Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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 certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2009 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in an associate.

The measurement basis used in the preparation of the 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 major sources of estimation uncertainty are discussed in note 28.

(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)).

1 Significant accounting policies (Continued)

(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 investee's net assets and any impairment loss relating to the investment (see notes 1(e) and (i)). The Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition, post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in an 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 investee. For this purpose, the Group's interest 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 an 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 investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

(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 arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination 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 an associate and the investment as a whole is tested for impairment whenever there is objective evidence of impairment (see note 1(i)(i)).

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.

1 Significant accounting policies (Continued)

(f) PROPERTY, PLANT AND EQUIPMENT

The following items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(i)(ii)):

- freehold land and buildings;

- land held under operating leases and buildings thereon, where the fair values of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease (see note 1(h));

- buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 1(h)); and

- other items of plant and equipment.

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

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

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

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

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

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

- freehold land is not depreciated.

- buildings situated on freehold land are depreciated on a straight-line basis over their estimated useful life, being no more than 50 years after the date of completion.

- buildings situated on leasehold land are depreciated on a straight-line basis over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.

- telecommunications equipment are depreciated on a straight-line basis at 7 – 33% per annum.

- other assets are depreciated on a straight-line basis at 20 – 33% per annum.

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 rights of use ("IRU") of telecommunications capacity	10 years
Customer relationships	7 – 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

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

- property held under operating leases that would otherwise meet the definition of an investment property is classified as 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)); and

- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

(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.

1 Significant accounting policies (Continued)

(h) LEASED ASSETS (CONTINUED)

(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.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property or is held for development for sale.

(i) IMPAIRMENT OF ASSETS

(i) Impairment of investments in an associate, and other receivables

Other 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 follows:

- For investment in an associate recognised using the equity method (see note 1(d)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 1(i)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(i)(ii).

- For trade and other current receivables, the impairment loss is measured 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.

1 Significant accounting policies (Continued)

(i) IMPAIRMENT OF ASSETS (CONTINUED)

(i) Impairment of investments in an associate, and other receivables (Continued)

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.

(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 goodwill may be impaired or, except in the case of goodwill, 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 fair value less costs to sell 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 the 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 if 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 year in which the reversals are recognised.

1 Significant accounting policies (Continued)

(i) IMPAIRMENT OF ASSETS (CONTINUED)

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(i)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(j) TRADE AND OTHER RECEIVABLES

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

(k) CASH AND CASH EQUIVALENTS

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

(l) TRADE AND OTHER PAYABLES

Trade and other payables are initially recognised at fair value and subsequently 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 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 resulting 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 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 in other comprehensive income or directly to equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity respectively.

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

Revenue is measured at the fair value of the consideration received or receivable. 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 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) Provision of other telecommunications services

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

(iii) Rental income from operating leases

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

(iv) Interest income

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

1 Significant accounting policies (Continued)

(p) REVENUE RECOGNITION (CONTINUED)

(v) Barter transaction

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. Exchange gains and loss are recognised in profit or loss.

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 closing foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. 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 relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(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 loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

1 Significant accounting policies (Continued)

(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 that is a related party of the Group.

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

(u) SEGMENT REPORTING

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's business and geographical location classified by the location of assets.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(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 Changes in accounting policies

The HKICPA has issued one new HKFRS, a number of amendments to HKFRSs and new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 8, *Operating segments*
- HKAS 1 (revised 2007), *Presentation of financial statements*
- Improvements to HKFRSs (2008)
- Amendments to HKAS 27, *Consolidated and separate financial statements – cost of an investment in a subsidiary, jointly controlled entity or associate*
- Amendments to HKFRS 2, *Share-based payment – vesting conditions and cancellations*

The amendments to HKFRS 2 and Improvements to HKFRSs (2008) have had no material impact on the Group's financial statements as the amendments and improvements were consistent with policies already adopted by the Group. The impact of the remainder of these developments is as follows:

- HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is consistent with internal reporting provided to the Group's most senior executive management. There were no additional reportable segments identified (see note 3).
- As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity holders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expenses are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.
- The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009, all dividends receivable from subsidiaries and associates, whether out of pre- or post-acquisition profits, will be recognised in the company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless the carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

3 Segment reporting

The Group manages its businesses by business operations and geography. On first-time adoption of HKFRS 8, *Operating segments* and in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has only identified one business segment, i.e. telecommunications operations. Further, the Group's business participates primarily in only one geographical location classified by the location of assets, i.e. Hong Kong. The Group's overseas operation constitutes an insignificant portion of the Group's business.

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of deferred tax assets, current tax recoverable, and other corporate assets. Segment liabilities include trade and other payables attributable to the operating activities of the segment.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by the segment and the expenses incurred by the segment or which otherwise arise from the depreciation or amortisation of assets attributable to the segment.

