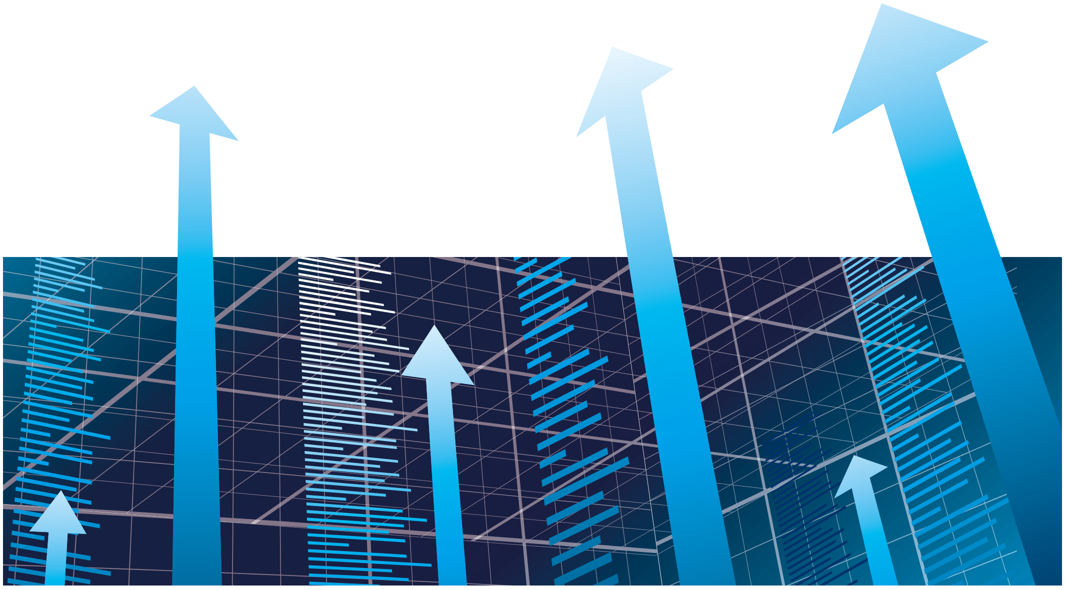
Financial Review



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 58 to 64 of the Annual Report contain the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Statement of Changes in Equity and Consolidated Cash Flow Statement. Following these financial information, on pages 65 to 114 of the Annual Report, are Notes that further explain certain figures presented in the report.

On page 57 is the report of CITIC 1616's auditor – KPMG – of their independent audit of the Group's annual accounts.

Basis of Accounting

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

Review of Financial Performance

TURNOVER

The Group's turnover for 2009 was HK$2,716.6 million, an increase of 9.3%, compared with HK$2,486.4 million for 2008.

Voice Services turnover increased by HK$113.5 million or 7.0% to HK$1,726.9 million for 2009. The traffic carried by the Group in 2009 increased by 2.03 billion minutes or 25.1% to 10.14 billion minutes. Inbound China Traffic and international minutes amounted to 7.74 billion minutes and 1.53 billion minutes, an increase of 26.7% and 35.7% respectively as compared to 2008. The increase was mainly due to the first time inclusion of the full year impact of ComNet International Holdings Limited (formerly known as ChinaMotion NetCom Limited) and its subsidiaries ("ComNet Group") which was acquired in September 2008. Outbound China minutes amounted to 0.87 billion minutes which was similar to 2008. As the revenue per minute for China inbound business was lower than China outbound and international minutes, the overall revenue per minute had decreased because of the change in traffic mix.

SMS Services turnover increased by HK$38.9 million to HK$286.0 million for 2009, representing a 15.7% increase as compared to 2008. The Group handled 1,564.5 million messages for 2009 which was 11.4% below 2008. The decrease was mainly due to the reduction of traffic under our discount plan to mobile operators in Hong Kong. Owing to the termination of this marketing programme, the average revenue per SMS has increased by 30.7% as compared to 2008.

Mobile Value-added Services (VAS) turnover for 2009 amounted to HK$112.0 million, representing an increase of 18.5% compared with HK$94.5 million for 2008. The increase was mainly due to increasing demand from existing customers and new customers signed up during the year.

Data Services turnover increased by 11.3% to HK$591.7 million as compared with HK$531.4 million for the year 2008. During the year, CPCNet achieved HK$506.7 million in turnover, an increase of 10.1% as compared with last year. As most of the Group's customers are multinational companies, the Group's data business was adversely affected by the global financial crisis and the recession in Europe and North America. In order to mitigate the adverse impact, the Group had stepped up its effort to pursue customers in the Asia Pacific Region, which had helped to partly offset the adverse market conditions in Europe and United States.

