CITIC 1616 HOLDINGS LIMITED

ANNUAL REPORT 2008

Stock Code: 1883

CONNECTING
THE WORLD WITH
QUALITY
SERVICES

Vision

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

Mission

- To capitalize 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 consistently 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 telecom solutions and to provide a diverse range of services to enable our customers to capture new revenue.

Contents

Milestones 2008

Jun

Awarded by Finance Asia as
- 1st in "Best Mid-Cap" (China)
- 3rd in "Best Investor Relations" (China)

CPCNet won 3 Customer Relationship Excellence (CRE) Awards
- Best Use of Technology of the Year
- Innovative Technology of the Year
- Best Use of Knowledge Management of the Year

Mar

Established direct connection with operator in Monaco

Apr

CPCNet won the Distinguished Sales Award for 5 consecutive years organised by Hong Kong Management Association

Established direct connection with operator in Tanzania

Feb

Established direct connections with operators in Luxembourg and Nepal

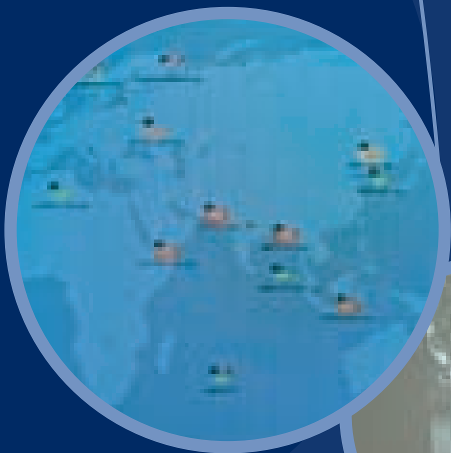
Jan

Established direct connection with operator in Lao

9 Sep

CPCNet won 2 HKED Awards - the best SME partner 2008
- IT Managed Services - NOC
- Internet Data Centre

Acquired wholesales and overseas retails business of ChinaMotion NetCom Group to enhance the global service network



8 Aug

CPCNet won 1st Taiwan award "The 7th Golden Torch Awards for the Ten Most Promising Enterprise of the Year"

Established direct connection with operator in Pakistan

7 Jul

Established direct connections with operators in Mongolia and United Arab Emirates

Extend Prepaid Roaming Services to Indonesia and Italy

Financial Highlights

in HK$ million	2008	2007	Increase (%)
Turnover			
Voice Services	1,613.4	1,162.5	38.8%
SMS Services	247.1	186.8	32.3%
Mobile VAS	94.5	59.4	59.1%
Virtual Private Network and Others	531.4	77.4	586.6%
	2,486.4	1,486.1	67.3%
Profit attributable to the equity holders of the Company	332.1	262.7	26.4%
Total assets	2,337.0	1,817.4	28.6%
Shareholders' fund	1,517.7	1,287.9	17.8%
Cash and cash equivalents	795.0	780.6	1.8%
in HK cents			
Earnings per share			
Basic and diluted	16.8	14.3	17.5%
Dividends per share			
Interim dividend	2.0	1.0	100.0%
Final dividend	6.4	3.1	106.5%
	8.4	4.1	104.9%

- Recorded high turnover and net profit. Net profit increased by 26.4% to HK$332.1 million, while turnover rose 67.3% to HK$2,486.4 million.
- All business delivered sound results in 2008. In particular, the revenue of SMS Services and Mobile VAS rose 32.3% and 59.1% respectively, as compared to 2007.
- CPCNet reported 35.7% increase in turnover as compared with 2007 on proforma basis.
- Voice traffic totalled 8.1 billion minutes, up 44.4%.
- 1.8 billion SMS carried.
- Dividends per share for the year 2008, significantly increased by 104.9%.

Chairman's Statement

I am pleased to present the annual results of CITIC 1616 Holdings Limited for the year 2008. Although there was a global financial tsunami in 2008, the Group still achieved significant growth in our businesses and delivered a satisfactory operating result.

In 2008, total revenue of the Group amounted to HK$2,486.4 million, representing an increase of 67.3% as compared with the previous year. The Group recorded a net profit of HK$332.1 million, a 26.4% increase from the previous year. Earnings per share rose 17.5% to HK16.8 cents.

If the one-off interest income of HK$40.5 million from the initial public offering of our shares in 2007 is excluded, the profit attributable to equity holders would have increased by 49.5% as compared with the previous year.

In the year 2008, the Group had gone through successful business integration; resources optimization; network development and enhancement of customer services. As a result, the Group is well positioned to provide competitive, high quality and comprehensive services proactively to our customers. The Group strove to expand our businesses with the major telecoms operators in China and also actively explored overseas markets through a strong marketing and sales team. Thereby, a substantial growth was achieved in terms of business volume and turnover of our voice services, SMS services, mobile value-added services as well as internet virtual private network and internet access services as compared with the previous year.

After CPCNet Hong Kong Limited ("CPCNet") was acquired by the Group in December 2007, it achieved encouraging operating results with effective business strategies. The Group leveraged on the synergies resulting from the integration of our core business and that of CPCNet and successfully reduced operating costs and further strengthened our market development capabilities. The acquisition of ChinaMotion NetCom Limited ("CMN") by the Group was completed in September 2008, as a result the Group's business scale was expanded and our market competitiveness was further enhanced.

The Board recommended a final dividend of HK6.4 cents per share for the year 2008. Including the interim dividend of HK2 cents per share for the year 2008, the total dividend per share for the year 2008 amounted to HK8.4 cents, representing an increase of 104.9% as compared with the previous year. The dividend payout for the year is 50.0%.

1. Review for the Year 2008

Establish Extensive Business Ties with Major Telecoms Operators in the World to Maintain a Stable Growth in Voice Services.

In 2008, there continued to be strong price competitions in the voice market. The Group relentlessly grew our market coverage and developed targeted marketing strategies for difference markets. We worked on enhancing our business relationships with the China telecoms operators and major overseas telecoms operators. By consistently providing high value-for-money services, we achieved a stable growth in our voice services.

Revenue generated by the Group from voice services amounted to HK$1,613.4 million, representing a 38.8% increase as compared with the previous year. Voice traffic carried rose to 8.1 billion minutes, representing a 44.4% increase as compared with the previous year. China inbound and outbound voice traffic grew by 54.2% to reach 6.98 billion minutes.

The Yield of SMS Business was Enhanced by Increasing the Market Penetration Rate of SMS Business.

In order to cope with the demand of the continuous increasing international SMS volume, the Group significantly expanded the capacity of SMS hub platforms to ensure the steady operations of our SMS hub platforms during peak hours on festive days and major events. The Group aggressively marketed our SMS services to overseas telecoms operators, resulting in expanded market coverage and relatively fast growth in the SMS business.

Chairman's Statement

Revenue generated by the Group from SMS services rose by 32.3% to reach HK$247.1 million. We carried 1,766.4 million SMS messages during the year, a decrease of 6.9% as compared with the previous year. The drop of traffic was mainly due to the phasing out of discount plans offered to Hong Kong mobile operators. The average yield per SMS increased accordingly.

Substantial Increase in Yield of Mobile Value-Added Services ("Mobile VAS") Following Aggressive Marketing Efforts.

Leveraging our technology edge in Mobile VAS business, the Group worked closely with major China and overseas mobile operators to expand the business. We enhanced our competitiveness by emphasizing on the quality of our services and providing innovative and customized services to our customers. Revenue from our Mobile VAS business amounted to HK$94.5 million, representing a substantial increase of 59.1% as compared with the previous year.

The Operating Efficiencies of Internet Virtual Private Network and Internet Access Services were Substantially Increased, and the Synergy with the Group's Core Business was Mostly Realised.

By actively launching various overseas marketing campaigns, strengthening the connectivity of our internet virtual private network and further deployment of network nodes in China and overseas in light of market demand, CPCNet's business achieved a rapid growth and its operating efficiency increased sharply with enhanced scale. The business revenue of CPCNet amounted to HK$460.2 million, representing an increase of 35.7% as compared with the previous year. Net profit reached HK$61.1 million, representing an increase of 128.0% from the net profit of HK$26.8 million in 2007.

CPCNet had established an advanced customer service system in Guangzhou. After providing on-the-job training, a substantial portion of the Group's customer services originally performed in Hong Kong was transferred to the Guangzhou customer service centre. This arrangement not only reduced our customer servicing cost, but also enabled the capturing and analysing of voluminous customer service data for further enhancing the standard of our customer services.

The Group had successful integrated our original networks with CPCNet's networks. After the integration, the cost of leased lines for the Group was reduced, while the network coverage and resilience were enhanced. Meanwhile, CPCNet had already utilized our data centres to provide co-location services to its customers and for its own use.

The Group's Ability of Developing International Market was Enhanced through the Acquisition of CMN.

After the acquisition of CMN, the Group acquired its telecoms networks and marketing and sales teams in USA, Canada, Japan, Singapore, Vietnam, Europe and Taiwan together with its retail phone card business. These resources would be vital for the Group's overseas business development. The Group had carried out the integration plan on various businesses of CMN. Various departments of CMN such as routing and network departments had integrated with our corresponding departments to generate greater efficiency.

The Provision of High Quality and Comprehensive Services and the Consummation of the Assurance Works in Olympic Games Enhanced the Company's Market Competitiveness.

All the telecoms operators in China had carried out substantial preparation works on communication assurance for the Olympic Games, and as one of their key telecoms services partner, the Group was obliged to comply with the higher standards and requirements. The Group took initiatives to cope with these standards and requirements responsively. Through improving our networks, network operating centre, enhancing our monitoring system and strengthening the 7x24 shift duty and the quality of our frontline customer service officers, the Group effectively safeguarded the smooth operation of our telecoms hubs during the Olympic period. The smooth operations with all the telecoms operators and our high standard of customer services had won the recognitions of various China and overseas telecoms operators. Following the service assurance works carried out in the Olympic period, the standard of our services and our network resilience and coverage were proven, thereby laying a solid foundation for our business growth in the future.

Further Improving the Company's Internal Control in order to Strengthen the Risk Management.

With the global financial tsunami, the Company further reviewed its risk management systems, and established more definite and specific guidelines, especially on cash management, outstanding receivables and foreign currency exchange management. The risk management standard of the Group have been enhanced.

The Group also paid attention to the execution of the above policies. Meetings were held periodically for evaluation of the risk of the Group and monitored the control tasks on various functions. These measures ensured that the Group has complied with the requirements of the governing laws and regulations.

2. Prospects for the Year 2009

The year 2009 will be a challenging year. Due to the financial tsunami, it is expected that there will be a significant slowdown in global economies. Facing the unfavourable business environment, the Group will put more efforts on market development and strengthen our competitiveness. To maintaining a stable growth rate, the Group will control the costs and expenditure more prudently and take all necessary precautions against potential risks. The Group will be well-prepared on various technical works in support of the launching of 3G services, and pro-actively work with the 3G operators in China. The integration of the business of CMN will continue in various business sectors in the coming year to enhance our global market reach, so as to further consolidate our position as an international telecoms hub, and to strive for a steady and relatively fast growth in our earnings in the year 2009.

To Maintain Steady Growth in Voice Services.

For our voice services, the Group will continue to actively build on our business relationships with the three newly restructured major China telecoms operators, and overseas telecoms operators. We will be well equipped for the launching of 3G business by the major China telecoms operators, so as to maintain a steady growth in our voice services. Having leverage on the synergy of the integration with CMN's business, the Group will enhance our range of global telecom services for more telecoms operators via the CMN's overseas marketing network. The Group will also strive to expand the retail phone card business in new overseas market and speed up the growth in existing markets such as the United States, Japan and Singapore, thereby laying a solid foundation for growth of our voice services.

To Sustain Rapid Growth in SMS Business and Mobile VAS Business.

For our SMS and Mobile VAS businesses, we will continue to promote the SMS and Mobile VAS businesses to overseas telecoms operators. Through CMN's marketing network, our SMS and Mobile VAS products will be introduced to more overseas telecoms operators in various locations in the world. On the other hand, the Group will develop the corporate SMS business, targeting large corporate clients, in order to enrich our customer portfolio. The Group will further invest in services and technological development and captivate customers by our rich bundle of products and services and our technical capabilities.

To Maintain Rapid Growth in Internet Virtual Private Network Business.

Although the financial tsunami has resulted in a slowdown in the global economic growth, it is expected that enterprises will in turn use more internet virtual private network ("IVPN") services in order to reduce their travelling expenses; thus, providing new opportunities for growth of internet virtual private network business. The Group provides premium network for VPN and trusted communications and security solutions. We will also strive for growth in internet VPN business through effective marketing strategies and rich product portfolio.

To Enhance the Research and Development of New Services together with a Sound Foundation for the 3G Development.

The Group has built portals providing VOIP services together with the renewal and renovation of network technology, to become a bridge of internet VOIP users and telecoms operators. These also facilitate our connection with 3G operators to end users of cable TV and internet VOIP. For the SMS business, the Group will focus on developing business with corporate clients and personal communication portal. For Mobile VAS business, focusing on the surge in demand of international roaming business, the Group will continuously strengthen and develop the technology on the GSM/WCDMA network. Meanwhile, the Group will start to build up the networks and technology on CDMA/CDMA2000/TD-SCDMA and monitor closely the development on 4G technology.

To Leverage on the Synergy Resulting from the Integration with CMN's Business.

We will steadily integrate the marketing teams of the Group and CMN to enhance market coverage and channel management. Further synergies can be generated from the centralisation of customer services centre, rationalisation of data centres and international capacity resources planning. The Group will capitalize on CMN's overseas marketing networks to expand our business to new geographies.

Although the Group will face challenges from the global economic slowdown in 2009, I am confident that the economy of China will maintain a sustainable, stable and healthy growth. With a sound business foundation established by the Group, a global marketing network with extensive coverage and strong technical capabilities, and with the joint efforts of our staff, our business will continue to grow at a relatively fast pace in 2009, thus bringing a greater return to our shareholders.

On behalf of the Board, I would like to express gratitude to the management and the staff for their contributions and efforts in the past year.

Due to the reason of age, I will resign as the Chairman of the Board of Directors of the Group. I would like to take this opportunity to thank the shareholders and the Board of Directors of the Group for their trust and support to me, and all the staff for their support to my work, as well as various telecoms operators in China and overseas for their help and support to our Group's business. Mr. Xin Yue Jiang, Vice Chairman of the Board of Directors of the Group, will take over my position as the Chairman of the Board of Directors of the Group. Under the leadership of Mr. Xin Yue Jiang, I am confident that the various businesses of the Group will have sustainable and relatively fast growth. I wish that CITIC 1616 Holdings Limited will achieve more brilliant results and make greater contributions to the shareholders and the society in the years to come.

Shi Cuiming

Chairman

Hong Kong, 18 March 2009

Business Review

Voice Services

2008 was another record year for the Group's Voice Services. Total traffic volume amounted to 8,103 million minutes which had increased by 44.4% as compared with 5,605 million minutes in 2007. Turnover amounted to HK$1,613.4 million, a remarkable growth of 38.8% as compared with 2007. In parallel, we were also successful in growing our other lines of business. As a result, the percentage of Voice revenue as compared to total revenue decreased from 78.2% for 2007 to 64.9% for 2008.