Revenue generated from the telecommunications segment includes the fees derived from the provision of voice services; provision of short message services; and provision of other telecommunications services. Revenue from the provision of these services to state-controlled entities in the People's Republic of China ("PRC") represents more than 10% of the Group's total revenue. The revenue received from this customer amounted to $1,145,438,000 for the year ended 31 December 2009 (2008: $1,202,099,000).

4 Turnover

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

Turnover recognised during the year may be analysed as follows:

	2009	2008
	$'000	$'000
Fees from the provision of voice services	**1,726,885**	1,613,362
Fees from the provision of short message services	**285,982**	247,107
Fees from the provision of other telecommunications services	**703,692**	625,893
	2,716,559	2,486,362

5 Other revenue

	2009 $'000	2008 $'000
Bank interest income	**5,006**	20,294
Other interest income	**449**	505
Total interest income	**5,455**	20,799

6 Other net gain/(loss)

	2009 $'000	2008 $'000
Net loss on disposal of property, plant and equipment	**(95)**	(2,322)
Net foreign exchange gain/(loss)	**608**	(8,950)
	513	(11,272)

7 Profit before taxation

Profit before taxation is arrived at after charging:

	2009 $'000	2008 $'000
(a) Finance costs:		
Finance charges on obligations under finance lease	**–**	26
Total interest expense	**–**	26
(b) Staff costs (including directors' remuneration (note 9)):		
Contributions to defined contribution retirement plans	**7,257**	5,175
Equity settled share-based payment expenses (note 26)	**4,872**	–
Salaries, wages and other benefits	**208,337**	174,859
	220,466	180,034
(c) Other items:		
Network, operations and support expenses, including:	**1,800,966**	1,670,086
– carrier costs	**1,271,123**	1,343,048
– operating leases – leased circuits	**171,985**	118,958
– other telecommunications service costs	**357,858**	208,080
Depreciation	**104,026**	101,612
Amortisation	**6,911**	11,628
Impairment losses on trade and other receivables	**754**	13,769
Auditors' remuneration	**3,391**	3,169
Operating lease charges in respect of - land and buildings	**48,943**	39,602

8 Income tax

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

	2009 $'000	2008 $'000
Current tax – Hong Kong Profits Tax		
Provision for the year	**59,726**	52,725
Over-provision in respect of prior years	**(23)**	(72)
	59,703	52,653
Current tax – Overseas		
Provision for the year	**4,666**	3,662
Under-provision in respect of prior years	**139**	–
	4,805	3,662
Deferred tax		
Origination and reversal of temporary differences	**10,924**	9,025
Effect on deferred tax balances at 1 January resulting from a change in tax rate	**–**	407
	10,924	9,432
	75,432	65,747

The provision for Hong Kong Profits Tax for 2009 is calculated at 16.5% (2008: 16.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

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

	2009 $'000	2008 $'000
Profit before taxation	**446,959**	397,875
Notional tax on profit before taxation at 16.5% (2008: 16.5%)	**73,748**	65,649
Tax effect of different tax rate	**398**	604
Tax effect of non-taxable revenue and non-deductible expenses	**(1,601)**	(2,447)
Effect on deferred tax balances at 1 January resulting from a change in tax rate	**–**	407
Tax effect of unused tax losses not recognised	**2,297**	769
Under/(over)-provision in prior years	**116**	(72)
Others	**474**	837
Actual tax expense	**75,432**	65,747

8 Income tax (Continued)

(b) Income tax in the balance sheets represents:

The Group

	2009	2008
	$'000	$'000
Hong Kong Profits Tax		
Provision for the year	**59,726**	52,725
Provisional Profits Tax paid	**(38,636)**	(30,269)
	21,090	22,456
Balance payable relating to prior years	**1,388**	–
	22,478	22,456
Overseas Tax		
Through acquisition of subsidiaries (note 25)	**(3,003)**	185
Provision for the year	**2,828**	3,101
Profits tax paid	**(59)**	(147)
Balance payable relating to prior years	**13,450**	10,392
Exchange adjustments	**(2)**	(71)
	13,214	13,460
	35,692	35,916
Representing:		
- current tax recoverable	**(2,704)**	(250)
- current tax payable	**38,396**	36,166
	35,692	35,916

