 2007, a series of restructuring activities were undertaken to prepare for the initial public offering of the Company's shares on the Stock Exchange of Hong Kong Limited ("Global Offering"). These are summarised as follows:

- the re-designation of all non-voting deferred shares to ordinary shares;
- share-split of 1 share of $1 each to 10 shares of $0.10 each;
- increase in authorised capital to $500,000,000 by the creation of 4,979,990,000 new ordinary shares of $0.10 each; and
- allotment of 1,691,990,000 shares to the immediate holding company through the capitalisation of the Company's retained earnings in the amount of $169,199,000.

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

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

**(v)** Pursuant to an agreement dated 12 November 2007, the Company agreed to acquire the entire issued share capital of Silver Linkage Investments Inc. and as consideration, the Company allotted 98,066,283 new shares to the vendor. At the completion date, 17 December 2007, the fair value of the Company's shares was $2.01 per share.

### (b) SHARE PREMIUM AND CAPITAL REDEMPTION RESERVES

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

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

## 23 Capital and Reserves (Continued)

### (c) PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

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

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

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





### (d) DISTRIBUTABILITY OF RESERVES

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

### (e) CAPITAL MANAGEMENT

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

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

The capital structure of the Group consists of its total equity attributable to equity holders of the Company, comprising share capital and reserves as disclosed in the Financial Statements. At 31 December 2006 and 2007, the Group did not have any external borrowing.

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

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

# 24 Commitments and Contingencies

## (a) CAPITAL COMMITMENTS

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

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | $'000 | $'000 | $'000 | $'000 |
| Contracted for | 7,896 | 23,769 | – | – |
| Authorised but not contracted for | 9,158 | 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

| | 2007 | 2006 |
|---|---|---|
| | $'000 | $'000 |
| Within 1 year | 27,940 | 21,816 |
| After 1 year but within 5 years | 27,809 | 40,508 |
| | 55,749 | 62,324 |

International leased circuits

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

# 24 Commitments and Contingencies (Continued)

**(b) COMMITMENTS UNDER OPERATING LEASES** (Continued)

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

| | 2007<br>$'000 | 2006<br>$'000 |
|---|---|---|
| Within 1 year | **16,880** | 10,353 |
| After 1 year but within 5 years | **8,736** | 1,322 |
| | **25,616** | 11,675 |

# 25 Financial Instruments

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



**(a) CREDIT RISK**

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

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

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

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

| | 2007<br>% | 2006<br>% |
|---|---|---|
| Due from the Group's largest customer | **25** | 20 |
| Due from the Group's five largest customers | **46** | 49 |

**(b) LIQUIDITY RISK**

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

## 25 Financial Instruments (Continued)

### (c) INTEREST RATE RISK

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

#### (i) Interest rate profile

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

| | The Group | | | | The Company | | | |
|---|---|---|---|---|---|---|---|---|
| | 2007 | | 2006 | | 2007 | | 2006 | |
| | Effective interest rate % | One year or less $'000 | Effective interest rate % | One year or less $'000 | Effective interest rate % | One year or less $'000 | Effective interest rate % | One year or less $'000 |
| Cash and cash equivalents | **4.01%** | **780,621** | 1.27% | 43,432 | **4.19%** | **648,361** | 1.45% | 14,068 |

#### (ii) Sensitivity analysis

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

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

### (d) FOREIGN CURRENCY RISK

#### (i) The Group's functional and reporting currency is the Hong Kong dollar ("HKD").

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

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

## 25 Financial Instruments (Continued)

**(d) FOREIGN CURRENCY RISK** (Continued)

**(ii) Exposure to currency risk**

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

**The Group**

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

**The Company**

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | United States dollars '000 | RMB '000 | United States dollars '000 | RMB '000 |
| Trade and other receivables | 92 | – | – | – |
| Cash and cash equivalents | 37,856 | – | 1,399 | – |
| Trade and other payables | (206) | – | (206) | – |
| Overall net exposure | 37,742 | – | 1,193 | – |

# 25 Financial Instruments (Continued)

## (d) FOREIGN CURRENCY RISK (Continued)

### (iii) Sensitivity analysis

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

**The Group**

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

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

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities' profit after tax and equity measured in the respective foreign currencies, translated into Hong Kong dollars at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis is performed on the same basis for 2006.