Voice Services related to China remains highly flavored to the Group's performance. The Group handled 6,107 million China inbound minutes and 870 million China outbound minutes for 2008, corresponding to an increase of 56.5% and 39.6% respectively as compared to 2007.

Despite the worldwide economic turmoil and the intensive competitions in the Voice market, the Group achieved strong year-on-year growth in terms of both revenue and traffic volume. Moreover, as the Group now held significant market share in the China Inbound voice traffic following the acquisition of our major competitor ChinaMotion Netcom Group in the third quarter of 2008, the pricing pressure on voice was reduced. Average revenue per minute in 2008 was HK$0.199, a decrease of 3.9% as compared to 2007. The corresponding decrease in revenue per minute for 2007 versus 2006 was 14.7%.

In 2008, a total of 90 new customers was added. We now have 351 customers compared to 261 customers at the end of 2007. These new customers are located in different geographic locations including those high value markets such as Vietnam, Japan, U.A.E., Monaco and Luxemburg. The Group has also extended direct terminations to minor but valuable destinations like Tanzania, Nepal, Cambodia, Bangladesh and Mongolia, etc.

In September 2008, the Group acquired 100% interest in ChinaMotion Netcom Limited and its subsidiaries and 49% interest of CM Tel (USA) LLC ("CMN Group"). CMN Group is a Voice Services Provider with global service network across countries and areas including Hong Kong, Taiwan, Singapore, Japan, the United Kingdom, the United States of America and Canada. The acquisition has strengthened the Group's market position and enabled the Group to further develop its Voice Services. There are areas of potential synergy such as better bulk price for traffic termination and cost saving arising from sharing of network and human resources. The Group will also leverage on ChinaMotion Netcom's current leading position on the calling card business in North America and replicate the successful business model to other regions.

The Group continues to strengthen the routing capability and enhance network efficiency. Total capacity for both TDM and IP has expanded by 38.4% to accommodate the growing business. In the third quarter of 2008, in order to cater for business growth, the Company had added a new Point of Present ("PoP") in Japan and upgraded Singapore's PoP. These two PoPs are equipped with IP based equipment so as to enable better utilization of bandwidth.

Business Review

We are anticipating a more challenging year in 2009. Specific initiatives have been identified by the Group to further boost our Voice business including but not limited to, implementing tactical pricing and quoting strategies, enhancing routing priority and efficiency, developing more valuable direct coverage and termination capacity, enlarging our voice services portfolio, as well as pursuing strategic partnership and outsourcing opportunities with major customers/suppliers. Extra effort will also be placed on network expansion and resilience to further improve our service level. Moreover, the integration of network and resources of ChinaMotion Netcom into the Group's existing infrastructure has been well advanced. Synergies from this acquisition will certainly increase the Group's competitiveness and add value to future development in new product and services.

SMS Services

SMS Services continued to grow strongly during the year. Turnover has grown by 32.3% to HK$247.1 million as compared with HK$186.8 million for 2007.

The Group continued to provide high quality services to our customers. During the year, the Group had further phased out the sales discount plan previously provided to our customers so as to improve profitability. Overall revenue per message increased by 42.9% to HK$0.14 for 2008. As a result, despite a 6.9% decrease in number of messages handled, overall revenue increased significantly. The Group had expanded the SMS Services platform to increase handling capacity and to enlarge the geographic coverage. During the year, new connections were made with mobile telecoms operators in India, Bangladesh, Sri Lanka, Azerbaijan, Poland, U.A.E, South Africa, and Russia.

Mobile VAS

The Mobile VAS offered by the Group include prepaid roaming service ("PRS"), single IMSI multiple number service ("SIMN"), mobile roaming call back service and roaming signaling service ("SCCP"). During the year, these Mobile VASs continued to be well received by the mobile operators. Revenue contribution from Mobile VAS grew by 59.1% in comparison with 2007. In order to extend the Mobile VAS offering from GSM/WCDMA to CDMA/CDMA2000 world, a CDMA to GSM (C2G) inter-standard solution has been launched to enable the CDMA/CDMA2000 operators to roam to GSM/WCDMA operators in Europe, Asia, and Africa only by a single agreement in handling signaling conversion, billing settlement and over 300 GSM/WCDMA's roaming coverage around the world. Through strategic cooperation with VeriSign in Asia, the Group will also provide CDMA to CDMA (C2C) roaming solution for ANSI-41 networks to maximize their roaming revenues by offering seamless roaming services with the same feature sets similar to their home network environment.

PRS

PRS turnover had increased by 67.2% as compared to 2007. During the year, we have offered the PRS services to 9 more operators covering Taiwan, Italy, Indonesia, Philippines, Macau and Hong Kong. The proven innovation of PRS supporting different prepaid protocols continued to attract the upcoming mobile operators to subscribe and to expand the service matrix to generate additional inbound and outbound roaming revenue. The Group is now expediting the rollout of this product to operators outside Asia and will support prepaid roaming for CDMA/CDMA2000 operators.

Business Review

SIMN

SIMN turnover had increased by 49.6% as compared to 2007. Being a pioneer services provider of this solution on both postpaid and prepaid users without changing existing SIM cards, this service continued to be well-received by customers. During the year, new contracts were signed with customers in Korea, Hong Kong and Macau. We have received service requests from a number of ASEAN and Latin American operators and is now planning to rollout this product to those countries with frequent cross border travelers.

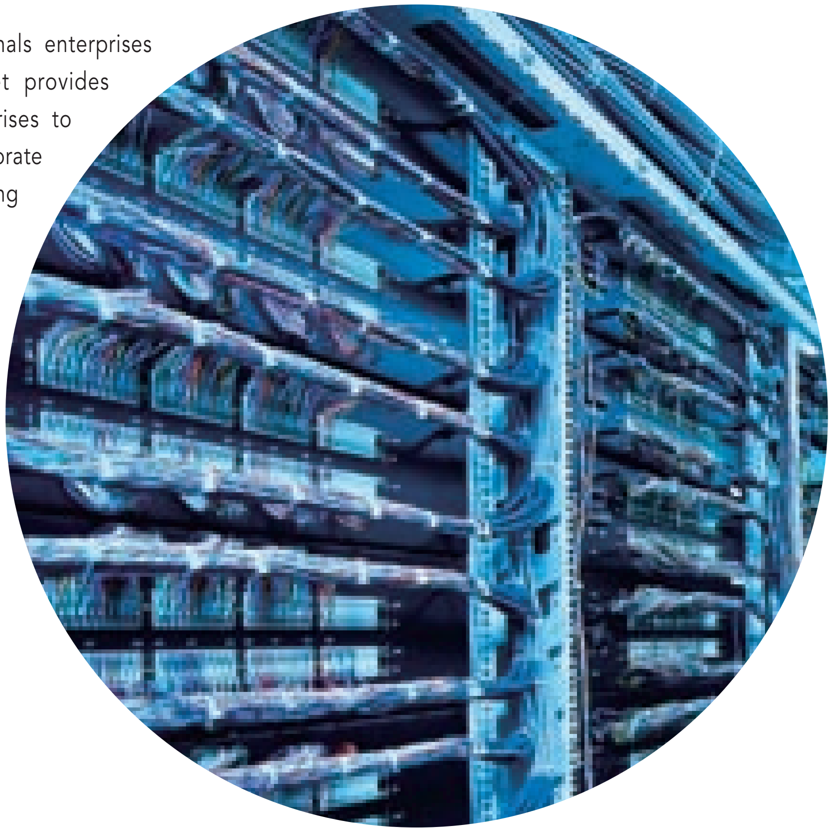
SCCP

SCCP revenue had increased by 72.4% as compared to 2007. The good growth was mainly due to the increase in number of customers as well as the generic growth of traffic from existing customers in this region. The Group offered service bundling together with PRS and SIMN to attract mobile operators to use this service in Asia. Customers are benefited by using the Group's advanced Customer Service Portal (CSP) to strengthen its roaming service quality and visualize the service transparency throughout user-friendly but sophisticated analytical tools. During the year, new contracts had been signed with operators in Singapore, Indonesia, Macau and Taiwan.

Virtual Private Network ("VPN") and Others

The contribution from other data services increased by 586.6% as compared with 2007. This is the first time that the Group consolidates the full year impact of CPCNet, our VPN brand.

With extensive experience in serving multinationals enterprises and a fully-meshed managed network, CPCNet provides an advanced IP VPN service in helping enterprises to connect the business world to China. It offers corporate customers comprehensive managed services, ranging from international networking, internet connectivity, and Internet Data Centre (IDC), information security services. Apart from serving corporate enterprises, CPCNet also maintains partnership with various international carriers, helping them to extend their business in China. During the year, the number of CPCNet's IP VPN customers surged 19.7% to 3,212 points from 2,684 points last year. In 2008, CPCNet recorded an annual turnover of HK$460.2 million, up 35.7% compared with last year. Net profit was more than doubled that of last year.



In view of an increasing demand among enterprises for information security, CPCNet is developing managed security services, providing a total protection to enterprises customers. The company will focus on delivering a high quality one-stop managed services to customers as well as expanding into overseas markets with prudence. Despite the recent financial turmoil, CPCNet has not only continued to enhance its products and services, but also developed and launched various innovative value-added services to address enterprises' needs.

Striving for services excellence, CPCNet aims to provide international grade products and services to customers. On top of attaining the ISO27001 certification towards the end of 2007, CPCNet also won several prestigious awards in 2008 including Distinguished Salesperson Award (DSA) by The Hong Kong Management Association ("HKMA"), Customer Relationship Excellence (CRE) Awards by the Asia Pacific Customer Service Consortium ("APCSC"), including "Best Use of Technology of the Year", "Innovative Technology of the Year", "Best Use of Knowledge Management of the Year" and "CEO of the Year". CPCNet was also presented the "Golden Torch Award" by the Outstanding Enterprise Manager Association in Taiwan crediting the excellent quality of its products and the "The Best SME Partner 2008", the "Best I.T. Managed Service-Network Management Centre" and "Best Internet Data Centre" honors by Economic Digest for the second consecutive year.

After it acquired CPCNet last year, CITIC 1616 has sought to create the most synergies with CPCNet through various businesses integration and collaboration, such as Customer Services, Network facilities and data centers in order to enhance operational efficiency of the Group.

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.

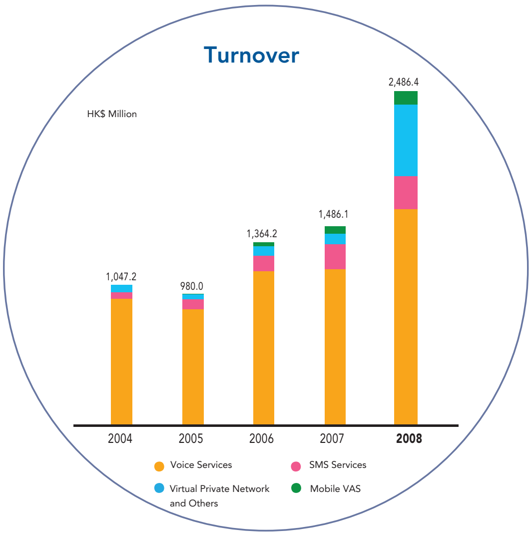
Pages 52 to 58 of the Annual Report contain the Consolidated Income Statement, Consolidated Balance Sheet, Statement of Changes in Equity and Consolidated Cash Flow Statement. Following these financial information, on pages 59 to 117 of the Annual Report, are Notes that further explain certain figures presented in the report.

On page 118 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.

Financial Review

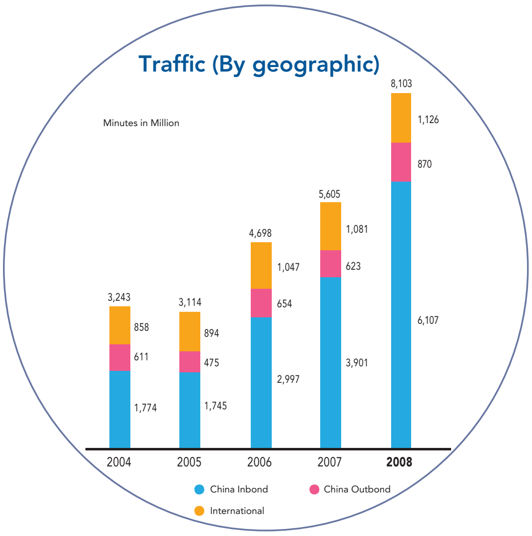


Review of Financial Performance

Turnover

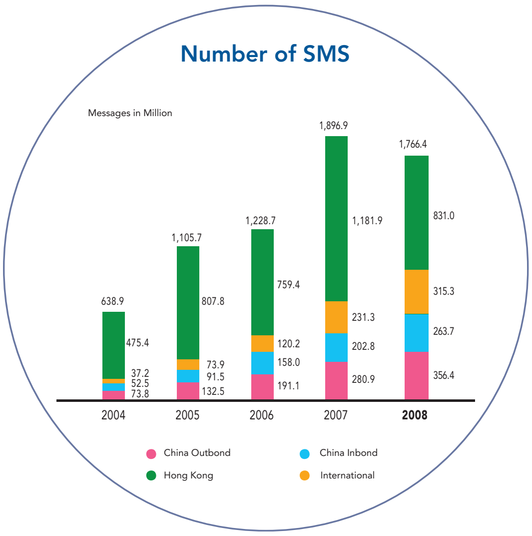
The Group's turnover for 2008 was HK$2,486.4 million, an increase of 67.3%, compared with HK$1,486.1 million for 2007. On a proforma basis, the turnover has increased by 31.2% as compared with last year.

Voice Services turnover increased from HK$1,162.5 million for 2007 to HK$1,613.4 million for 2008, an increase of 38.8%. The traffic carried by the Group in 2008 reached a record-breaking 8.10 billion minutes, an increase of 44.4% compared with 5.61 billion minutes in 2007. The Group continued to take up market shares of our competitors and achieved good growth. In addition, the Group has acquired our major competitor ChinaMotion NetCom Limited ("CMN") in September 2008. This strategic move, not only has further strengthened our dominance, but also helped to ease off partially the pricing pressure of our Voice business. During the year, CMN Group contributed HK$117.4 million in turnover, an increase of 36.4% as compared to 2007 on a proforma basis. Revenue per minute dropped by 3.9% as compared to 2007, and is lower than that of 2007 as compared to 2006 of 14.7%.



SMS Services recorded a 32.3% growth in turnover, from HK$186.8 million for 2007 to HK$247.1 million for 2008. The Group handled 1,766.4 million messages for 2008, which was 6.9% below the 1,896.9 million messages handled by the Group for 2007. The decrease was mainly due to the reduction of traffic under our discount plan to mobile operators in Hong Kong. As a result of this change, the average revenue per SMS has increased by 42.9% as compared to 2007.