9 Directors' remuneration

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

	2009						
	Directors' fees	Basic salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Sub-total	Share-based payments	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Executive directors							
Xin Yue Jiang	120	2,364	2,800	12	5,296	282	5,578
Yuen Kee Tong	120	3,164	2,520	144	5,948	251	6,199
Chan Tin Wai David	120	2,110	2,156	12	4,398	219	4,617
Shi Cuiming	26	941	-	3	970	-	970
Non-executive directors							
Kwok Man Leung	146	-	-	-	146	47	193
Chan Chui Sheung Stella	120	-	-	-	120	47	167
Independent non-executive directors							
Yang Xianzu	240	-	-	-	240	47	287
Liu Li Qing	240	-	-	-	240	47	287
Kwong Che Keung Gordon	240	-	-	-	240	47	287
Total	1,372	8,579	7,476	171	17,598	987	18,585

	2008						
	Directors' fees	Basic salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Sub-total	Share-based payments	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'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

The above remuneration is included in staff costs as presented in note 7(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 plan 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 2009, 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 (2008: Nil).

10 Individuals with highest emoluments

Of the five individuals with the highest emoluments, three (2008: four) are directors whose emoluments are disclosed in note 9. The aggregate of the emoluments in respect of the other two (2008: one) individuals are as follows:

	2009 $'000	2008 $'000
Salaries and other emoluments	**3,607**	2,142
Discretionary bonuses	**3,080**	1,584
Share-based payments	**376**	–
Retirement scheme contributions	**244**	105
	7,307	3,831

The emoluments of the two (2008: one) individuals with the highest emoluments are within the following bands:

	2009	2008
$		
3,000,001 – 3,500,000	**1**	–
3,500,001 – 4,000,000	**–**	1
4,000,001 – 4,500,000	**1**	–

During the years ended 31 December 2009 and 2008, no emoluments were paid by the Company to any of the highest paid individuals as an inducement to join or upon joining the Company or as compensation for loss of office.

11 Earnings per share

(a) BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company for the year ended 31 December 2009 of $371,527,000 (2008: $332,128,000) and the weighted average of 1,977,731,000 ordinary shares (2008: 1,977,756,000 shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	Number of shares	
	2009 '000	2008 '000
Issued ordinary shares at 1 January	**1,977,731**	1,978,066
Effect of shares repurchased	**–**	(310)
Weighted average number of ordinary shares at 31 December	**1,977,731**	1,977,756

11 Earnings per share (Continued)

(b) DILUTED EARNINGS PER SHARE

The diluted earnings per share for the years ended 31 December 2009 and 2008 are the same as the basic earnings per share as the potential ordinary shares outstanding during the year ended 31 December 2009 and 2008 were anti-dilutive.

12 Related party transactions

(a) TRANSACTIONS WITH CITIC PACIFIC LIMITED AND ITS AFFILIATES AND AN ASSOCIATE OF THE GROUP

(i) Recurring transactions

	Note	2009 $'000	2008 $'000
Telecommunications services and related income from:			
- Companhia de Telecomunicacoes de Macau, S.A.R.L. ("CTM")	(1)	**10,650**	6,351
- ComNet (USA) LLC	(2)	**24,364**	20,836
Telecommunications service expenses to:			
- CTM		**3,590**	4,807
- ComNet (USA) LLC		**19,014**	16,014
Professional fees paid/payable to CITIC Pacific Limited	(3)	**2,500**	1,900
Operating lease charges and building management fees paid to Goldon Investment Limited	(4)	**23,905**	23,905
Management fee paid to a wholly-owned subsidiary of HKIX Hong Kong Ltd.	(5)	**1,000**	1,000

Notes:

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

(2) ComNet (USA) LLC (formerly known as CM Tel (USA) LLC) is a wholly-owned subsidiary of the Group since May 2009 (note 17).

(3) Professional fees were paid/payable to CITIC Pacific Limited, an intermediate holding company, for the provision of internal audit and company secretarial services.

(4) Goldon Investment Limited (an associate of CITIC Pacific Limited) leases certain properties in Hong Kong to the Group under an operating lease. The amount represents the lease charges and building management fees paid to Goldon Investment Limited.

(5) Financial and operational support expenses paid to a wholly-owned subsidiary of HKIX Hong Kong Ltd. (a minority shareholder of a subsidiary of the Group, Asia Pacific Internet Exchange 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 fees/management fees paid by the Group were reimbursement of costs incurred by the related parties, the price which the Group received or paid for the relevant services were fair and reasonable with reference to market price, or in the case of the payment in respect of HKIX Hong Kong Ltd., was in accordance with terms of a shareholder agreement.

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

	2009 $'000	2008 $'000
Acquisition of properties from Neostar Investment Limited (a wholly-owned subsidiary of CITIC Pacific Limited) (note 13(b))	**150,000**	–

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

	2009 $'000	2008 $'000
Amount due from/(to) CTM included in		
– Trade and other receivables	**14,580**	10,462
– Trade and other payables	**(6,153)**	(4,769)
	8,427	5,693
Amount due from/(to) ComNet (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.