## (e) FAIR VALUES

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

## 26 Acquisition of Subsidiaries

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

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

Note:

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

| | $'000 |
|---|---|
| **Satisfied by:** | |
| Cash paid | 4,070 |
| Shares issued | 197,114 |
| | 201,184 |
| Cash and cash equivalents acquired | 32,484 |
| Cash consideration paid | (4,070) |
| Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries | 28,414 |

## 27 Disposal of Subsidiaries

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

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

| | $'000 |
|---|---|
| **Net assets disposed** | |
| Property, plant and equipment | 164,000 |
| Trade and other receivables | 731 |
| Cash and cash equivalents | 1,733 |
| Trade and other payables | (4,413) |
| Total consideration | 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 |

## 28 Assets Classified as Held For Sale

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

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

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

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

| | $'000 |
|---|---|
| Net cash from operating activities | 2,511 |
| Net cash from investing activities | 17 |
| Net cash used in financing activities | (3,000) |
| Decrease in cash and cash equivalents | (472) |

## 29 Equity Share-based Transactions

### (a) SHARE OPTION SCHEME OF THE ULTIMATE HOLDING COMPANY

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

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

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

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

## 29 Equity Share-based Transactions (Continued)

**(a) SHARE OPTION SCHEME OF THE ULTIMATE HOLDING COMPANY** (Continued)

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

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | Weighted average exercise price | Number of options '000 | Weighted average exercise price | Number of options '000 |
| Outstanding at the beginning of the year | $22.10 | 200 | – | – |
| Exercised during the year | $22.10 | 200 | – | – |
| Granted during the year | – | – | $ 22.10 | 200 |
| Outstanding at the end of the year | – | – | $ 22.10 | 200 |
| Exercisable at the end of the year | – | – | $ 22.10 | 200 |

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

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

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

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

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

## 29 Equity Share-based Transactions (Continued)

### (b) SHARE OPTION SCHEME OF THE COMPANY

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

On 23 May 2007, options to subscribe for a total of 18,720,000 shares were granted to employees, directors and non-executive directors of the Company under the CITIC 1616 Plan. Each option gives the holder the right to subscribe for one ordinary share of $0.10 each of the Company. These share options vested on 23 May 2007 and then will be exercisable until 22 May 2012. The exercise price is $3.26 per share, being the closing price of the Company's ordinary shares on the date of grant of the share options.

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

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

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

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

| | Exercise price | Number of options | Vesting conditions | Contractual life of options |
|---|---|---|---|---|
| Options granted to directors: | | | | |
| – on 23 May 2007 | $3.26 | 10,290,000 | Immediately | Expire at the close of business on 22 May 2012 |
| Options granted to employees: | | | | |
| – on 23 May 2007 | $3.26 | 8,430,000 | Immediately | Expire at the close of business on 22 May 2012 |
| Total share options | | 18,720,000 | | |

## 29 Equity Share-based Transactions (Continued)

**(b) SHARE OPTION SCHEME OF THE COMPANY** (Continued)

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

| | 2007 | |
|---|---|---|
| | Exercise price | Number of options '000 |
| Outstanding at the beginning of the period | – | – |
| Granted during the period | $3.26 | 18,720 |
| Outstanding at the end of the period | $3.26 | 18,720 |
| Exercisable at the end of the period | $3.26 | 18,720 |

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

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

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

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

– Taking into account the probability of early exercise behaviour, the average expected term of the grant was determined to be 3 years;

– Expected volatility of CITIC 1616's share price at 30% per annum (based on historical movements of the Company's and its comparators' share prices);

– Expected annual dividend yield of 1%;

– Rate of eligible grantees leaving service assumed at 20% per annum;

– Early exercise assumption for option holders to exercise their options when the share price is at least 175% of the exercise price; and

– Risk-free interest rate of 4.05% per annum (based on linearly interpolated yields of the Hong Kong Exchange Fund Notes as at the grant date).