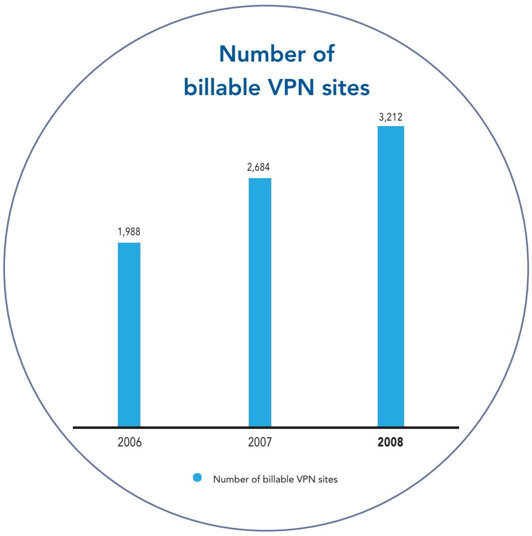
Mobile VAS turnover for 2008 amounted to HK$94.5 million, representing an increase of 59.1% compared with HK$59.4 million for 2007. While the increase in traffic during the Beijing Olympics was a major contribution factor, increase in demand of the services. During the year, our Mobile VAS services was commercially launched with a number of South Asia telecoms operators, and we are continuing with signing up operators in Asia with the service.



Virtual Private Network (VPN) and Others turnover increased by 586.6% to HK$531.4 million compared with HK$77.4 million for the year 2007. The significant increase was mainly due to the first time inclusion of the full year turnover of CPCNet acquired in December 2007. During the year, CPCNet achieved HK$460.2 million in turnover, an increase of 35.7% on a proforma basis as compared with last year. Number of billable site reached 3,212 sites at the end of December 2008, an increase of 19.7% as compared to December 2007 while average revenue per site amounted to HK$9,900, an increase of 8.8%.

Other revenue

The Group's other revenue for 2008 amounted to HK$20.8 million, a decrease of HK$41.6 million as compared with last year. This is mainly contributed by the one-off HK$40.5 million interest income derived from proceeds obtained through oversubscription of shares during the Group's Initial Public Offering ("IPO") in 2007. In addition, there was a decrease of average interest rate for 2008.

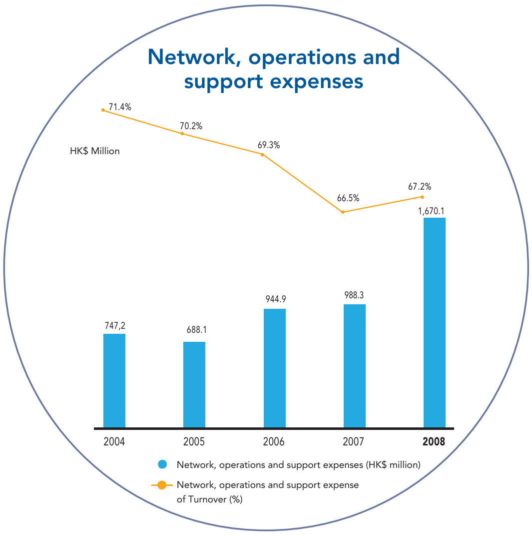


Other net (loss)/gain

Owing to the fluctuation of EURO against US dollar during the year, the Group records HK$9.0 million net foreign exchange loss. During the year, most of the Group's trading currency is in form of either US dollar, HK dollar or EURO. All exchange loss was due to the normal trading business and funding arrangement of the Group. The Group has not entered into any foreign currency hedging arrangement.

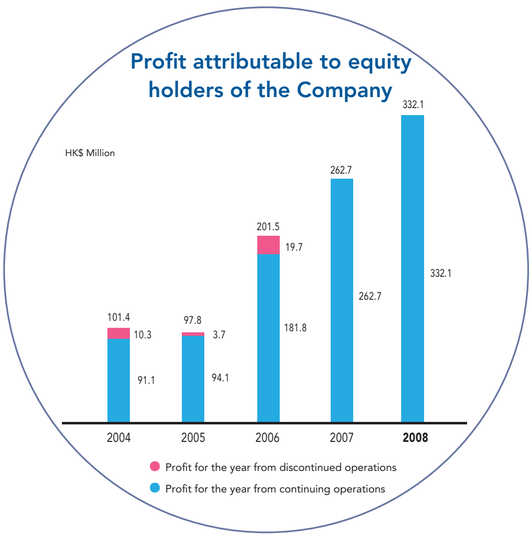
Network, operations and support expenses

In the year 2008, network, operations and support expenses amounted to HK$1,670.1 million, representing an increase of 69.0% as compared with HK$988.3 million for 2007. The increase was mainly due to the first time inclusion of the full year impact of CPCNet and the fourth quarter impact of CMN Group. If we exclude the impact of CPCNet and CMN Group, network, operations and support expenses amounted to HK$1,329.1 million, which represented an increase of HK$348.3 million or 35.5% as compared to 2007. The increase was in line with the increase in traffic volume.



Staff costs

Staff costs for the year 2008 amounted to HK$180.0 million, an increase of 74.2% compared with HK$103.3 million for 2007. The increase was mainly due to the first time inclusion of full year impact of CPCNet and the fourth quarter impact of CMN Group. If CPCNet and CMN Group were excluded, staff costs had decreased by HK$2.0 million or 2.1%. The Group's total headcount was 419 staff at the end of December 2008, including 222 staff from CPCNet and CMN Group.



Other operating expenses

Other operating expenses for the year 2008 amounted to HK$133.7 million, representing an increase of 86.5% compared with HK$71.7 million for 2007. The increase was due to first time inclusion of full year impact from CPCNet and the fourth quarter impact from CMN Group. If the impact of CPCNet and CMN Group were excluded, other operating expenses amounted to HK$94.2 million, an increase of 35.5% as compared with 2007. The increase was in line with the increase in the growth of business.

Financial Review

Income tax

The Group's income tax expenses increased 50.3% from HK$43.7 million in 2007 to HK$65.7 million in 2008. This increase was mainly due to the increase in profit from operations. Effective tax rate for the year amounted to 16.5% which was higher than the 14.3% for 2007. The increase in effective tax rate was as a result of the decrease in interest income which was not taxable in Hong Kong.

Profit attributable to equity holders of the Company

The Group recorded a profit of HK$332.1 million for 2008, an increase of 26.4% as compared to 2007. If the one-off interest income of HK$40.5 million derived during IPO was excluded in the year 2007, profit attributable to equity holders for 2008 increased by 49.5%. During the year, contribution from CPCNet before the amortisation of intangibles amounted to HK$61.1 million, an increase of 128.0% as compared to 2007 on a proforma basis.

Earnings per Share ("EPS")

EPS was HK16.8 cents for 2008, an increase 17.5% compared with HK14.3 cents in 2007. As the Group has issued 188.0 million and 98.1 million new shares during the IPO and the acquisition of CPCNet respectively in 2007, a dilution impact was recorded in calculation of earnings per share for 2008. EPS growth was not in line with the profit growth.

Dividend per share

A final dividend of HK6.4 cents per share is proposed for 2008.

Capital expenditure

Capital expenditure was HK$123.8 million for 2008, an increase of 98.4% as compared with HK$62.4 million for the previous year. This had included the capital expenditure of CPCNet and CMN Group which amounted to HK$43.9 million and HK$7.9 million respectively during the year. The expenditure mainly included HK$115.0 million for upgrading the Group's network, and HK$4.4 million for enhancing the Group's application development capabilities.

Acquisition of ChinaMotion NetCom Limited and its subsidiaries ("CMN Group"), and 49% interest of CM Tel (USA) LLC

On 30 September 2008, the Group acquired the entire share capital and shareholder's loan of CMN Group and 49% interest of CM Tel (USA) LLC from China Motion Telecom International Limited at a cash consideration of HK$191.8 million. CMN Group and CM Tel (USA) LLC offer wholesale and retail international direct dial ("IDD") services and have established a global service network with coverage spanning across countries and areas including Hong Kong, Taiwan, Singapore, Japan, the United Kingdom, the United States of America and Canada.

Use of proceeds

The Company raised HK$461.0 million from IPO in 2007. At 31 December 2008, HK$306.1 million has been utilised. Approximately HK$191.8 million, HK$100.0 million and HK$14.3 million have been spent for acquisition of CMN Group and 49% interest of CM Tel (USA) LLC, for upgrading the Group's network and for enhancing the Group's application development capabilities respectively. The usage was in accordance with the proposed use of proceeds set out in the prospectus. The remaining proceeds were held as bank deposits and will be utilised in the manner as disclosed in the prospectus in the future.

Treasury Policy and Risk Management

General

The Group's Treasury function has primary responsibility for managing financial risks to which the Group is exposed. Financing and cash management activities are centralised to maintain a high degree of financial control and enhance risk management. The surplus fund was held as bank deposit.

Exchange rate risk

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. In addition, the Group's other assets, liabilities and transactions are mainly denominated either in Hong Kong dollar or United States dollar. Management considers that the Group's exposure to foreign currency risk is not material and will continue to monitor closely all possible exchange rate risk and implement the necessary hedging arrangement to mitigate any significant foreign exchange risk.

Credit risk

Credit evaluations are performed on all customers with credit level over a certain amount. Accounts 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.

The Group has a certain concentration of credit risk of the trade receivable due from the Group's 5 largest customers, who accounted for approximately 49% and 46% of the Group total trade receivable at 31 December 2008 and 31 December 2007 respectively. The credit risk exposure to trade receivable balance has been and will be monitored by the Group on an ongoing basis and the impairment loss on bad and doubtful debts have been within management's expectations.

Financial Review

Group Liquidity and Capital Resources

The Group manages its exposure to liquidity risk by reviewing the cash resources required to meet its business objectives. At 31 December 2008, the Group had cash and cash equivalents of HK$795.0 million, an increase of HK$14.4 million as compared to the HK$780.6 million at 31 December 2007. The increase was mainly due to the Group's net cash generated from operating activities amounted to HK$218.8 million, after netting off the net cash outflow for acquiring CMN Group and 49% interest of CM Tel (USA) LLC of HK$181.3 million.

Currency Portfolio

The original denomination of the Group's cash and cash equivalents by currencies at 31 December 2008 is summarised as follows:

	Denomination				
HK$ million equivalent	**HK$**	**US$**	**EURO**	**Others**	**Total**
Cash and cash equivalents	152	570	60	13	795
Percentage of total amount	19.2%	71.7%	7.5%	1.6%	100%

At 31 December 2008, the Group maintained EURO balance with HK dollar equivalent of 60 million in order to support the need of settlement in EURO for current outstanding payables and in future. At 31 December 2008, the Group had an outstanding trade payable in EURO equivalent of HK$14.2 million.

Borrowings

At 31 December 2008, the Group had no outstanding borrowings.

Banking facilities

At 31 December 2008, 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$10,000 (equivalent to HK$78,000) was utilised as guarantees for the Group's purchase from telecoms operators.

Securities and guarantees

At 31 December 2008, the Group had not made any pledge of or created any security over its assets and had not provided any corporate guarantee.

Contingent liabilities

At 31 December 2008, the Group did not have any contingent liability.

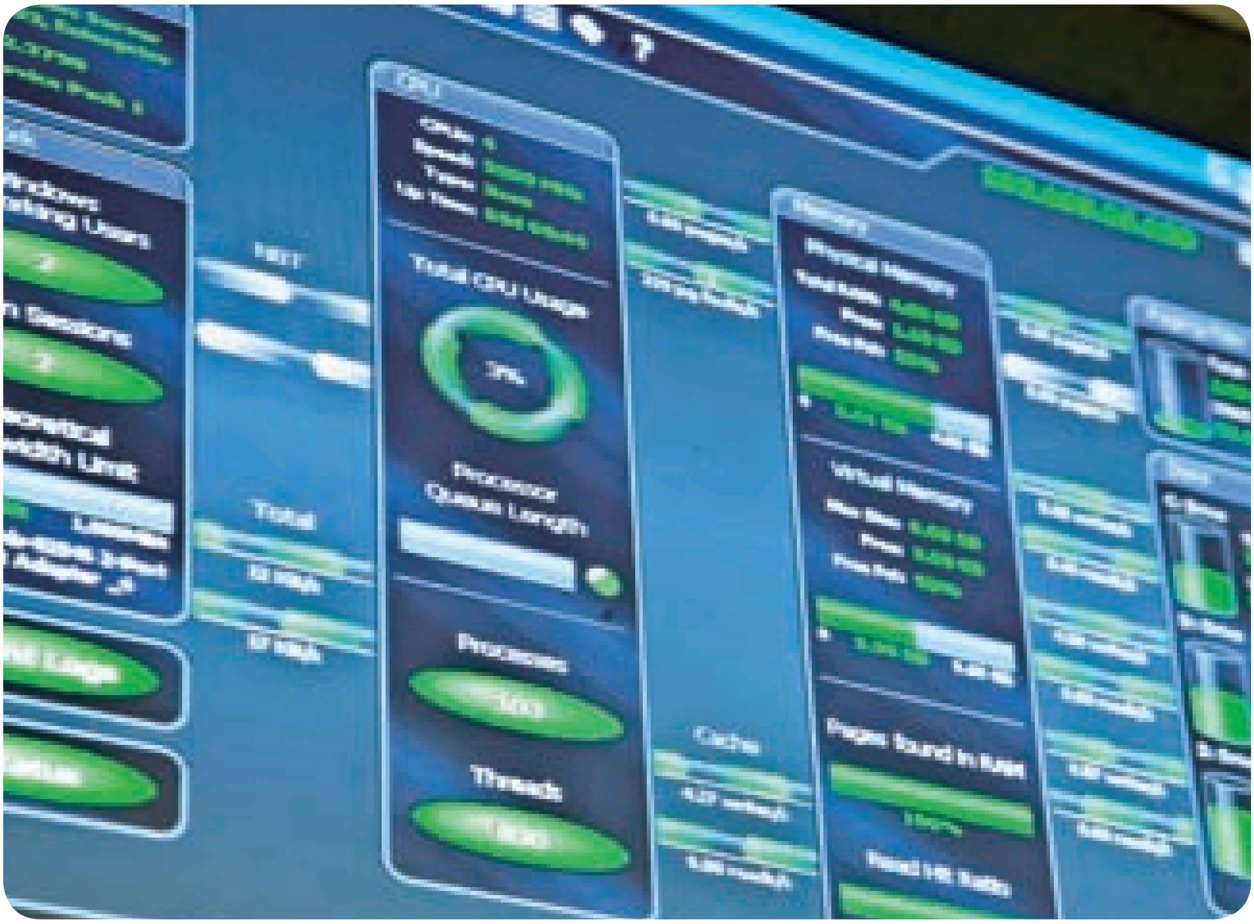
Capital commitments

At 31 December 2008, the Group had outstanding capital commitments of HK$17.7 million, mainly for the acquisition of network equipment which had yet to be delivered to the Group of which HK$4.0 million were outstanding contractual capital commitments and HK$13.7 million were capital commitments authorised but for which contracts had yet to be entered into.