(b) TRANSACTIONS WITH OTHER STATE-CONTROLLED ENTITIES IN THE PRC

On 24 December 2008, CITIC Group became the major shareholder of the then ultimate holding company, CITIC Pacific Limited. CITIC Group is controlled by the PRC Government and the Company became a state-controlled entity. 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.

12 Related party transactions (Continued)

(b) TRANSACTIONS WITH OTHER STATE-CONTROLLED ENTITIES IN THE PRC (CONTINUED)

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

	2009 $'000	2008 $'000
Interest income	**4,505**	220
Fees from provision of telecommunications services	**1,110,424**	26,176
Fees for network, operations and support services	**(649,285)**	(13,940)

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

	2009 $'000	2008 $'000
Bank deposits	**251,282**	429,516
Trade debtors	**342,838**	387,037
Trade creditors	**(162,307)**	(257,260)

(c) KEY MANAGEMENT PERSONNEL REMUNERATION

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

	2009 $'000	2008 $'000
Short-term employee benefits	**23,128**	26,372
Share-based payments	**1,128**	–
Post-employment benefits	**415**	407
	24,671	26,779

Total remuneration is included in "staff costs" (see note 7(b)).

13 Property, plant and equipment

The Group

	Land and building held for own use (Notes (a) & (b)) $'000	Tele-communications equipment $'000	Other assets (Note (c)) $'000	Construction in progress $'000	Total assets $'000
Cost:					
At 1 January 2008	–	648,036	65,700	22,121	735,857
Exchange adjustments	–	141	(28)	–	113
Additions					
– through acquisition of subsidiaries (note 25(b))	–	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
At 1 January 2009	–	720,768	75,148	63,181	859,097
Exchange adjustments	–	450	114	99	663
Additions					
– through acquisition of subsidiaries (note 25(a))	–	21,842	1,261	–	23,103
– others	156,958	50,114	13,992	42,989	264,053
Disposals	–	(2,125)	(13)	(4,802)	(6,940)
Reclassification	–	47,399	1,624	(49,023)	–
At 31 December 2009	156,958	838,448	92,126	52,444	1,139,976
Accumulated depreciation:					
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
At 1 January 2009	–	446,254	49,738	–	495,992
Exchange adjustments	–	406	155	–	561
Charge for the year	–	94,079	9,947	–	104,026
Written back on disposals	–	(2,281)	(13)	–	(2,294)
At 31 December 2009	–	538,458	59,827	–	598,285
Net book value:					
At 31 December 2009	156,958	299,990	32,299	52,444	541,691
At 31 December 2008	–	274,514	25,410	63,181	363,105

13 Property, plant and equipment (Continued)

The Company

	Other assets $'000
Cost:	
At 1 January 2008	38,882
Disposals	(219)
At 31 December 2008	38,663
At 1 January 2009 and 31 December 2009	38,663
Accumulated depreciation:	
At 1 January 2008	34,239
Charge for the year	3,164
Written back on disposals	(219)
At 31 December 2008	37,184
At 1 January 2009	37,184
Charge for the year	1,479
At 31 December 2009	38,663
Net book value:	
At 31 December 2009	–
At 31 December 2008	1,479

Notes:

(a) Land and building held for own use is held under medium-term lease in Hong Kong.

(b) In December 2009, the Group acquired certain properties from Neostar Investment Limited (a wholly-owned subsidiary of CITIC Pacific Limited) with the intention to hold them as owner-occupied properties. A portion of the acquired properties is currently under operating leases and notices have been served to the tenants to vacate the property within 6 months in accordance with the notice period for the termination of the lease stipulated in the respective tenancy agreements, except for one tenant, Dah Chong Hong Holdings Limited (a subsidiary of CITIC Pacific Limited), who will vacate the property in May 2011 in accordance with the lease agreement.

The above mentioned leases do not include any contingent rentals and the total future minimum lease payments receivable in respect of these leases are as follows:

	2009 $'000	2008 $'000
Within 1 year	**2,560**	–
After 1 year but within 5 years	**375**	–
	2,935	–

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

14 Intangible assets

The Group

	Customer relationships	Customer contracts	Trade names/ trademarks	IRU of tele-communications capacity	Total
	$'000	$'000	$'000	$'000	$'000
Cost:					
At 1 January 2008	19,871	8,690	–	626	29,187
Additions through acquisition of subsidiaries (note 25(b))	17,200	–	560	–	17,760
At 31 December 2008	37,071	8,690	560	626	46,947
At 1 January 2009	37,071	8,690	560	626	46,947
Exchange adjustments	451	–	–	–	451
Additions through acquisition of subsidiaries (note 25(a))	22,270	–	4,600	–	26,870
At 31 December 2009	59,792	8,690	5,160	626	74,268
Accumulated amortisation:					
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
At 1 January 2009	3,161	8,690	140	107	12,098
Exchange adjustments	27	–	–	–	27
Charge for the year	6,197	–	611	103	6,911
At 31 December 2009	9,385	8,690	751	210	19,036
Net book value:					
At 31 December 2009	50,407	–	4,409	416	55,232
At 31 December 2008	33,910	–	420	519	34,849