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

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

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

## 30 Retirement Benefits Scheme

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

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

## 31 Accounting Estimates and Judgements

### KEY SOURCES OF ESTIMATION UNCERTAINTY

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



### (a) DEPRECIATION

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

### (b) IMPAIRMENTS

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

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

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

### (c) RECOGNITION OF DEFERRED TAX ASSETS

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

(Expressed in Hong Kong dollars)

## 32 Immediate Parent and Ultimate Controlling Party

At 31 December 2007, the directors consider the immediate parent and the ultimate controlling party of the Group to be Ease Action Investments Corp., which is incorporated in the British Virgin Islands, and CITIC Pacific Limited, which is a company listed and incorporated in Hong Kong. The ultimate controlling party produces financial statements available for public use.

## 33 Non-adjusting Post Balance Sheet Events

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

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

(a) current tax payable of the Group and the Company will decrease by HK$106,000 and HK$Nil respectively; and

(b) the Group's deferred tax liabilities and deferred tax assets will decrease by HK$1,998,000 and HK$2,405,000 respectively and the Company's deferred tax assets will decrease by HK$215,000.

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

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

## 34 Comparative Information

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

## 35 Possible Impact of Amendments, New Standards and Interpretations issued but not yet Effective for the year ended 31 December 2007

Up to the date of issue of the financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2007 and which have not been adopted in these financial statements.

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

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

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

# Independent Auditors' Report

**Independent auditor's report to the shareholders of**
**CITIC 1616 Holdings Limited**
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of CITIC 1616 Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 53 to 113 which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements 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.





## Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, 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 statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**KPMG**
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

11 March 2008

# Glossary

## 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

## 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

## USSD

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 benefiting from the general service charge difference between roaming originating calls and roaming terminating calls

## PRS

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

# Corporate Information

## Headquarters and Registered Office

8th Floor, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
Tel: 2377 8888
Fax: 2376 2063

## Website

www.citic1616.com contains a description of CITIC 1616's business, copies of the reports to shareholders, announcements, press releases and other information.

## Stock Codes

| | |
|---|---|
| The Stock Exchange of Hong Kong: | 1883 |
| Bloomberg: | 1883 HK |
| Reuters: | 1883.HK |



## Share Registrars

Shareholders should contact our Registrars, Tricor Investor Services Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong on 2980 1333, or by fax: 2810 8185, on matters such as transfer of shares, change of name or address, or loss of share certificates.

## Financial Calendar

| | |
|---|---|
| Closure of Register: | 28 April 2008 to 5 May 2008 |
| Annual General Meeting: | 5 May 2008, 10:30 a.m.<br>Island Ballroom, Level 5, Island Shangri-La Hotel<br>Two Pacific Place, Supreme Court Road<br>Hong Kong |
| Final Dividend payable: | 8 May 2008 |

## Annual Report 2007

The Annual Report is printed in English and Chinese language and is available on our website at www.citic1616.com. Shareholders may choose to receive the Annual Report in printed form in either the English or Chinese language or both or by electronic means. Shareholders who have chosen to receive the Annual Report using electronic means and who for any reason have difficulty in receiving or gaining access to the Annual Report will, promptly upon request to the Company's Share Registrars, be sent a printed copy free of charge.

Shareholders may at any time change their choice of the language or means of receipt of the Annual Report by notice in writing to the Company's Share Registrars.

Non-shareholders are requested to write to the Company Secretary, CITIC 1616 Holdings Limited, 8th Floor, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong, or by fax: 2376 2063 or by email: contact@citic1616.com.

TdA – Concept, design and production. www.tda.com.hk PR Consultant: Strategic Financial Relations Limited

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