OTHER REVENUE

The Group's other revenue for 2009 amounted to HK$5.5 million, a decrease of HK$15.3 million as compared with last year. The decrease was mainly due to significant decrease of average deposit interest rate during the year.

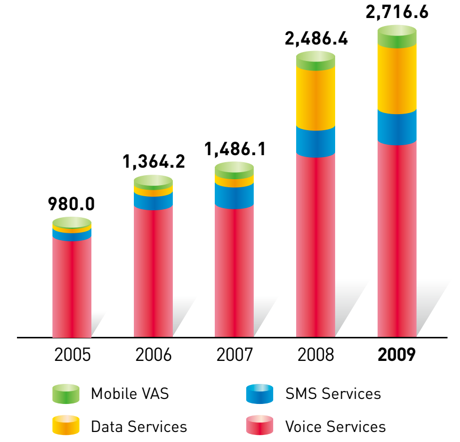
NET FOREIGN EXCHANGE GAIN

During the year, the Group's major trading currencies were United States dollar, Hong Kong dollar and EURO. Net foreign exchange gain arose mainly from the normal trading business, funding arrangements and overseas business operations of the Group. The Group has not entered into any foreign currency hedging arrangement during the year.

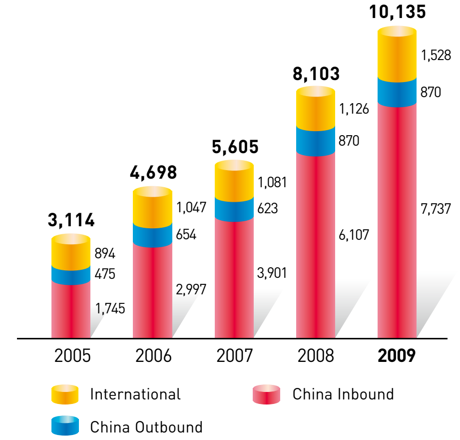
NETWORK, OPERATIONS AND SUPPORT EXPENSES

In the year 2009, network, operations and support expenses amounted to HK$1,801.0 million, representing an increase of 7.8% as compared with 2008. The increase was mainly due to the first time inclusion of the full year result of ComNet Group and the impact of other acquired companies during the year. In order to maintain the Group's competitiveness, the Group had

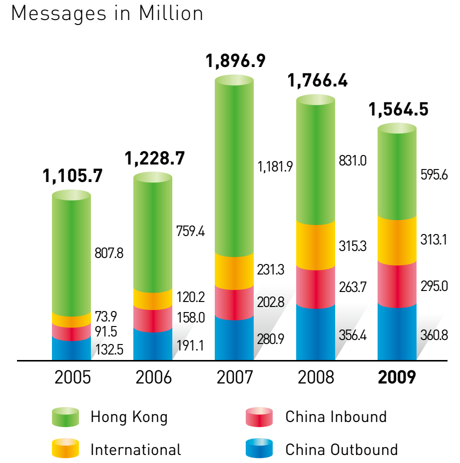
Turnover
HK$ Million



Traffic (By location)
Minutes in Million



Number of SMS
Messages in Million



launched its global MPLS IP network infrastructure in 2009. This has helped to improve service quality as well as to reduce the operating costs. In terms of percentage of turnover, network, operations and support expenses represented 66.3% (2008: 67.2%) of turnover in 2009.

STAFF COSTS

Staff costs for the year 2009 amounted to HK$220.5 million, representing an increase of 22.5% as compared with HK$180.0 million for 2008. The increase was mainly due to the first time inclusion of full year impact of ComNet Group and the impact of other acquisitions made during the year. If ComNet Group and other acquisitions were excluded, the staff costs would have increased by HK$22.5 million or 12.8%. The increase was mainly due to the increase in headcount to cope with the Group's business expansion. After the completion of the acquisitions, the Group's total headcount was 491 at the end of December 2009, an increase of 17.2% as compared to the end of December 2008.

OTHER OPERATING EXPENSES

Other operating expenses for the year 2009 amounted to HK$141.9 million, representing an increase of 6.1% compared with HK$133.7 million for 2008. The increase was also due to first time inclusion of full year impact of ComNet Group and the impact of other acquisitions during the year. If the impacts of ComNet Group and other acquisitions were excluded, a decrease of 11.7% was recorded.