15 Goodwill

The Group

	2009 $'000	2008 $'000
Cost and carrying amount:		
At 1 January	**214,269**	9,455
Exchange adjustments	**989**	–
Additions through acquisition of subsidiaries and an associate (note 25)	**62,161**	204,814
At 31 December	**277,419**	214,269

IMPAIRMENT TESTS 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:

	2009 $'000	2008 $'000
Telecommunications services	**277,419**	214,269

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:

	2009 %	2008 %
– Growth rate	**5**	6
– Discount rate	**10**	9

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

	2009 $'000	2008 $'000
Unlisted shares, at cost	**4,071**	4,071
Amounts due from subsidiaries (note 19)	**1,113,719**	963,655
	1,117,790	967,726
Amounts due to subsidiaries (note 21)	**(167,694)**	(189,599)
	950,096	778,127

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

16 Interests in subsidiaries (Continued)

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

At 31 December 2009, the Company had direct or indirect interests in the following principal 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		*Issued and fully paid-up capital
			Direct	Indirect	
Amazing Gains Finance Limited	British Virgin Islands	Provision of leasing services	–	100%	US$1
Asia Pacific Internet Exchange Limited	Hong Kong	Provision of financial and operational support to HKIX[1]	–	75%	HK$100,000
CITIC Concept 1616 Limited	Hong Kong	Provision of systems integration services	–	100%	HK$2
CITIC Consultancy 1616 Limited	Hong Kong	Provision of telecommunications consultancy services in Hong Kong	–	100%	HK$2
CITIC Data 1616 Limited	Hong Kong	Provision of data and other telecommunications services in Hong Kong	–	100%	HK$2
CITIC Media 1616 Limited	Hong Kong	Provision of content services to licensed telecoms operators in Hong Kong	–	100%	HK$1
CITIC Telecom 1616 Limited	Hong Kong	Provision of licensed telecommunications services in Hong Kong	100%	–	HK$2
CITIC Telecom 1616 (UK) Limited (Formerly China Motion (UK) Limited)	United Kingdom	Provision of telecommunications services	–	100%	£2
CITIC TeleSoft 1616 Limited	Hong Kong	Provision of systems integration and maintenance services	–	100%	HK$2

16 Interests in subsidiaries (Continued)

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
ComNet Communications (Singapore) Pte. Ltd. (Formerly Macquarie Telecom Pte. Ltd.)	Republic of Singapore	Provision of telecommunications services	–	100%	SG$19,233,002
ComNet Investment Limited (Formerly Hen Fai Engineering Networks Company Limited)	Hong Kong	Property investment	–	100%	HK$2
ComNet (Japan) K.K. (Formerly China Motion (Japan) Limited)	Japan	Provision of telecommunications services	–	100%	JPY10,000,000
ComNet Telecom (Singapore) Pte. Ltd. (Formerly China Motion (Singapore) Pte. Ltd.)	Republic of Singapore	Provision of telecommunications services	–	100%	SG$100,000
ComNet Telecom (Canada) Ltd. (Formerly ChinaMotion NetCom (Canada) Ltd.)	Canada	Provision of telecommunications services	–	100%	1 common share without par value$^{\Delta}$
ComNet Telecom International Limited (Formerly Communication Network International Limited), (Formerly ChinaMotion NetCom (Asia) Limited)	Hong Kong	Provision of telecommunications services	–	100%	HK$2
ComNet Telecom (HK) Limited (Formerly CM Tel (HK) Limited)	Hong Kong	Provision of telecommunications services	–	100%	HK$2

Notes to the Financial Statements

(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	
ComNet (USA) LLC (Formerly CM Tel (USA) LLC)	United States of America	Provision of telecommunications services	–	100%	N/A**
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%	SG$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#
Grand Pacific Networks Private Limited	Republic of Singapore	Provision of telecommunications services	–	100%	SG$1
Nebular Telecom Japan K.K.	Japan	Provision of telecommunications services	–	100%	JPY10,000,000
廣東智沛思資訊科技有限公司	People's Republic of China	Provision of telecommunications services	–	100%	N/A@

Notes:

* Represented ordinary shares, unless otherwise stated.