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.



Five Year Summary

	At 31 December				
	2004	2005	2006	2007	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets and liabilities					
Property, plant and equipment	341,029	320,409	278,073	326,489	**363,105**
Intangible assets	–	–	–	28,717	**34,849**
Goodwill	–	–	–	9,455	**214,269**
Interest in an associate	–	–	–	–	**5,163**
Non-current other receivables	24,034	26,910	37,891	34,772	**29,716**
Deferred tax assets	5,994	5,288	7,478	42,096	**29,907**
Net current assets	238,955	352,529	86,925	881,446	**876,901**
Deferred tax liabilities	(41,394)	(38,737)	(37,450)	(35,125)	**(36,200)**
NET ASSETS	568,618	666,399	372,917	1,287,850	**1,517,710**
Capital and reserves					
Share capital	2,001	2,001	1	197,807	**197,773**
Reserves	566,592	664,398	372,916	1,090,043	**1,319,937**
Total equity attributable to equity holders of the Company	568,593	666,399	372,917	1,287,850	**1,517,710**
Minority interests	25	–	–	–	**–**
TOTAL EQUITY	568,618	666,399	372,917	1,287,850	**1,517,710**

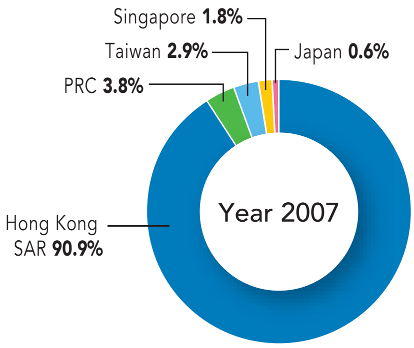
	For the year ended 31 December				
	2004	2005	2006	2007	**2008**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Results					
Turnover	1,047,152	980,046	1,364,209	1,486,071	**2,486,362**
Profit before taxation	108,699	112,167	219,903	306,377	**397,875**
Income tax	(17,564)	(18,130)	(38,095)	(43,678)	**(65,747)**
Profit for the year from continuing operations	91,135	94,037	181,808	262,699	**332,128**
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	**332,128**
Attributable to:					
Equity holders of the Company	101,478	97,806	201,518	262,699	**332,128**
Minority interests	–	(25)	–	–	**–**
	101,478	97,781	201,518	262,699	**332,128**
Basic and diluted earnings per share					
From continuing and discontinued operations (HK cents)	6.0	5.8	11.9	14.3	**16.8**
From continuing operations (HK cents)	5.4	5.6	10.7	14.3	**16.8**
From discontinued operations (HK cents)	0.6	0.2	1.2	–	**–**

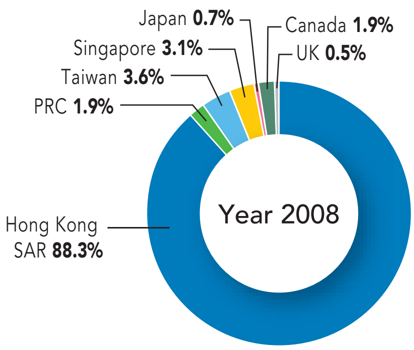
Note: The results of the Group for the year ended 31 December 2005, 2006, 2007 and 2008 were prepared in accordance to note 1 to the Financial Statements. The results for the year ended 31 December 2004 were extracted from the prospectus of the Company dated 22 March 2007.

Human Resources

As at the end of December 2008, the Group employed 419 employees (2007: 341) in its headquarter in Hong Kong and its principal subsidiaries. The increase in number of employees in this year is mainly due to the acquisition of ChinaMotion NetCom Limited.

Headcount by Territory





Human Resources Management

CITIC 1616 is an equal opportunity employer and adheres to the 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 reviews 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.

Training & Development

The Group provides training and/or sponsor outside training sessions for the employees who require special skills and professional qualifications for their duties. Newly recruited employees will attend an introduction course covering topics including the Group's introduction, general employment terms & conditions, benefits, employee obligations, and spirit of team work. The Group also subscribes to periodic magazines relating to the telecoms industry for its employees so that employees 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.

Retirement Benefits

For the Hong Kong employees, the Group has set up the Mandatory Provident Fund Scheme (the "MPF Scheme"). The members of the previous ORSO scheme were all transferred to the MPF Scheme.

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

In the Community

The Group supports community work on technology sector by sponsoring the project of the Hong Kong Internet Exchange (HKIX) and the Hong Kong Internet Exchange 2 (HKIX2). The Group has provided networking equipment, two protected 10Gbps optical fiber connections between HKIX to co-location spaces. 7x 24 support services are provided by the Group to ensure stable daily operation as well as provide users with quality internet service in Hong Kong. The Group has also assisted in expanding number of internet users and usage.

HKIX2 was launched in November 2004 and functioned as the mirror site of the HKIX which has been operated by the Chinese University of Hong Kong since 1995. By enhancing redundant capacity for Hong Kong internet service, HKIX2 enhance the availability and performance of local data exchange on the internet which is beneficial to local ISPs and content providers, as well as internet users in Hong Kong for recurring local internet activities.

The Group had made donations to the Hong Kong Red Cross during the year. Besides, the Group has participated the Recruitment Day jointly organized by Labour Department, Hong Kong Federation of Youth, and other companies by offering career opportunities to the youth. This shows our support to the "Path Builders" Project launched by the HKSAR.

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.

Throughout the year of 2008, 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 ("the Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). 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 throughout the year of 2008.

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 or the shareholders in general meeting for approval. Under the Company's Articles of Association, any director appointed by the Board shall hold office only until the next following annual general meeting of the Company and shall then be subject to re-election by the shareholders. Apart from this, 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. Five Board meetings were held in 2008. Individual attendance of each director at the Board meetings, the Audit Committee meetings and the Remuneration Committee meeting during 2008 is set out below:

	Attendance/Number of Meetings		
Director	Board	Audit Committee	Remuneration Committee
Executive Director			
Mr. Shi Cuiming	5/5		
Mr. Xin Yue Jiang (appointed on 25 January 2008)	5/5		
Mr. Yuen Kee Tong	5/5		
Dr. David Chan Tin Wai	5/5		
Non-executive Director			
Mr. Lee Chung Hing (resigned on 5 May 2008)	1/1		
Mr. Chau Chi Yin (appointed on 5 May 2008 and resigned on 20 October 2008)	3/3		
Mr. Kwok Man Leung	4/5		
Ms. Stella Chan Chui Sheung (appointed on 20 October 2008)	1/1		
Independent Non-executive Director			
Mr. Yang Xianzu (Chairman of the Remuneration Committee)	4/5	2/2	1/1
Mr. Liu Li Qing	4/5	2/2	0/1
Mr. Gordon Kwong Che Keung (Chairman of the Audit Committee)	5/5	2/2	1/1

To implement the strategies and plans adopted by the Board effectively, executive directors and senior managers meets 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.

Corporate Governance

Chairman and Chief Executive Officer

The Group has appointed a Chairman, Mr. Shi Cuiming and a Chief Executive Officer, Mr. Yuen Kee Tong. Mr. Shi Cuiming will retire as Chairman of the Company and Mr. Xin Yue Jiang will be appointed as Chairman in his stead with effect from 19 March 2009. 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 2008, 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

A meeting was held in 2008. 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 76, 77 and 115. Details of the Company's Share Option Plan and the granting of options are disclosed on pages 46 to 47.

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$2.60 million (including the audit fee for ChinaMotion NetCom Limited and its subsidiaries), in addition approximately HK$3.26 million was charged for non-audit related services. The non-audit related services mainly consist of special audits, taxation services and the interim review.

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 2008, 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 and annual financial statements, particularly judgmental areas, before submission to the Board; reviewed the internal audit plan, findings and management's response; reviewed the Group's adherence to the Code Provisions in the Code on Corporate Governance Practices. The Audit Committee recommended the Board to adopt the interim and annual report for 2008.

Internal Audit

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.

Throughout the year of 2008, 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

During the year of 2008, the Company has issued a press announcement in respect of a major 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 year, 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.

In accordance with the revised Listing Rules effective from 1 January 2009, the vote of shareholders at general meetings will be taken by poll and 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 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; investor conferences; result briefings and the website (www.citic1616.com) to disseminate information on the Group's latest developments to various investors, fund managers and analysts.

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 significant changes to the Group's accounting policies and has no significant impact on the results reported for the year ended 31 December 2008.

The responsibilities of the external auditors with respect to financial reporting are set out in the Independent Auditor's Report on page 118.

Directors and Senior Management

Executive Directors

Mr. Shi Cuiming, aged 69, 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, now known as China Unicom (Hong Kong) 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). 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. Shi shall retire as Chairman of the Company from 19 March 2009 but Mr. Shi will act as senior consultant of the Company.

Mr. Xin Yue Jiang, aged 60, is the Vice Chairman of the Company. He joined the Company in January 2008 as Executive Director and Vice Chairman of the Board. 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. After serving a substantial period of time in the PRC government in which Mr. Xin was involved in the administration of science, technology information and economics, Mr. Xin joined in succession various major conglomerates as senior management, researcher or chief engineer. When Mr. Xin was with China Netcom (Hong Kong) Operations Limited, he held the position of senior vice president and senior consultant. Mr. Xin had also participated in the planning, implementation and management of many different important state projects. Mr. Xin thus possesses extensive knowledge and experience in science and technology information, business operation and management, and capital market operation. Since 1985, Mr. Xin has joined many different overseas studies and visits, and gained many valuable experiences in promoting co-operation with overseas enterprises, technology exchange, product research and development, and product marketing. Mr. Xin has long been interested in the study and research of corporate governance and corporate culture, in particular the characteristics of Western economy and the corporate governance practices adopted by overseas enterprises, and has made significant achievement in that regard. Mr. Xin is appointed the Chairman of the Company as from 19 March 2009.

Mr. Yuen Kee Tong, J.P. aged 60, 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 44, 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 in England and 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. Kwok Man Leung, aged 40, 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 ("DCH Holdings"), a director of CITIC Guoan Co., Ltd. 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.

Ms. Chan Chui Sheung, Stella, aged 46, has been a director of the Company since October 2008. Ms. Chan is a non-executive director of DCH Holdings. She is also the company secretary of CITIC Pacific and a director of CITIC Secretaries Limited which is a subsidiary of CITIC Hong Kong (Holdings) Limited, being a shareholder of CITIC Pacific. She has extensive experience in the company secretarial field. She is an associate member of The Institute of Chartered Secretaries and Administrators and obtained a Master Degree in Arts.

Independent non-executive Directors

***ΔMr. Yang Xianzu**, aged 69, 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, now known as China Unicom (Hong Kong) Limited. Mr. Yang is currently a member of 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.

***ΔMr. Liu Li Qing**, aged 68, 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 Co., Ltd. and the Chairman of China Association of Communication Enterprises.

***ΔMr. Kwong Che Keung, Gordon**, aged 59, 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

Directors and Senior Management

Left: (Back row) Mr. Cheung Yuet Pun, Dr. Chan Tin Wai, David, Mr. Yuen Kee Tong, Mr. Ho Wai Chung, Stephen
(Front row) Mr. Shi Cuiming, Mr. Xin Yue Jiang

Senior Management

Mr. Cheung Yuet Pun, aged 36, is the Chief Technology Officer of the Company. He joined the Company in February 2002. Mr. Cheung obtained a Bachelor of Science degree of Electrical Engineering from Queen's University at Kingston, Canada in 1995. He was granted the Professional Engineer Licence of Ontario, Canada in 1999. Mr. Cheung previously held various positions within Nortel Networks Corporation during 1996 to 2002, responsible in software design, technical support, and sales & marketing. To date, Mr. Cheung has over 10 years of operational experience in the telecoms industry.

Mr. Ho Wai Chung, Stephen, aged 50, 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 Telecommunications 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 between 1999 and 2001.

Mr. Ho has been named to several leaderships award, including "The CEO of the Year 2007" by Asia Pacific Customer Service Consortium. He is a Board Member of the Communications Associations of Hong Kong (CAHK) and is now serving the post of President, Internet Service & Content Provider Group (2006 - Present).

Directors' Report

The Directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2008.

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 activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 16 to the financial statements.

Dividends

The Directors declared an interim dividend of HK2 cents (2007: HK1 cent) per share in respect of the year ended 31 December 2008 which were paid on 27 August 2008. The Directors recommended, subject to the approval of the shareholders at the forthcoming Annual General Meeting, the payment of a final dividend of HK6.4 cents (2007: HK3.1 cents) per share in respect of the year ended 31 December 2008 payable on 14 May 2009 to shareholders on the Register of Members at the close of business on 11 May 2009.

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	24.1%	
Five largest customers in aggregate	44.9%	
The largest supplier		10.0%
Five largest suppliers in aggregate		36.5%

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 2008 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 52 to 117.

Transfer to Reserves

Profit attributable to the equity holders of the Company, before dividends, of HK$332,128,000 (2007: HK$262,699,000) has been transferred to reserves. Other movements in reserves are set out in note 22 to the financial statements.

Charitable Donations

Charitable donations made by the Group during the year amounted to HK$700,000 (2007: HK$500,000).

Property, Plant and Equipment

During the year there were additions of property, plant and equipment amounting to HK$16,723,000 through the acquisition of subsidiaries. Details of these additions and other movements in property, plant and equipment are set out in note 13 to the financial statements.

Directors

The Directors of the Company in office during the financial year ended 31 December 2008 were:

Mr. Shi Cuiming
Mr. Xin Yue Jiang, appointed on 25 January 2008
Mr. Yuen Kee Tong
Dr. David Chan Tin Wai
Mr. Lee Chung Hing, resigned on 5 May 2008
Mr. Chau Chi Yin, appointed on 5 May 2008 and resigned on 20 October 2008
Mr. Kwok Man Leung
Ms. Stella Chan Chui Sheung, appointed on 20 October 2008
Mr. Yang Xianzu
Mr. Liu Li Qing
Mr. Gordon Kwong Che Keung

Ms. Stella Chan Chui Sheung was appointed as non-executive director of the Company with effect from 20 October 2008. Thus, in accordance with Article 95 of the New Articles of Association of the Company, she 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. Yuen Kee Tong and Yang Xianzu shall retire by rotation in the forthcoming Annual General Meeting and all, being eligible, offer themselves for re-election. Apart from the above, Mr. Shi Cuiming will retire as Chairman of the Company and Mr. Xin Yue Jiang will be appointed as Chairman in his stead with effect from 19 March 2009.

Directors Service Contracts

As at 31 December 2008, 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.

Directors' Report

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. Mr. Kwok Man Leung, an executive director of CITIC Pacific, and Ms. Stella Chan Chui Sheung, Company Secretary 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 11 May 2009.