INCOME TAX

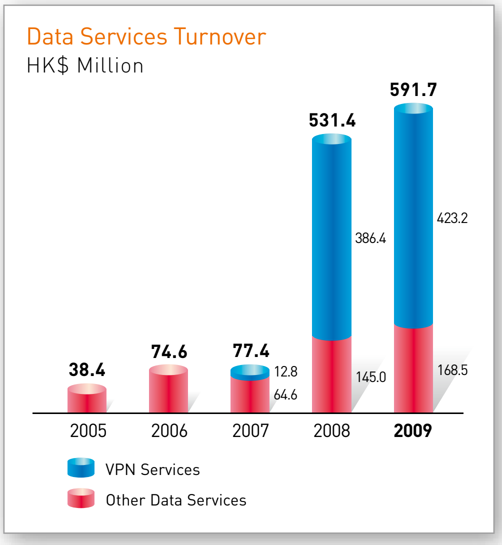
The Group's income tax expenses increased 14.8% from HK$65.7 million to HK$75.4 million for 2009. Effective tax rate has increased from 16.5% in 2008 to 16.9% in 2009. The reason for the increase was due to the significant decrease of non-taxable interest income for 2009.

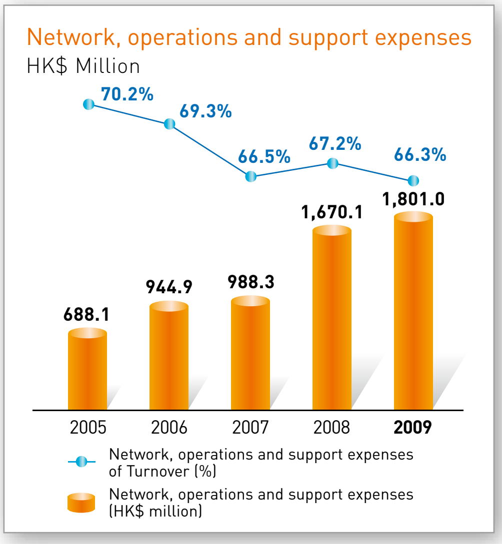
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

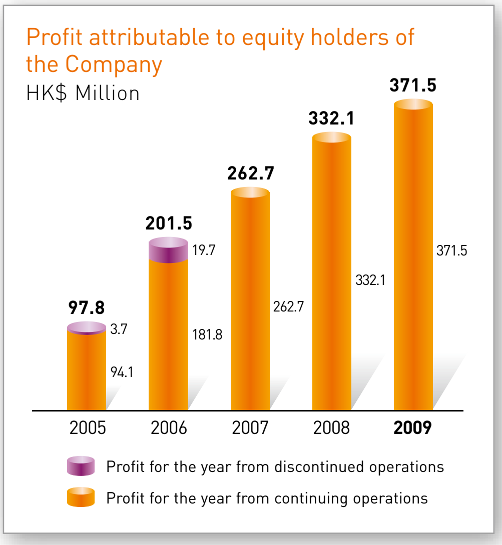
The Group recorded a profit of HK$371.5 million for 2009, an increase of 11.9% as compared to 2008. Despite the unfavorable impact of the global economic crisis, all our businesses recorded steady growth during the year.

EARNINGS PER SHARE ("EPS")

EPS was HK18.8 cents for 2009, an increase of 11.9% compared with 2008. EPS growth was in line with the profit growth.







DIVIDENDS PER SHARE

A final dividend of HK7.1 cents per share is proposed for 2009. As a result, the total dividends per share is HK9.5 cents for the year.

CAPITAL EXPENDITURE

Capital expenditure was HK$264.1 million for 2009, an increase of 113.3% as compared with HK$123.8 million for the previous year. The increase was mainly due to the acquisition of seven floors of Broadway Centre for a cash consideration of HK$150 million from Neostar Investment Limited, a wholly-owned subsidiary of CITIC Pacific Limited. The acquisition will allow the Group to relocate its operations, which are currently situated in different locations of Hong Kong. This will help to enhance the Group's operational efficiency and save administrative and other operating costs. If the Broadway Centre acquisition was excluded, capital expenditure for 2009 amounted to HK$114.1 million, decreasing by 7.8% from 2008.