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

Δ Common share – the rights of which are set out in the Articles of ComNet Telecom (Canada) Ltd.

** Capital contribution for ComNet (USA) LLC amounted to US$10,000.

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

@ Capital contribution for 廣東智沛思資訊科技有限公司 amounted to $25,000,000.

17 Interest in an associate

The Group

	2009 $'000	2008 $'000
Share of net assets	–	5,163

Summary of financial information on associate at 31 December 2008:

	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's effective interest	26,978	21,815	5,163	18,798	(944)

In May 2009, the Group acquired the remaining 51% equity interest in ComNet (USA) LLC. The transaction resulted in ComNet (USA) LLC ceasing to be an associate and becoming a subsidiary of the Group effective from May 2009.

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 2008	4,916	45,232	(57,119)	(6,971)
Exchange adjustments	–	(4)	–	(4)
Through acquisition of subsidiaries (note 25(b))	2,930	906	–	3,836
(Credited)/charged to profit or loss	(2,182)	(7)	11,621	9,432
At 31 December 2008	5,664	46,127	(45,498)	6,293
At 1 January 2009	5,664	46,127	(45,498)	6,293
Exchange adjustments	72	8	–	80
Through acquisition of subsidiaries (note 25(a))	6,708	–	–	6,708
(Credited)/charged to profit or loss	(1,261)	(787)	12,972	10,924
At 31 December 2009	11,183	45,348	(32,526)	24,005

18 Deferred taxation (Continued)

(a) DEFERRED TAX ASSETS AND LIABILITIES RECOGNISED (CONTINUED)

	2009 $'000	2008 $'000
Represented by:		
Deferred tax assets	**(14,284)**	(29,907)
Deferred tax liabilities	**38,289**	36,200
	24,005	6,293

The Company

	Depreciation allowances in excess of the related depreciation/ (depreciation in excess of the related depreciation allowances) $'000	Tax losses $'000	Total $'000
At 1 January 2008	154	(3,925)	(3,771)
(Credited)/charged to profit or loss	(478)	909	431
At 31 December 2008	(324)	(3,016)	(3,340)
At 1 January 2009	(324)	(3,016)	(3,340)
(Credited)/charged to profit or loss	(199)	1,234	1,035
At 31 December 2009	(523)	(1,782)	(2,305)

(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 $140,694,000 (2008: $58,166,000) 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. $100,304,000 (2008: $30,922,000) of the tax losses do not expire under the current tax legislation, and $40,390,000 (2008: $27,244,000) of the tax losses will expire after 5 to 20 years.

19 Trade and other receivables

	The Group		The Company	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Trade debtors	**817,848**	779,622	**–**	–
Less: allowance for doubtful debts	**(25,203)**	(35,481)	**–**	–
	792,645	744,141	**–**	–
Amounts due from subsidiaries (note 16)	**–**	–	**1,113,719**	963,655
Amount due from an associate	**–**	23,256	**–**	–
Other receivables	**100,133**	127,105	**9,022**	9,112
	892,778	894,502	**1,122,741**	972,767
Represented by:				
Non-current portion	**21,481**	29,716	**–**	–
Current portion	**871,297**	864,786	**1,122,741**	972,767
	892,778	894,502	**1,122,741**	972,767

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 2009 of the Group and the Company amounted to $22,107,000 (2008: $22,297,000) and $4,249,000 (2008: $6,571,000) respectively which will not be recovered within a year.

Included in other receivables is a net deferred expenditure of $19,695,000 (2008: $23,400,000) 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.

(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	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Within 1 year	**675,631**	739,035	**–**	–
Over 1 year	**142,217**	40,587	**–**	–
	817,848	779,622	**–**	–

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).

19 Trade and other receivables (Continued)

(b) IMPAIRMENT OF TRADE DEBTORS

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

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

	The Group		The Company	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
At 1 January	**35,481**	6,178	**–**	–
Exchange adjustments	**31**	–	**–**	–
Through acquisition of subsidiaries	**9,795**	15,725	**–**	–
Impairment loss recognised	**754**	13,769	**–**	–
Impairment loss written back	**(6,712)**	(191)	**–**	–
Uncollectible amounts written off	**(14,146)**	–	**–**	–
At 31 December	**25,203**	35,481	**–**	–

At 31 December 2009, the Group's trade debtors of $69,737,000 (2008: $78,539,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of $25,203,000 (2008: $35,481,000) were recognised by the Group. The Group does not hold any collateral over these balances.