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:

Mr. Kwok Man Leung, a non-executive director, is a director of CITIC Guoan Co., Ltd. ("CITIC Guoan"). CITIC Guoan's primary business is its 41.63% interest in CITIC Guoan Information Industry Co. Ltd. ("Guoan Information"), a company listed on the Shenzhen Stock Exchange. Guoan Information's major activities include the construction and operation of cable television networks and satellite information networks, the provision of network system integration, software development and value-added telecommunications services, the development of salt lake resources and the manufacture of new materials as well as property management.

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.

2. On 22 December 2006, the Company and Goldon Investment Limited ("Goldon") had entered into two 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 2008 were approximately HK$23.91 million.

Review of the Continuing Connected Transactions:

The independent non-executive directors of the Company had reviewed the aforesaid continuing transactions made for the year ended 31 December 2008 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 relevant 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 (a) the aforesaid transactions had received the approval of the Board of the Company; (b) there was an agreement in place governing each selected transaction; and (c) the aforesaid transactions had not exceeded the annual cap as stated in the prospectus of the Company dated 22 March 2007.

The material related party transactions for 2008 disclosed in note 12 to the financial statements did not constitute connected transactions for the Company, except for the following:

(a) the connected transactions described in this section, in respect of which the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules");

(b) the management contract with CITIC Pacific as described under the section of "Management Contract", which was exempted from disclosure requirements under the Listing Rules;

(c) fees from provision of telecommunications services as set out in note 12(b)(i) included an amount of approximately HK$2,000 in respect of telecommunications services provided by a subsidiary of the Company to an entity which constituted connected person of the Company. Such transactions were exempted from disclosure requirements under de-minimus rule; and

(d) trade receivables as set out in note 12(b)(ii) included an amount of approximately HK$5,000 receivable from an entity which constituted connected person of the Company in respect of telecommunications services provided by another subsidiary of the Company. Such transactions were exempted from disclosure requirements under de-minimus rule.

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 at the date of adopting the Plan, whichever is the lower. As at 18 March 2009, 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. 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 or cancelled but options for 3,555,000 shares have lapsed during the year ended 31 December 2008. No further options were granted during the year ended 31 December 2008.

A summary of the movements during the year ended 31 December 2008 of the share options is as follows:

A. Directors of the Company

Name of director	Date of grant	Exercise price HK$	Number of Share Options: Balance as at 1.1.08	Exercised during the year ended 31.12.08	Balance as at 31.12.08	Percentage to the 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
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

B. Employees of the Company working under continuous contracts (as defined in the Employment Ordinance), other than the Directors

Date of grant	Exercise price HK$	Number of Share Options: Balance as at 1.1.08	Exercised/lapsed during the year ended 31.12.08	Balance as at 31.12.08
23.5.07	3.26	8,430,000	1,410,000 *(Note)*	7,020,000

Note:

These are in respect of options granted to former employees under continuous contracts, who had resigned in 2007 and 2008. The options had lapsed during the year ended 31 December 2008.

Directors' Report

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 2008 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	
	Personal interests unless otherwise stated	Percentage to the issued share capital
		%
CITIC 1616 Holdings Limited		
Yuen Kee Tong	500,000	0.0253
David Chan Tin Wai	2,000	0.0001
CITIC Pacific, an associated corporation		
Shi Cuiming	72,000	0.002
Yuen Kee Tong	1,033,000	0.028
David Chan Tin Wai	40,000	0.001
Stella Chan Chui Sheung	5,000	0.0001
Yang Xianzu	20,000	0.001
Gordon Kwong Che Keung	70,000 *(Note)*	0.002
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:

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 31.12.08	Percentage to the issued share capital %
Kwok Man Leung	16.10.2007 – 15.10.2012	47.32	600,000	0.016
Stella Chan Chui Sheung	16.10.2007 – 15.10.2012	47.32	600,000	0.016

Save as disclosed above, as at 31 December 2008, 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 2008, 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 Group	1,039,758,283	52.573
CITIC Pacific	1,039,758,283	52.573
Crown Base International Limited	1,039,758,283	52.573
Effectual Holdings Corp.	1,039,758,283	52.573
CITIC Pacific Communications Limited ("CPC")	1,039,758,283	52.573
Douro Holdings Inc.	1,039,758,283	52.573
Ferretti Holdings Corp.	941,692,000	47.615
Ease Action Investments Corp.	941,692,000	47.615
Government of Singapore Investment Corporation Pte Ltd.	158,701,000	8.024

CITIC Group is the ultimate holding company of CITIC Pacific and 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 Group 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 2008:

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 2008.

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 report, the Company has maintained the amount of public float as required under the Listing Rules.

Share Capital

During the year ended 31 December 2008, the Company made the following repurchases of its own shares on the Stock Exchange for the purpose of enhancing its earnings per share:

Month/Year	Number of Shares Repurchased	Price Per Share Highest	Price Per Share Lowest	Aggregate Price Paid
		HK$	HK$	HK$
January 2008	160,000	1.60	1.52	249,600
February 2008	175,000	1.70	1.66	293,900

These repurchased shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium payable on repurchase was charged against retained profits. An amount equivalent to the nominal value of the shares cancelled of approximately HK$34,000 was transferred from retained profits to capital redemption reserve.

Save as disclosed above, neither the Company nor any of its subsidiary companies has purchased or sold any of the Company's shares during the year ended 31 December 2008 and the Company has not redeemed any of its shares during the year ended 31 December 2008.

Details of movements in share capital of the Company during the year are set out in note 22 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.

Five Year Summary

A summary of the results and of the assets and liabilities of the Group for the last five 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 27 to the financial statements.

Auditors

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, 18 March 2009

Consolidated Income Statement

for the year ended 31 December 2008
(Expressed in Hong Kong dollars)

	Note	2008 $'000	2007 $'000
Turnover	3	**2,486,362**	1,486,071
Other revenue	4	**20,799**	62,418
Other net (loss)/gain	5	**(11,272)**	56
		2,495,889	1,548,545
Network, operations and support expenses	6(c)	**(1,670,086)**	(988,333)
Depreciation and amortisation	6(c)	**(113,240)**	(78,823)
Staff costs	6(b)	**(180,034)**	(103,327)
Other operating expenses		**(133,684)**	(71,685)
Profit from operations		**398,845**	306,377
Finance costs	6(a)	**(26)**	–
Share of loss of an associate	17	**(944)**	–
Profit before taxation	6	**397,875**	306,377
Income tax	7(a)	**(65,747)**	(43,678)
Profit attributable to the equity holders of the Company		**332,128**	262,699
Dividends payable to equity holders of the Company attributable to the year:	10		
Interim dividend declared during the year		**39,555**	18,800
Final dividend proposed after the balance sheet date		**126,574**	61,310
		166,129	80,110
Basic and diluted earnings per share (HK cents)	11	**16.8**	14.3

The notes on pages 59 to 117 form part of these financial statements.

Consolidated Balance Sheet

at 31 December 2008

(Expressed in Hong Kong dollars)

	Note	2008 $'000	2007 $'000
Non-current assets			
Property, plant and equipment	13	**363,105**	326,489
Intangible assets	14	**34,849**	28,717
Goodwill	15	**214,269**	9,455
Interest in an associate	17	**5,163**	–
Non-current other receivables	19	**29,716**	34,772
Deferred tax assets	18(a)	**29,907**	42,096
		677,009	441,529
Current assets			
Trade and other receivables	19	**864,786**	594,243
Current tax recoverable	7(b)	**250**	1,043
Cash and cash equivalents	20	**794,988**	780,621
		1,660,024	1,375,907
Current liabilities			
Trade and other payables	21	**746,957**	472,416
Current tax payable	7(b)	**36,166**	22,045
		783,123	494,461
Net current assets		**876,901**	881,446
Total assets less current liabilities		**1,553,910**	1,322,975
Non-current liabilities			
Deferred tax liabilities	18(a)	**36,200**	35,125
		36,200	35,125
NET ASSETS		**1,517,710**	1,287,850
CAPITAL AND RESERVES	22		
Share capital	22(a)	**197,773**	197,807
Reserves		**1,319,937**	1,090,043
TOTAL EQUITY		**1,517,710**	1,287,850

Approved and authorised for issue by the board of directors on 18 March 2009

Shi Cuiming
Director

Yuen Kee Tong
Director

The notes on pages 59 to 117 form part of these financial statements.

Balance Sheet

at 31 December 2008

(Expressed in Hong Kong dollars)

	Note	2008 $'000	2007 $'000
Non-current assets			
Property, plant and equipment	13	**1,479**	4,643
Investments in subsidiaries	16	**4,071**	4,071
Deferred tax assets	18(a)	**3,340**	3,771
		8,890	12,485
Current assets			
Trade and other receivables	19	**972,767**	621,385
Cash and cash equivalents	20	**491,589**	648,361
		1,464,356	1,269,746
Current liabilities			
Trade and other payables	21	**227,146**	132,493
Net current assets		**1,237,210**	1,137,253
NET ASSETS		**1,246,100**	1,149,738
CAPITAL AND RESERVES	22		
Share capital	22(a)	**197,773**	197,807
Reserves		**1,048,327**	951,931
TOTAL EQUITY		**1,246,100**	1,149,738

Approved and authorised for issue by the board of directors on 18 March 2009

Shi Cuiming
Director

Yuen Kee Tong
Director

The notes on pages 59 to 117 form part of these financial statements.

Statement of Changes in Equity

for the year ended 31 December 2008
(Expressed in Hong Kong dollars)

The Group

	Note	Share capital $'000	Share premium (Note 22(b)) $'000	Capital reserve (Note 22(c)) $'000	Capital redemption reserve (Note 22(b)) $'000	Exchange reserve (Note 22(d)) $'000	Retained profits $'000	Total $'000
		Attributable to equity holders of the Company						
At 1 January 2007		1	–	–	2,000	–	370,916	372,917
Translation difference of financial statements of foreign operations		–	–	–	–	(7)	–	(7)
Capitalisation issue	22(a)(ii)	169,199	–	–	–	–	(169,199)	–
Shares issued under the placing and public offer	22(a)(iii)	18,800	466,240	–	–	–	–	485,040
Issuing expenses	22(a)(iii)	–	(24,030)	–	–	–	–	(24,030)
Shares issued for acquisition of subsidiaries	22(a)(iv)	9,807	187,307	–	–	–	–	197,114
Equity-settled share-based transactions	26	–	–	12,917	–	–	–	12,917
Profit for the year		–	–	–	–	–	262,699	262,699
Dividends declared in respect of the current year	10(a)	–	–	–	–	–	(18,800)	(18,800)
At 31 December 2007		197,807	629,517	12,917	2,000	(7)	445,616	1,287,850

	Note	Share capital $'000	Share premium (Note 22(b)) $'000	Capital reserve (Note 22(c)) $'000	Capital redemption reserve (Note 22(b)) $'000	Exchange reserve (Note 22(d)) $'000	Retained profits $'000	Total $'000
		Attributable to equity holders of the Company						
At 1 January 2008		197,807	629,517	12,917	2,000	(7)	445,616	1,287,850
Dividends approved in respect of the previous year	10(b)	–	–	–	–	–	(61,310)	(61,310)
Translation difference of financial statements of foreign operations		–	–	–	–	(859)	–	(859)
Purchase of own shares	22(a)(v)							
– par value paid		(34)	–	–	–	–	–	(34)
– premium paid		–	–	–	–	–	(510)	(510)
– transfer between reserves		–	–	–	34	–	(34)	–
Release upon lapse of share options	26(b)(ii)	–	–	(2,453)	–	–	2,453	–
Profit for the year		–	–	–	–	–	332,128	332,128
Dividends declared in respect of the current year	10(a)	–	–	–	–	–	(39,555)	(39,555)
At 31 December 2008		197,773	629,517	10,464	2,034	(866)	678,788	1,517,710

Statement of Changes in Equity

for the year ended 31 December 2008
(Expressed in Hong Kong dollars)

The Company

	Note	Share capital $'000	Share premium (Note 22(b)) $'000	Capital reserve (Note 22(c)) $'000	Capital redemption reserve (Note 22(b)) $'000	Retained profits $'000	Total $'000
At 1 January 2007		1	–	–	2,000	95,995	97,996
Capitalisation issue	22(a)(ii)	169,199	–	–	–	(169,199)	–
Shares issued under the placing and public offer	22(a)(iii)	18,800	466,240	–	–	–	485,040
Issuing expenses	22(a)(iii)	–	(24,030)	–	–	–	(24,030)
Shares issued for acquisition of subsidiaries	22(a)(iv)	9,807	187,307	55,897	–	–	253,011
Equity-settled share-based transactions	26	–	–	12,917	–	–	12,917
Profit for the year		–	–	–	–	343,604	343,604
Dividends declared in respect of the current year	10(a)	–	–	–	–	(18,800)	(18,800)
At 31 December 2007		197,807	629,517	68,814	2,000	251,600	1,149,738

	Note	Share capital $'000	Share premium (Note 22(b)) $'000	Capital reserves (Note 22(c)) $'000	Capital redemption reserve (Note 22(b)) $'000	Retained profits $'000	Total $'000
At 1 January 2008		197,807	629,517	68,814	2,000	251,600	1,149,738
Dividends approved in respect of the previous year	10(b)	–	–	–	–	(61,310)	(61,310)
Purchase of own shares	22(a)(v)						
– par value paid		(34)	–	–	–	–	(34)
– premium paid		–	–	–	–	(510)	(510)
– transfer between reserves		–	–	–	34	(34)	–
Release upon lapse of share options	26(b)(ii)	–	–	(2,453)	–	2,453	–
Profit for the year		–	–	–	–	197,771	197,771
Dividends declared in respect of the current year	10(a)	–	–	–	–	(39,555)	(39,555)
At 31 December 2008		197,773	629,517	66,361	2,034	350,415	1,246,100

The notes on pages 59 to 117 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2008
(Expressed in Hong Kong dollars)

	Note	2008 $'000	2007 $'000
Operating activities			
Profit before taxation		**397,875**	306,377
Adjustments for:			
– Depreciation and amortisation		**113,240**	78,823
– Loss on disposal of property, plant and equipment	5	**2,322**	6
– Equity-settled share-based payment expenses	6(b)	**–**	12,917
– Share of loss of an associate		**944**	–
– Finance costs	6(a)	**26**	–
– Interest income	4	**(20,799)**	(62,418)
Operating profit before changes in working capital		**493,608**	335,705
Increase in trade and other receivables		**(205,875)**	(52,822)
Increase in trade and other payables		**153,703**	43,619
Increase in amount due from associate		**(3,730)**	–
Increase in amount due to associate		**3,865**	–
Cash generated from operations		**441,571**	326,502
Hong Kong Profits Tax paid		**(41,330)**	(64,592)
Overseas Tax paid		**(708)**	(24)
Hong Kong Profits Tax refunded		**523**	249
Net cash generated from operating activities		**400,056**	262,135
Investing activities			
Interest received		**20,436**	61,259
Payment for purchase of property, plant and equipment		**(115,837)**	(56,302)
Proceeds from sales of property, plant and equipment		**144**	110
Net cash (outflow)/inflow from acquisitions of subsidiaries and an associate	25	**(181,294)**	28,414
Net cash (used in)/generated from investing activities		**(276,551)**	33,481

Consolidated Cash Flow Statement

for the year ended 31 December 2008
(Expressed in Hong Kong dollars)

	Note	2008 $'000	2007 $'000
Financing activities			
Interest element of finance lease rental paid		**(26)**	–
Capital element of finance lease rental paid		**(5,839)**	–
Decrease in amount due to ultimate holding company		**(1,600)**	(637)
Payment for repurchase of shares	22(a)(v)	**(544)**	–
Proceeds from issuance of shares under the placing and public offer		**–**	485,040
Issuing expenses		**–**	(24,030)
Dividends paid to equity holders of the Company	10(a) & (b)	**(100,865)**	(18,800)
Net cash (used in)/generated from financing activities		**(108,874)**	441,573
Net increase in cash and cash equivalents		**14,631**	737,189
Cash and cash equivalents at 1 January	20	**780,621**	43,432
Effect of foreign exchange rate changes		**(264)**	–
Cash and cash equivalents at 31 December	20	**794,988**	780,621

The notes on pages 59 to 117 form part of these financial statements.