ACQUISITION OF SUBSIDIARIES

In order to strengthen the Group's market position and enable the Group to further expand its business, the Group has acquired several companies during the year. The major acquisitions are as follows:

a) **Acquisition of 51% interest of ComNet (USA) LLC (formerly known as CM Tel (USA) LLC)**

In May 2009, the Group increased its interest in ComNet (USA) LLC from 49% to 100%. The additional 51% interest was transferred from ChinaMotion NetCom Holdings Limited (a wholly-owned subsidiary of China Motion Telecom International Limited) to Pacific Networks Corp.. The consideration paid for the acquisition of the additional 51% interest amounted to HK$26.0 million.

The transaction resulted in ComNet (USA) LLC, ceasing to be an associate and becoming a subsidiary of the Group effective from May 2009. ComNet (USA) LLC is engaged in providing wholesale and retail international direct dialing (IDD) services in North America.

b) **Acquisition of ComNet Communications (Singapore) Pte. Ltd. (formerly known as Macquarie Telecom Pte. Ltd.)**

On 31 July 2009, the Company acquired the entire share capital and shareholder's loan of ComNet Communications (Singapore) Pte. Ltd. from Macquarie Telecom Group Limited for a cash consideration of SG$11.3 million. ComNet Communications (Singapore) Pte. Ltd. is engaged in the provision of telecommunications services to corporate customers in Singapore.

USE OF PROCEEDS

The Company raised HK$461.0 million from Initial Public Offering in 2007. At 31 December 2009, HK$420.0 million has been utilised. Approximately HK$230.0 million and HK$100.0 million have been invested for the acquisition and upgrading the Group's network activities respectively. Approximately HK$90.0 million has been invested for enhancing the Group's application development activities and establishing a product and research center at our new office in Broadway Centre. The usage was in accordance with the proposed use of proceeds set out in the prospectus.

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 deposits.

EXCHANGE RATE RISK

A substantial portion of the Group's sales revenue and its cost of sales are denominated in United States 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. Trade 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 receivables due from the Group's five largest customers who accounted for approximately 44% and 49% of the Group's total trade receivables at 31 December 2009 and 31 December 2008 respectively. The credit risk exposure to trade receivables 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.

Group Liquidity and Capital Resources

The Group manages its exposure to liquidity risk by reviewing the cash resources required to meet its business objectives.

The Group's operating cash inflow was continuously increased to HK$402.3 million for 2009. In order to meet the business growth and future development, the Group paid HK$96.7 million for business acquisitions and HK$249.1 million for fixed assets acquired (including property acquisition of HK$157.0 million) during the year. In addition, the Group paid dividends of HK$174.0 million during 2009 for returning the profits to its shareholders. As a result, the cash and cash equivalents in the consolidated cash flow statement decreased by HK$110.6 million to HK$684.4 million at 31 December 2009.

CURRENCY PORTFOLIO

The original denomination of the Group's cash and bank deposits by currencies at 31 December 2009 is summarised as follows:

	Denomination				
HK$ million equivalent	**HK$**	**US$**	**EURO**	**Others**	**Total**
Cash and bank deposits	127.0	519.4	17.0	22.8	686.2
Percentage of total amount	18.5%	75.7%	2.5%	3.3%	100.0%

At 31 December 2009, the Group maintained EURO balance with Hong Kong dollar equivalent 17.0 million in order to support the need of settlement in EURO for current outstanding payables. At 31 December 2009, the Group had outstanding trade payables in EURO equivalent to HK$16.9 million. The Group maintained other currencies at the balance sheet date to meet the business needs in different regions.

BORROWINGS

At 31 December 2009, the Group had no outstanding borrowings.

BANKING FACILITIES

At 31 December 2009, the Group had banking facilities amounting to SG$0.6 million, US$3.85 million and HK$100.0 million (equivalent to a total of HK$133.3 million). Including in the total banking facilities of HK$ 133.3 million, there is about HK$3.3 million facilities utilisation is subject to pledged deposits.

Of the total banking facilities, approximately HK$3.4 million was utilised as guarantees for the Group's purchase from telecoms operators, performance to customers, and rental deposit.

SECURITIES AND GUARANTEES

At 31 December 2009, the Group pledged SG$85,000 and US$170,000 (equivalent to a total of HK$1.8 million) of fixed deposits to secure its banking facilities. The Group had not created any other security over its assets and had not provided any corporate guarantee.

CONTINGENT LIABILITIES

At 31 December 2009, the Group did not have any contingent liability.

CAPITAL COMMITMENTS

At 31 December 2009, the Group had outstanding capital commitments of HK$38.5 million, mainly for the acquisition of network equipment which had yet to be delivered to the Group, of which HK$28.7 million were outstanding contractual capital commitments and HK$9.8 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.