(c) TRADE DEBTORS THAT ARE NOT IMPAIRED

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

	The Group		The Company	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Within 1 year	**628,217**	684,527	**–**	–
Over 1 year	**119,894**	16,556	**–**	–
	748,111	701,083	**–**	–

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

(a) CASH AND CASH EQUIVALENTS COMPRISE

	The Group		The Company	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Cash at bank and in hand	**185,725**	110,990	**20,499**	4,416
Deposits with banks	**500,465**	683,998	**434,782**	487,173
Cash and bank deposits	**686,190**	794,988	**455,281**	491,589
Less: pledged deposits*	**(1,793)**	–		
Cash and cash equivalents	**684,397**	794,988		

* As at 31 December 2009, certain bank deposits were pledged to secure general banking facilities provided to the Group.

(b) RECONCILIATION OF PROFIT BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS:

	2009	2008
	$'000	$'000
Profit before taxation	**446,959**	397,875
Adjustments for:		
– Depreciation and amortisation	**110,937**	113,240
– Loss on disposal of property, plant and equipment	**95**	2,322
– Share of loss of an associate	**1,323**	944
– Finance costs	**–**	26
– Interest income	**(5,455)**	(20,799)
– Equity-settled share-based payment expenses	**4,872**	–
– Foreign exchange gain	**(4,602)**	–
Changes in working capital:	**554,129**	493,608
Decrease/(increase) in trade and other receivables	**70,054**	(205,875)
(Decrease)/increase in trade and other payables	**(156,974)**	153,703
Decrease/(increase) in amount due from an associate	**73**	(3,730)
(Decrease)/increase in amount due to an associate	**(3,237)**	3,865
Cash generated from operations	**464,045**	441,571

21 Trade and other payables

	The Group		The Company	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Trade creditors	**531,778**	600,544	**–**	2,016
Other payables and accruals	**144,895**	127,095	**22,351**	35,531
Amounts due to subsidiaries (note 16)	**–**	–	**167,694**	189,599
Amount due to an associate	**–**	19,318	**–**	–
	676,673	746,957	**190,045**	227,146

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	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Within 1 year	**385,045**	504,383	**–**	–
Over 1 year	**146,733**	96,161	**–**	2,016
	531,778	600,544	**–**	2,016

22 Capital, reserves and dividends

(a) DIVIDENDS

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

	2009	2008
	$'000	$'000
Interim dividend declared and paid of 2.4 cents per share (2008: 2.0 cents per share)	**47,466**	39,555
Final dividend proposed after the balance sheet date of 7.1 cents per share (2008: 6.4 cents per share)	**140,419**	126,574
	187,885	166,129

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

22 Capital, reserves and dividends (Continued)

(a) DIVIDENDS (CONTINUED)

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

	2009	2008
	$'000	$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 6.4 cents per share (2008: 3.1 cents per share)	**126,574**	61,310

(b) SHARE CAPITAL

	Note	**2009** No. of shares	**2009** Amount $'000	2008 No. of shares	2008 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:					
At 1 January	(i)	**1,977,731,283**	**197,773**	1,978,066,283	197,807
Repurchase of shares	(ii)	**–**	**–**	(335,000)	(34)
At 31 December	(i)	**1,977,731,283**	**197,773**	1,977,731,283	197,773

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

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

(c) 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.

22 Capital, reserves and dividends (Continued)

(d) 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).

(e) 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).

(f) DISTRIBUTABILITY OF RESERVES

At 31 December 2009, the aggregate amount of reserves available for distribution to equity holders of the Company was $494,003,000 (2008: $350,415,000). After the balance sheet date, the directors proposed a final dividend of 7.1 cents per ordinary share (2008: 6.4 cents per ordinary share), amounting to $140,419,000 (2008: $126,574,000). This dividend has not been recognised as a liability at the balance sheet date.

(g) PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company includes a loss of $729,000 for the year ended 31 December 2009 (profit attributable to equity holders of 2008: $17,771,000) 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:

	2009 **$'000**	2008 $'000
Amount of consolidated (loss)/profit attributable to equity holders dealt with in the Company's financial statements	**(729)**	17,771
Interim dividends from subsidiaries attributable to the profit of the year approved and paid during the year	**318,150**	180,000
Company's profit for the year	**317,421**	197,771

(h) CAPITAL MANAGEMENT

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

The Group regularly reviews its capital structure to maintain a balance between the enhancement of shareholders' returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. Adjustments are made to the capital structure as necessary in response to 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 2009 and 2008, the Group did not have any external borrowings.

Neither the Company nor any of its subsidiaries are subject to any 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:

	2009	2008
	$'000	$'000
Contracted for	**28,706**	4,030
Authorised but not contracted for	**9,766**	13,651

The Company had no capital commitments at 31 December 2009 and 2008.