1 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual 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 (the "SEHK"). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued the following new Interpretations and an amendment to HKFRSs that are first effective for the current accounting period of the Group and the Company:

– HK(IFRIC) 11, *HKFRS 2 – Group and treasury share transactions*

– amendment to HKAS 39, *Financial instruments: Recognition and measurement, and HKFRS 7, Financial instruments: Disclosures – Reclassification of financial assets*

These HKFRS developments have had no material impact on the Group's financial statements as either they were consistent with accounting policies already adopted by the Group or they were not relevant to the Group's and the Company's operations.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 32).

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2008 comprise the Company and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of these financial statements is the historical cost basis.

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 28.

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 polices of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

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

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(i)(ii)).

(d) Associates

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment in associates recognised for the year (see notes 1(e) and (i)).

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

1 Significant accounting policies (Continued)

(e) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate, 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)). In respect of associate, the carrying amount of goodwill is included in the carrying amount of the interest in the associate.

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 or an investment in an associate is recognised immediately in profit or loss.

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

(f) Property, plant and equipment

Property, plant and equipment 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 costs 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 any, 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 finite) 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 with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. 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 relationships	7.5 – 8 years
Customer contracts	1 year
Trade names/trademarks	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(h)(ii)).

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(f). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(i)(ii). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) 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 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, intangible assets, investments in subsidiaries and associate, 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.

1 Significant accounting policies (Continued)

(k) Cash and cash equivalents

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

(l) Trade and other payables

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

(m) Employee benefits

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

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

(ii) Share-based payments

The fair value of share options granted to employees of the Company by the intermediate 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 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 intermediate 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).

1 Significant accounting policies (Continued)

(n) Income tax

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

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

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

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

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

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

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

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

1 Significant accounting policies (Continued)

(n) Income tax (Continued)

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

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(o) Provisions and contingent liabilities

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

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

(p) Revenue recognition

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

(i) Provision of voice services and short message services

Revenue derived from provision of voice 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.

1 Significant accounting policies (Continued)

(p) Revenue recognition (Continued)

(iii) Rental income from operating leases

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

(iv) Interest income

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

(v) Barter transactions

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

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

(q) Translation of foreign currencies

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

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

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

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

1 Significant accounting policies (Continued)

(r) Borrowing costs

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

(s) 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.

(t) Related parties

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

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

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

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

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

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

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

1 Significant accounting policies (Continued)

(u) Segment reporting

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

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

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

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

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

(v) 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.

(w) 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 Segment reporting

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

3 Turnover

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

Turnover recognised during the year may be analysed as follows:

	2008 $'000	2007 $'000
Fees from the provision of voice services	**1,613,362**	1,162,444
Fees from the provision of short message services	**247,107**	186,820
Fees from the provision of other telecommunications services	**625,893**	136,807
	2,486,362	1,486,071

4 Other revenue

	2008 $'000	2007 $'000
Bank interest income	**20,294**	61,860
Other interest income	**505**	558
Total interest income	**20,799**	62,418

5 Other net (loss)/gain

	2008 $'000	2007 $'000
Net loss on disposal of property, plant and equipment	**(2,322)**	(6)
Net foreign exchange (loss)/gain	**(8,950)**	62
	(11,272)	56

6 Profit before taxation

Profit before taxation is arrived at after charging:

		2008 $'000	2007 $'000
(a)	Finance costs:		
	Finance charges on obligations under finance leases	**26**	–
	Total interest expense	**26**	–
(b)	Staff costs (including directors' remuneration):		
	Contributions to defined contribution retirement plans	**5,175**	2,536
	Equity settled share-based payment expenses (note 26)	**–**	12,917
	Salaries, wages and other benefits	**174,859**	87,874
		180,034	103,327
(c)	Other items:		
	Network, operations and support expenses, including:	**1,670,086**	988,333
	– carrier costs	**1,343,048**	919,936
	– operating leases – leased circuits	**118,958**	52,787
	– other telecommunications service costs	**208,080**	15,610
	Depreciation	**101,612**	78,353
	Amortisation	**11,628**	470
	Impairment losses on trade and other receivables	**13,769**	596
	Auditors' remuneration	**3,169**	1,615
	Operating lease charges in respect of – land and buildings	**39,602**	22,581

7 Income tax

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

	2008 $'000	2007 $'000
Current tax – Hong Kong Profits Tax		
Provision for the year	52,725	42,763
(Over)/under-provision in respect of prior years	(72)	13
	52,653	42,776
Current tax – Overseas		
Provision for the year	3,662	1,525
Deferred tax		
Origination and reversal of temporary differences	9,025	(623)
Effect on deferred tax balances at 1 January resulting from a change in tax rate	407	–
	9,432	(623)
	65,747	43,678

In February 2008, the Hong Kong Government announced a decrease in the Profits Tax rate from 17.5% to 16.5% applicable to the Group's operations in Hong Kong as from the year ended 31 December 2008. This decrease is taken into account in the preparation of the Group's and the Company's 2008 financial statements. Accordingly, the provision for Hong Kong Profits Tax for 2008 is calculated at 16.5% (2007: 17.5%) of the estimated assessable profits for the year and the opening balance of deferred tax has been re-estimated accordingly.

7 Income tax (Continued)

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

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

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

	2008 $'000	2007 $'000
Profit before taxation	397,875	306,377
Notional tax on profit before taxation at 16.5% (2007: 17.5%)	65,649	53,616
Tax effect of different tax rate	604	622
Tax effect of non-taxable income and non-deductible expenses	(2,447)	(9,752)
Effect on deferred tax balances at 1 January resulting from a change in tax rate	407	–
Tax effect of unused tax losses not recognised	769	–
(Over)/under-provision in prior years	(72)	13
Others	837	(821)
Actual tax expense	65,747	43,678

7 Income tax (Continued)

(b) Income tax in the balance sheets represents:

The Group

	2008 $'000	2007 $'000
Hong Kong Profits Tax		
Provision for the year	52,725	42,763
Provisional Profits Tax paid	(30,269)	(32,147)
	22,456	10,616
Balance recoverable relating to prior years	–	(6)
	22,456	10,610
Overseas Tax		
Through acquisition of subsidiaries (note 25)	185	158
Provision for the year	3,101	1,501
Profits tax paid	(147)	–
Balance payable relating to prior years	10,392	8,733
Exchange adjustments	(71)	–
	13,460	10,392
	35,916	21,002
Representing:		
– current tax recoverable	(250)	(1,043)
– current tax payable	36,166	22,045
	35,916	21,002

8 Directors' remuneration

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

	2008						
	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	3,413	2,800	12	6,345	–	6,345
Xin Yue Jiang	112	1,238	2,520	12	3,882	–	3,882
Yuen Kee Tong	120	3,155	2,520	144	5,939	–	5,939
Chan Tin Wai David	120	2,105	1,960	12	4,197	–	4,197
Non-executive directors							
Lee Chung Hing	41	–	–	–	41	–	41
Kwok Man Leung	120	–	–	–	120	–	120
Chau Chi Yin	54	–	–	–	54	–	54
Chan Chui Sheung, Stella	23	–	–	–	23	–	23
Independent non-executive directors							
Yang Xianzu	240	–	–	–	240	–	240
Liu Li Qing	240	–	–	–	240	–	240
Kwong Che Keung Gordon	240	–	–	–	240	–	240
Total	1,430	9,911	9,800	180	21,321	–	21,321

8 Directors' remuneration (Continued)

	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

The above remuneration is included in staff costs as presented in note 6(b).

A number of the Company's directors were granted share options of the Company and CITIC Pacific Limited, its intermediate holding company. Details of the share options plans are set out in note 26.

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 2008, 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.

9 Individuals with highest emoluments

Of the five individuals with the highest emoluments, four (2007: four) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other individual (2007: one) are as follows:

	2008 $'000	2007 $'000
Salaries and other emoluments	2,142	2,614
Discretionary bonuses	1,584	–
Share-based payments	–	559
Retirement scheme contributions	105	12
	3,831	3,185

The emoluments of the individual (2007: one) with the highest emoluments is within the following bands:

	2008 Number of individual	2007 Number of Individual
$		
3,000,001 – 3,500,000	–	1
3,500,001 – 4,000,000	1	–

During the year ended 31 December 2008 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.

10 Dividends

(a) Dividends payable to equity holders of the Company attributable to the year

	2008 $'000	2007 $'000
Interim dividend declared and paid of 2 cents per share (2007: 1 cent per share)	39,555	18,800
Final dividend proposed after the balance sheet date of 6.4 cents per share (2007: 3.1 cents per share)	126,574	61,310
	166,129	80,110

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

10 Dividends (Continued)

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

	2008 $'000	2007 $'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 3.1 cents per share (2007: Nil)	**61,310**	–

11 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to the equity holders of the Company for the year ended 31 December 2008 of $332,128,000 (2007: $262,699,000) and the weighted average of 1,977,756,000 ordinary shares (2007: 1,836,644,000 shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2008 '000	2007 '000
Issued ordinary shares at 1 January #	**1,978,066**	1,692,000
Effect of shares repurchased	**(310)**	–
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	**1,977,756**	1,836,644

Issued share capital at 1 January 2007 represented shares of the Company in issue after the reorganisation (see note 22), as if the shares had been outstanding since 1 January 2007.

(b) Diluted earnings per share

The diluted earnings per share for the year ended 31 December 2008 and 2007 is the same as the basic earnings per share as the potential ordinary shares outstanding during the year ended 31 December 2008 and 2007 were anti-dilutive.

12 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.

(a) Transactions with CITIC Pacific Limited and its affiliates and an associate of the Group

(i) Recurring transactions

	Note	2008 $'000	2007 $'000
Telecommunications services and related income from:			
– Companhia de Telecomunicacoes de Macau S.A.R.L. ("CTM")	(1)	**6,351**	5,532
– CM Tel (USA) LLC	(2)	**20,836**	–
– CPCNet Hong Kong Limited	(3)	**–**	1,053
Telecommunications service expenses to			
– CTM		**4,807**	2,943
– CM Tel (USA) LLC		**16,014**	–
Professional fee payable to CITIC Pacific Limited	(4)	**1,900**	1,600
Operating leases charges and building management fee payable to Goldon Investment Limited	(5)	**23,905**	23,905
Management fee paid to a wholly owned subsidiary of the HKIX Hong Kong Limited		**1,000**	1,000

Notes:

(1) CTM is an associate of CITIC Pacific Limited.

(2) CM Tel (USA) LLC is an associate of the Company.

(3) CPCNet Hong Kong Limited is a wholly-owned subsidiary. Previously it was a fellow subsidiary wholly-owned by Silver Linkage Investments Inc. ("Silver Linkage"). In 2007, the Group acquired the entire equity interest in Silver Linkage (note 25(b)).

(4) Professional fee was paid/payable to CITIC Pacific Limited (previously the ultimate holding company and currently an intermediate holding company (note 12(a)(iii))) for the provision of internal audit and company secretarial services.

(5) Goldon Investment Limited (an associate of CITIC Pacific 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.

(6) 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 professional fee/management fee 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 Limited (a minority shareholder of Asia Pacific Internet Exchange Limited), was in accordance with the terms of a shareholder agreement.

12 Related party transactions (Continued)

(a) Transactions with CITIC Pacific Limited and its affiliates and an associate of the Group (Continued)

(ii) Non-recurring transactions

	2008 $'000	2007 $'000
Acquisition of Silver Linkage Group (note 25(b)), a wholly-owned subsidiary of CITIC Pacific Limited	–	197,114

(iii) Amount due to ultimate holding company

	2008 $'000	2007 $'000
The Group and the Company		
CITIC Pacific Limited (note 21)	–	1,600

In 2007, the balance represented the professional fee payable to CITIC Pacific Limited for the provision of internal audit and company secretarial services (see note 12 (a)(i)). On 24 December 2008, CITIC Group became the major shareholder of CITIC Pacific Limited and subsequently, CITIC Group became the ultimate shareholder of the Group. CITIC Group is controlled by the PRC government.

(iv) Trade and other receivables/(trade and other payables)

	2008 $'000	2007 $'000
Amount due from/(to) CTM included in		
– Trade and other receivables	10,462	3,848
– Trade and other payables	(4,769)	(1,796)
	5,693	2,052
Amount due from/(to) CM Tel (USA) LLC included in		
– Trade and other receivables (note 19)	23,256	–
– Trade and other payables (note 21)	(19,318)	–
	3,938	–

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

12 Related party transactions (Continued)

(b) Transactions with other state-controlled entities in the PRC

On 24 December 2008 the Company became a state-controlled entity (note 12(a)(iii)). Other than those transactions with CITIC Pacific Limited and its affiliates and the associates of the Group as disclosed above, the Group conducts certain business activities with other state-controlled entities which include but are not limited to the following:

– Sales and purchase of goods and ancillary materials;

– Rendering and receiving services;

– Ancillary and social services;

– Purchase of property, plant and equipment; and

– Financial services arrangements.

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state-controlled. The Group has established its buying, pricing strategy and approval process for purchases and sales of products and services. Such buying, pricing strategy and approval processes do not depend on whether the counterparties are state-controlled entities or not.

Having considered the potential for transactions to be impacted by related party relationships, the Group's buying, pricing strategy and approval processes, and what information would be necessary for an understanding of the potential effect of the relationship on the financial statements, the directors are of the opinion that the following transactions with other state-controlled entities require disclosure:

(i) Transactions with other state-controlled entities including state-controlled banks in the PRC

	2008
	$'000
Interest income	220
Fees from provision of telecommunications services	26,176
Fees for network, operation and support services	(13,940)

12 Related party transactions (Continued)

(b) Transactions with other state-controlled entities in the PRC (Continued)

(ii) Balances with other state-controlled entities, including state-controlled banks in the PRC

	2008 $'000
Bank deposits	**429,516**
Trade receivables	**387,037**
Trade payables	**(257,260)**

(c) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, are as follows:

	2008 $'000	2007 $'000
Short-term employee benefits	**26,372**	27,550
Share-based payment	**–**	7,562
Post-employment benefits	**407**	262
	26,779	35,374

Total remuneration is included in "staff costs" (note 6(b)).

(Expressed in Hong Kong dollars unless otherwise indicated)

13 Property, plant and equipment

The Group

	Tele-communications equipment $'000	Other assets $'000	Construction in progress $'000	Total assets $'000
Cost:				
At 1 January 2007	541,895	50,878	16,455	609,228
Additions				
– through acquisition of subsidiaries (note 25(b))	59,818	4,707	–	64,525
– others	9,084	4,366	48,910	62,360
Disposals	–	(256)	–	(256)
Reclassification	37,239	6,005	(43,244)	–
At 31 December 2007	648,036	65,700	22,121	735,857
At 1 January 2008	648,036	65,700	22,121	735,857
Exchange adjustments	141	(28)	–	113
Additions				
– through acquisition of subsidiaries (note 25(a))	16,326	397	–	16,723
– others	51,117	8,781	63,852	123,750
Disposals	(17,057)	(289)	–	(17,346)
Reclassification	22,205	587	(22,792)	–
At 31 December 2008	720,768	75,148	63,181	859,097
Accumulated depreciation:				
At 1 January 2007	298,703	32,452	–	331,155
Charge for the year	69,735	8,618	–	78,353
Written back on disposals	–	(140)	–	(140)
At 31 December 2007	368,438	40,930	–	409,368
At 1 January 2008	368,438	40,930	–	409,368
Exchange adjustments	13	(121)	–	(108)
Charge for the year	92,395	9,217	–	101,612
Written back on disposals	(14,592)	(288)	–	(14,880)
At 31 December 2008	446,254	49,738	–	495,992
Net book value:				
At 31 December 2008	274,514	25,410	63,181	363,105
At 31 December 2007	279,598	24,770	22,121	326,489

13 Property, plant and equipment (Continued)

The Company

	Other assets $'000
Cost:	
At 1 January 2007	39,068
Disposals	(186)
At 31 December 2007	38,882
At 1 January 2008	38,882
Disposals	(219)
At 31 December 2008	38,663
Accumulated depreciation:	
At 1 January 2007	28,703
Charge for the year	5,664
Written back on disposals	(128)
At 31 December 2007	34,239
At 1 January 2008	34,239
Charge for the year	3,164
Written back on disposals	(219)
At 31 December 2008	37,184
Net book value:	
At 31 December 2008	1,479
At 31 December 2007	4,643

Note: Other assets included electronic data processing equipment, furniture and fixtures, motor vehicles and office equipment.

14 Intangible assets

The Group

	Customer relationships $'000	Customer contracts $'000	Trade names/ trademarks $'000	IRU of tele-communication capacity $'000	Total $'000
Cost:					
At 1 January 2007	–	–	–	–	–
Additions through acquisition of subsidiaries (note 25(b))	19,871	8,690	–	626	29,187
At 31 December 2007	19,871	8,690	–	626	29,187
At 1 January 2008	19,871	8,690	–	626	29,187
Additions through acquisition of subsidiaries (note 25(a))	17,200	–	560	–	17,760
At 31 December 2008	37,071	8,690	560	626	46,947
Accumulated amortisation:					
At 1 January 2007	–	–	–	–	–
Charge for the year	104	362	–	4	470
At 31 December 2007	104	362	–	4	470
At 1 January 2008	104	362	–	4	470
Charge for the year	3,057	8,328	140	103	11,628
At 31 December 2008	3,161	8,690	140	107	12,098
Net book value:					
At 31 December 2008	33,910	–	420	519	34,849
At 31 December 2007	19,767	8,328	–	622	28,717

15 Goodwill

The Group

	2008 $'000	2007 $'000
Cost and carrying amount:		
At 1 January	9,455	–
Additions through acquisition of subsidiaries and an associate (note 25)	204,814	9,455
At 31 December	214,269	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:

	2008 $'000	2007 $'000
Telecommunications services – Hong Kong	214,269	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 three to five-year period.

Key assumptions used for value-in-use calculations:

	2008 %	2007 %
– Growth rate	6	30
– Discount rate	9	20

The average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant segment.

16 Interests in subsidiaries

The Company

	2008 $'000	2007 $'000
Unlisted shares, at cost	4,071	4,071
Amounts due from subsidiaries (note 19)	963,655	610,828
	967,726	614,899
Amounts due to subsidiaries (note 21)	(189,599)	(107,068)
	778,127	507,831

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

At 31 December 2008, 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 activity	Percentage of equity attributable to the Company: Direct	Percentage of equity attributable to the Company: Indirect	Issued and fully paid-up capital*
Amazing Gains Finance Limited	British Virgin Islands	Provision of leasing services	–	100%	US$1
Asia Pacific Internet Exchange Limited	Hong Kong	Provision of financial and operational support to HKIX[1]	–	75%	HK$100,000
Bright Triumph Investments Limited	Hong Kong	Provision of nominee services	100%	–	HK$1
China Motion (Australia) Pty Limited	Australia	Dormant	–	100%	A$1
China Motion (Japan) Limited	Japan	Provision of telecommunications services	–	100%	JPY10,000,000
China Motion (Singapore) Pte. Ltd.	Republic of Singapore	Provision of telecommunications services	–	100%	S$100,000

16 Interests in subsidiaries (Continued)

Name of company	Place of incorporation/ operation	Principal activity	Percentage of equity attributable to the Company		Issued and fully paid-up capital*
			Direct	Indirect	
China Motion (Taiwan) Limited	Taiwan	Provision of telecommunications services	–	100%	N/A§
China Motion (UK) Limited	United Kingdom	Provision of telecommunications services	–	100%	£2
China Motion Malaysia Sdn. Bhd.	Malaysia	Dormant	–	100%	RM500,000
ChinaMotion NetCom (Asia) Limited	Hong Kong	Provision of telecommunications services	–	100%	HK$2
ChinaMotion NetCom (Canada) Ltd.	Canada	Provision of telecommunications services	–	100%	1 common share without par value$^{\Delta}$
ChinaMotion NetCom Holdings (HK) Limited	British Virgin Islands	Investment holding	–	100%	US$1
ChinaMotion NetCom Limited	British Virgin Islands	Investment holding	–	100%	US$10
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

(Expressed in Hong Kong dollars unless otherwise indicated)

16 Interests in subsidiaries (Continued)

Name of company	Place of incorporation/ operation	Principal activity	Percentage of equity attributable to the Company		Issued and fully paid-up capital*
			Direct	Indirect	
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	Investment holding	–	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$2
CM Tel (Canada) Ltd.	Canada	Provision of telecommunications services	–	100%	CAD100$^{\Delta}$
CPCNet Hong Kong Limited	Hong Kong	Provision of telecommunications services	–	100%	HK$394,866,986
CPCNet Japan Limited	Japan	Provision of telecommunications services	–	100%	JPY10,000,000
CPCNet Singapore Private Limited	Republic of Singapore	Provision of telecommunications services	–	100%	S$2
Crown Yield (HK) Limited	Hong Kong	Provision of leasing services	–	100%	HK$2
Data Communication Services Limited	Hong Kong	Equipment holding	100%	–	HK$1,000 HK$38,000,000#
Delight Way Holdings Inc.	British Virgin Islands	Investment holding	–	100%	US$1

16 Interests in subsidiaries (Continued)

Name of company	Place of incorporation/ operation	Principal activity	Percentage of equity attributable to the Company		Issued and fully paid-up capital*
			Direct	Indirect	
Fasini Corp.	British Virgin Islands	Investment holding	–	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	Republic of 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
Nebular Telecom Japan K.K.	Japan	Provision of telecommunications services	–	100%	JPY10,000,000
Pacific Choice International Limited	British Virgin Islands	Investment holding	100%	–	US$1
Pacific Networks Corp.	United States of America	Investment holding	–	100%	US$0.01@
Pacific Networks Limited	United Kingdom	Dormant	–	100%	£1
Silver Linkage Investments Inc.	British Virgin Islands	Investment holding	100%	–	US$1

16 Interests in subsidiaries (Continued)

Name of company	Place of incorporation/ operation	Principal activity	Percentage of equity attributable to the Company		Issued and fully paid-up capital*
			Direct	Indirect	
Smart Legend Co. Ltd.	British Virgin Islands	Investment holding	–	100%	US$1
Unique Star Holdings Inc.	British Virgin Islands	Investment holding	–	100%	US$1
Vision Network Limited	Hong Kong	Dormant	–	100%	HK$2,250,000
World Navigation (BVI) Ltd.	British Virgin Islands	Dormant	100%	–	US$1
泰富國際網絡股份有限公司	Taiwan	Provision of telecommunications services	–	100%	NT$1,000,000

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.

Δ Common share – the rights of which are set out in the Articles of the respective companies.

§ Capital contribution for China Motion (Taiwan) Limited amounts to NT$5,000,000.

17 Interest in an associate

The Group

	2008 $'000	2007 $'000
Share of net assets	5,163	–

Set out below are the particulars of the associate:

			Proportion of ownership interest			
Name of associate	Place of incorporation/ operation	Capital contribution	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
CM Tel (USA) LLC	United States of America	US$10,000	49%	–	49%	Provision of telecommunications services

Summary of financial information on associate:

	Assets $'000	Liabilities $'000	Equity $'000	Revenue $'000	Profit/(loss) $'000
100 per cent	55,057	44,519	10,538	38,363	(1,927)
Group effective interest	26,978	21,815	5,163	18,798	(944)

18 Deferred taxation

(a) Deferred tax assets and liabilities recognised

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

The Group

	Intangible assets arising from business combination $'000	Depreciation allowances in excess of the related depreciation $'000	Tax losses $'000	Total $'000
At 1 January 2007	–	38,595	(8,623)	29,972
Through acquisition of subsidiaries	4,998	9,930	(51,255)	(36,327)
Exchange adjustments	–	7	–	7
(Credited)/charged to consolidated income statement	(82)	(3,300)	2,759	(623)
At 31 December 2007	4,916	45,232	(57,119)	(6,971)
At 1 January 2008	4,916	45,232	(57,119)	(6,971)
Through acquisition of subsidiaries	2,930	906	–	3,836
Exchange adjustments	–	(4)	–	(4)
(Credited)/charged to consolidated income statement	(2,182)	(7)	11,621	9,432
At 31 December 2008	5,664	46,127	(45,498)	6,293

Represented by:

	2008 $'000	2007 $'000
Deferred tax assets	(29,907)	(42,096)
Deferred tax liabilities	36,200	35,125
	6,293	(6,971)

18 Deferred taxation (Continued)

(a) Deferred tax assets and liabilities recognised (Continued)

The Company

	Depreciation allowances in excess of the related depreciation/ (depreciation in excess of the related depreciation allowances)	Tax losses	Total
	$'000	$'000	$'000
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)
At 1 January 2008	154	(3,925)	(3,771)
(Credited)/charged to income statement	(478)	909	431
At 31 December 2008	(324)	(3,016)	(3,340)

(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 $58,166,000 (2007: $23,630,000) 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. $30,922,000 (2007: $14,844,000) of the tax losses do not expire under the current tax legislation, and $27,244,000 (2007: $8,786,000) of the tax losses will expire between 5 to 20 years.

19 Trade and other receivables

	The Group		The Company	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Trade debtors	**779,622**	546,681	**–**	–
Less: allowance for doubtful debts	**(35,481)**	(6,178)	**–**	–
	744,141	540,503	**–**	–
Amounts due from subsidiaries (note 16)	**–**	–	**963,655**	610,828
Amount due from an associate	**23,256**	–	**–**	–
Other receivables	**127,105**	88,512	**9,112**	10,557
	894,502	629,015	**972,767**	621,385
Represented by:				
Non-current portion	**29,716**	34,772	**–**	–
Current portion	**864,786**	594,243	**972,767**	621,385
	894,502	629,015	**972,767**	621,385

All of the current trade and other receivables are expected to be recovered or recognised as expense within one year except for utility and rental deposits at 31 December 2008 of the Group and the Company amounting to $22,297,000 (2007: $14,600,000) and $6,571,000 (2007: $6,311,000) respectively which will not be recovered within a year.

Included in other receivables is a net deferred expenditure of $23,400,000 (2007: $26,130,000) for the exchange of dissimilar assets. Under an agreement with an independent third party, the Group agreed to provide outsourcing services for the period from 2002 to 2010 in exchange for the right to use the capacity of 3 STM-1 channels for the period from 2002 to 2018.

19 Trade and other receivables (Continued)

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

	The Group		The Company	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Within 1 year	**739,035**	523,189	**–**	–
Over 1 year	**40,587**	23,492	**–**	–
	779,622	546,681	**–**	–

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 24(a).

(b) Impairment of trade debtors

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

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

	The Group		The Company	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
At 1 January	**6,178**	6,312	**–**	–
Through acquisition of subsidiaries	**15,725**	2,409	**–**	–
Impairment loss recognised	**13,769**	596	**–**	–
Impairment loss written back	**(191)**	(592)	**–**	–
Uncollectible amounts written off	**–**	(2,547)	**–**	–
At 31 December	**35,481**	6,178	**–**	–

At 31 December 2008, the Group's trade debtors of $78,539,000 (2007: $35,742,000) was 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 allowance for doubtful debts of $35,481,000 (2007: $6,178,000) was recognised by the Group. The Group does not hold any collateral over these balances.

19 Trade and other receivables (Continued)

(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	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Within 1 year	**684,527**	495,396	**–**	–
Over 1 year	**16,556**	15,543	**–**	–
	701,083	510,939	**–**	–

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.

20 Cash and cash equivalents

	The Group		The Company	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Cash at bank and in hand	**110,990**	54,440	**4,416**	11
Deposits with banks with maturity within 3 months	**683,998**	726,181	**487,173**	648,350
	794,988	780,621	**491,589**	648,361

21 Trade and other payables

	The Group		The Company	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Trade creditors	**600,544**	396,261	**2,016**	2,016
Other payables and accruals	**127,095**	74,555	**35,531**	21,809
Amounts due to subsidiaries (note 16)	**–**	–	**189,599**	107,068
Amount due to an associate	**19,318**	–	**–**	–
Amount due to ultimate holding company (note 12(a)(iii))	**–**	1,600	**–**	1,600
	746,957	472,416	**227,146**	132,493

All of the trade and other payables are expected to be settled 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	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Within 1 year	**504,383**	349,021	**–**	–
Over 1 year	**96,161**	47,240	**2,016**	2,016
	600,544	396,261	**2,016**	2,016

22 Capital and reserves

(a) Share capital

	Note	2008 No. of shares	2008 Amount $'000	2007 No. of shares	2007 Amount $'000
Authorised:					
Ordinary shares of $0.10 each		**5,000,000,000**	**500,000**	5,000,000,000	500,000
Issued and fully paid:					
Ordinary shares of $0.10 each	(i)	**1,977,731,283**	**197,773**	1,978,066,283	197,807
At 1 January		**1,978,066,283**	**197,807**	1,000	1
Bonus issue	(ii)	**–**	**–**	9,000	–
Capitalisation issue	(ii)	**–**	**–**	1,691,990,000	169,199
Shares issued under the placing and public offering	(iii)	**–**	**–**	188,000,000	18,800
Allotment	(iv)	**–**	**–**	98,066,283	9,807
Repurchase of shares	(v)	**(335,000)**	**(34)**	–	–
At 31 December		**1,977,731,283**	**197,773**	1,978,066,283	197,807

Notes:

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

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

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

22 Capital and reserves (Continued)

(a) Share capital (Continued)

Notes: (Continued)

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

(iv) Pursuant to an agreement dated 12 November 2007, the Company agreed to acquire the entire issued share capital of Silver Linkage Investments Inc. and as consideration, the Company allotted 98,066,283 new shares of $0.10 each to the vendor. At the completion date, 17 December 2007, the fair value of the Company's shares was $2.01 per share.

(v) During the year ended 31 December 2008, the Company repurchased a total of 335,000 of its own shares on the Stock Exchange, all of which have been cancelled, as follows:

Month/Year	Number of shares repurchased	Total purchase price $	Purchase price per share Highest $	Lowest $
January 2008	160,000	249,600	1.60	1.52
February 2008	175,000	293,900	1.70	1.66

(b) Share premium and capital redemption reserve

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

(c) Capital reserve

The capital reserve comprises the fair value of the actual or estimated number of unexercised share options granted to employees of the Company under the Company's share option plan, recognised in accordance with the accounting policy adopted for share-based payments in note 1(m)(ii).

(d) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 1(q).

22 Capital and reserves (Continued)

(e) Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company includes a profit of $17,771,000 for the year ended 31 December 2008 (2007: $54,405,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's profit for the year:

	2008 $'000	2007 $'000
Amount of consolidated profit attributable to equity holders dealt with in the Company's financial statements	17,771	54,405
Interim dividends from subsidiaries attributable to the profit of the year approved and paid during the year	180,000	289,199
Company's profit for the relevant period	197,771	343,604

(f) Distributability of reserves

At 31 December 2008, the aggregate amount of reserves available for distribution to equity holders of the Company was $350,415,000 (2007: $251,600,000). After the balance sheet date, the directors proposed a final dividend of 6.4 cents per share (2007: 3.1 cents), amounting to $126,574,000 (2007: $61,310,000). This dividend has not been recognised as a liability at the balance sheet date.

(g) Capital management

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

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

The capital structure of the Group consists of its total equity attributable to equity holders of the Company, comprising share capital and reserves as disclosed in the financial statements. At 31 December 2008 and 2007, the Group did not have any external borrowing.

After the listing on the SEHK, 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.

23 Commitments

(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

	2008 $'000	2007 $'000
Contracted for	4,030	7,896
Authorised but not contracted for	13,651	9,158

(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
The Group

	2008 $'000	2007 $'000
Within 1 year	32,487	27,940
After 1 year but within 5 years	11,297	27,809
	43,784	55,749

International leased circuits
The Group

	2008 $'000	2007 $'000
Within 1 year	30,153	20,615
After 1 year but within 5 years	39,564	46,044
After 5 years	4,274	11,177
	73,991	77,836

23 Commitments (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:

The Group

	2008	2007
	$'000	$'000
Within 1 year	**30,352**	16,880
After 1 year but within 5 years	**–**	8,736
	30,352	25,616

24 Financial risk management and fair values

Exposure to credit, liquidity, interest rate and foreign currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below:

(a) Credit risk

The Group's credit risk is primarily attributable to trade receivables. Management has a credit policy in place and the 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 evaluations focus on the customer's past history of making payments when due and current ability to pay, and taking into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. 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's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual 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 2007 and 2008, the balance due from these PRC customers amounted to $247,548,000 and $317,539,000 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.

24 Financial risk management and fair values (Continued)

(a) Credit risk (Continued)

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:

	2008 %	2007 %
Due from the Group's largest customer	**18**	25
Due from the Group's five largest customers	**49**	46

(b) Liquidity risk

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

The contractual maturities at the balance sheet date of the Group's and the Company's financial liabilities which are required to be repaid within one year or on demand amounted to $746,957,000 (2007: $472,416,000) and $227,146,000 (2007: $132,493,000) respectively.

(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			
	2008		2007		2008		2007	
	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	**1.54**	**794,988**	4.01	780,621	**2.06**	**491,589**	4.19	648,361

24 Financial risk management and fair values (Continued)

(c) Interest rate risk (Continued)

(ii) Sensitivity analysis

At 31 December 2008, it is estimated that interest rates will not increase and a general decrease of 100 basis points in interest rates, with all other variables held constant, would decrease the Group's profit for the year and retained profits by approximately $7,950,000 (2007: increase/decrease of $7,806,000). Other components of consolidated equity would not be affected (2007: $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 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 2007.

(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 telecommunications services provided to PRC customers represent a significant portion of the Group's turnover. The operating currency of these PRC customers is mainly Renminbi (RMB), which is not freely convertible into foreign currencies.

The Group's other assets, liabilities and transactions are primarily denominated either in Hong Kong dollars or United States dollars. In this respect, it is assumed that the pegged rate between Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollars against other currencies.

(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

	2008		
	United States dollars '000	RMB '000	Euros '000
Trade and other receivables	88,076	3,992	335
Cash and cash equivalents	73,014	102	5,541
Trade and other payables	(68,876)	–	(1,311)
Overall net exposure	92,214	4,094	4,565

24 Financial risk management and fair values (Continued)

(d) Foreign currency risk (Continued)

(ii) Exposure to currency risk (Continued)

	2007		
	United States dollars '000	RMB '000	Euros '000
Trade and other receivables	67,424	6,641	–
Cash and cash equivalents	49,924	24	–
Trade and other payables	(48,861)	(322)	–
Overall net exposure	68,487	6,343	–

The Company

	2008 United States dollars '000	2007 United States dollars '000
Trade and other receivables	**168**	92
Cash and cash equivalents	**49,734**	37,856
Trade and other payables	**(1,615)**	(206)
Overall net exposure	**48,287**	37,742

24 Financial risk management and fair values (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 in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date. Other components of consolidated equity would not be affected (2007:$Nil) by the changes in the foreign exchange rates.

The Group

	2008		2007	
	Increase/ (decrease) in foreign exchange rates	**Increase/ (decrease) in profit after tax and retained profits $'000**	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after tax and retained profits $'000
RMB	**3%**	**117**	9%	587
Euros	**(12%)**	**(6,160)**	–	–

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 all 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 2007.

(e) Fair values

No disclosure of fair value is required as all of the Group's financial assets and liabilities are carried at amounts not materially different from their fair values as at 31 December 2008 and 2007.

25 Acquisitions of subsidiaries and an associate

(a) In 2008, the Company entered into an agreement (the "Agreement") with, inter alia, ChinaMotion NetCom Holdings Limited ("CMN Holdings") to acquire the entire equity interest and shareholder's loan of ChinaMotion NetCom Limited and its subsidiaries ("CMN Group"), apart from one subsidiary of CMN Holdings where only 49% equity interest was acquired. The total consideration paid for the acquisition amounted to $191,832,000.

CMN Group is engaged in providing wholesale and retail international direct (IDD) services. The fair values of net liabilities recognised at the acquisition date was $12,982,000. The acquired companies contributed an aggregate revenue of $118,349,000 and aggregate net gain of $8,833,000 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 $392,247,000 and $20,691,000 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 13)	16,723	–	16,723
Intangible assets (note 14)	–	17,760	17,760
Interest in associate*	3,481	2,626	6,107
Trade and other receivables	55,519	–	55,519
Cash and cash equivalents	10,538	–	10,538
Trade and other payables	(109,769)	–	(109,769)
Current tax payable (note 7(b))	(185)	–	(185)
Obligation under finance leases (note (ii))	(5,839)	–	(5,839)
Deferred tax liabilities (note 18(a))	(906)	(2,930)	(3,836)
Net identifiable assets and liabilities	(30,438)	17,456	(12,982)
Goodwill on acquisition (notes (i) and 15)			204,814
			191,832

	$'000
Satisfied by:	
Cash paid	191,832
Cash and cash equivalents acquired	10,538
Cash consideration paid	(191,832)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(181,294)

25 Acquisitions of subsidiaries and an associate (Continued)

(a) (Continued)

Notes:

(i) Goodwill has arisen on the acquisition of the wholesale and retail international direct dial (IDD) business, which has established a global service network with coverage spanning across countries and areas including Hong Kong, Taiwan, Singapore, Japan, the United Kingdom, the United States of America and Canada.

(ii) CMN Group has wholly repaid the capital element of finance lease during the year.

* The Group has only acquired 49% of the equity interest of a subsidiary of ChinaMotion NetCom Limited. Details of the acquired assets and liabilities of the company, namely CM Tel (USA) LLC, are as follows:

	Acquiree's carrying amount before combination $'000	Fair value adjustments $'000	Fair value $'000
Property, plant and equipment	6,672	–	6,672
Intangible assets	–	9,240	9,240
Trade and other receivables	33,889	–	33,889
Cash and cash equivalents	2,029	–	2,029
Trade and other payables	(35,383)	–	(35,383)
Current tax payable	(101)	–	(101)
Deferred tax liabilities	–	(3,881)	(3,881)
Net identifiable assets and liabilities	7,106	5,359	12,465
Share of net assets	3,481	2,626	6,107

25 Acquisitions of subsidiaries and an associate (Continued)

(b) 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 13)	70,206	(5,681)	64,525
Intangible assets (note 14)	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 assets	40,482	(4,004)	36,478
Current tax payable (note 7(b))	(158)	–	(158)
Deferred tax liabilities	(151)	–	(151)
Net identifiable assets and liabilities	172,853	18,876	191,729
Goodwill on acquisition (notes (i) and 15)			9,455
			201,184

Note:

(i) 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.

25 Acquisitions of subsidiaries and an associate (Continued)

(b) (Continued)

	$'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

26 Equity share-based transactions

(a) Share option scheme of the intermediate holding company

CITIC Pacific Limited, the intermediate 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's 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

There were 200,000 options outstanding as at 1 January 2007 with a weighted average exercise price of $22.10. The outstanding options were fully exercised in 2007 at the weighted average exercise price of $22.10. No new options were granted to any executive (other than non-executive directors) of the Group under the Plan for 2008 and 2007.

26 Equity share-based transactions (Continued)

(a) Share option scheme of the intermediate holding company (Continued)

Fair value of share options and assumptions

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

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

– Taking into account the probability of early exercise behaviour, the average expected term of the grant was determined to be 3.93 years;

– Expected volatility of CITIC Pacific Limited's share price at 25% per annum (based on historical movements of share prices over last 4 years);

– Expected annual dividend yield of 5% (based on historical dividend payments);

– Rate of eligible grantees leaving service assumed at 1% per annum;

– Early exercise assumption for option holders to exercise their options when the share price is at least 150% of the exercise price; and

– Risk-free interest rate of 4.69% per annum (based on linearly interpolated yields of the Hong Kong Exchange Fund Notes as at the grant date).

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

(b) Share option scheme of the Company

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

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

26 Equity share-based transactions (Continued)

(b) Share option scheme of the Company (Continued)

No option was exercised during the years ended 31 December 2008 and 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 26(b)(iii).

(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		

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

	2008 Exercise price	2008 Number of options '000	2007 Exercise price	2007 Number of options '000
Outstanding at the beginning of the year	**$3.26**	**18,720**	–	–
Granted during the year	**–**	**–**	$3.26	18,720
Lapsed during the year	**$3.26**	**(3,555)**	–	–
Outstanding at the end of the year	**$3.26**	**15,165**	$3.26	18,720
Exercisable at the end of the year	**$3.26**	**15,165**	$3.26	18,720

26 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: (Continued)

No options was exercised or cancelled but options for 3,555,000 shares have lapsed during the year ended 31 December 2008. The fair value of lapsed options was $2,453,000 and was released directly to retained earnings.

The options outstanding at 31 December 2008 had an exercise price of $3.26 (2007: $3.26) and a remaining contractual life of 3.39 (2007: 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 was $12,917,000.

27 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.

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

(b) Impairments

In considering the impairment losses that may be required for certain property, plant and equipment and goodwill of the Group, the 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.

(d) Business acquisition

For the business combinations undertaken by the Group, the Group allocates the costs of the acquired entities to the assets acquired and the liabilities assumed based on their estimated fair value on the date of acquisition. This process is commonly referred to as the purchase price allocation. As part of the purchase price allocation, the Group is required to determine the fair value of any identifiable intangible assets acquired. The determination of the fair value of the intangible assets acquired involves certain judgement and estimates. These judgements can include, but are not limited to, the cash flows that an asset is expected to generate in the future.

28 Accounting estimates and judgements (Continued)

Key sources of estimation uncertainty (Continued)

(d) *Business acquisition (Continued)*

The fair values of the identifiable intangible assets were determined by the Group with inputs from the independent appraisers using mainly the income approach. Future cash flows are predominantly based on the historical pricing and expense levels, taking into consideration the relevant market size and growth factors. The resulting cash flows are then discounted at a rate approximating the Group's weighted average cost of capital.

A change in the amount allocated to identifiable intangible assets would have an offsetting effect on the amount of goodwill recognised from the acquisition and would change the amount of amortisation expense recognised related to those identifiable intangible assets.

29 Immediate parent and ultimate controlling party

At 31 December 2008, the directors consider the immediate parent and the ultimate controlling parties of the Group to be Ease Action Investments Corp., which is incorporated in the British Virgin Islands, and CITIC Group, which is a state-owned enterprise in The People's Republic of China. The ultimate controlling party produces financial statements available for public use.

30 Non-adjusting post balance sheet events

After the balance sheet date the directors proposed a final dividend. Further details are disclosed in note 10.

31 Comparative information

Certain comparative figures have been adjusted as appropriate, to conform with current year's presentation.

32 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2008

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 2008 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application.

So far it has concluded that the adoption of them is unlikely to result in a significant restatement of the Group's or the Company's results of operations and financial position.

In addition, the following developments are expected to result in amended disclosures in the financial statements, including restatement of comparative amounts in the first period of adoption:

	Effective for accounting periods beginning on or after
HKFRS 8, *Operating segments*	1 January 2009
HKAS 1 (revised 2007), *Presentation of financial statements*	1 January 2009

Independent Auditor's 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 52 to 117, which comprise the consolidated and company balance sheets as at 31 December 2008, 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 2008 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

18 March 2009

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

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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:	01883
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:	5 May 2009 to 11 May 2009
Annual General Meeting:	11 May 2009, 10:30 a.m. Island Ballroom, Level 5, Island Shangri-La Hotel Two Pacific Place, Supreme Court Road Hong Kong
Final Dividend payable:	14 May 2009

Annual Report 2008

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.

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