(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 are payable as follows:

Land and buildings

The Group

	2009	2008
	$'000	$'000
Within 1 year	**39,760**	32,487
After 1 year but within 5 years	**34,925**	11,297
	74,685	43,784

Leased circuits

The Group

	2009	2008
	$'000	$'000
Within 1 year	**34,711**	30,153
After 1 year but within 5 years	**34,691**	39,564
After 5 years	**–**	4,274
	69,402	73,991

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

The Group

	2009	2008
	$'000	$'000
Within 1 year	**5,637**	30,352
After 1 year but within 5 years	**11**	–
	5,648	30,352

(Expressed in Hong Kong dollars unless otherwise indicated)

24 Financial risk management and fair values

Exposure to credit, liquidity, interest rate and 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 debtors. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade debtors, credit evaluations are performed on all customers requiring credit over a certain amount. These evaluation 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 PRC. At 31 December 2009 and 2008, the balance due from these PRC customers amounted to $279,733,000 and $317,539,000 respectively. The credit risk exposure to these PRC customers and the remaining trade debtors balance has been monitored by the Group on an ongoing basis and the impairment loss on bad and doubtful debts have been within management's expectations.

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

	2009	2008
	%	%
Due from the Group's largest customer	**10**	18
Due from the Group's five largest customers	**44**	49

(b) LIQUIDITY RISK

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board of directors 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 $715,069,000 (2008: $783,123,000) and $190,045,000 (2008: $227,146,000) respectively.

24 Financial risk management and fair values (Continued)

(c) INTEREST RATE RISK

The Group is exposed to cashflow interest rate risks as the Group has significant cash and bank deposits which are interest-earning. 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			
	2009		2008		**2009**		2008	
	Effective interest rate	**One year or less**	Effective interest rate	One year or less	**Effective interest rate**	**One year or less**	Effective interest rate	One year or less
	%	**$'000**	%	$'000	**%**	**$'000**	%	$'000
Cash and bank deposits	**0.19**	**686,190**	1.54	794,988	**0.27**	**455,281**	2.06	491,589

(ii) *Sensitivity analysis*

At 31 December 2009, it is estimated that interest rates will not decrease and a general increase of 100 basis points in interest rates, with all other variables held constant, would have increased the Group's profit for the year and retained profits by approximately $6,862,000. At 31 December 2008, it was estimated that interest rates would 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. Other components of consolidated equity would not be affected (2008: $Nil) by the changes in interest rates.

The sensitivity analysis above indicates the Group's exposure to cash flow interest rate risk arising from cash and bank deposits held by the Group at the balance sheet date. The impact on the Group's profit for the year (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest income of such a change in interest rates. The analysis is performed on the same basis for 2008.

(d) CURRENCY RISK

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

The major operating companies of the Group have certain transactions in United States dollars and the telecommunications services provided to these companies' PRC customers represent a significant portion of their turnover. The operating currency of these PRC customers is mainly Renminbi ("RMB"). RMB is not freely convertible into foreign currencies.

The Group's other assets, liabilities and transactions are mainly denominated either in Hong Kong dollars or United States dollars. 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.

24 Financial risk management and fair values (Continued)

(d) CURRENCY RISK (CONTINUED)

(ii) Exposure to currency risk

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars, translated using spot rates at the year-end date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

The Group

Exposure to foreign currencies (expressed in Hong Kong dollars)

	2009		
	United States dollars '000	**RMB '000**	**Euros '000**
Trade and other receivables	**982,717**	**17**	**6,508**
Cash and bank deposits	**511,041**	**29**	**16,975**
Trade and other payables	**(622,885)**	**(176)**	**(16,926)**
Overall net exposure	**870,873**	**(130)**	**6,557**

	2008		
	United States dollars '000	RMB '000	Euros '000
Trade and other receivables	686,992	4,519	3,640
Cash and cash equivalents	569,511	116	60,185
Trade and other payables	(537,234)	–	(14,246)
Overall net exposure	719,269	4,635	49,579

The Company

Exposure to foreign currencies (expressed in Hong Kong dollars)

	2009 United States dollars '000	2008 United States dollars '000
Trade and other receivables	**–**	1,310
Cash and cash equivalents	**399,071**	387,925
Trade and other payables	**–**	(12,597)
Overall net exposure	**399,071**	376,638

24 Financial risk management and fair values (Continued)

(d) CURRENCY RISK (CONTINUED)

(iii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit for the year 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. 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. Other components of consolidated equity would not be affected (2008: $Nil) by the changes in the foreign exchange rates.

The Group

	2009		2008	
	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit for the year and retained profits	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit for the year and retained profits
		$'000		$'000
RMB	**5%**	**(5)**	3%	117
Euros	**5%**	**414**	(12%)	(6,160)

Results of the analysis as presented in the above table represented an aggregation of the instantaneous effects on each of the Group's entities' profit for the year and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the balance sheet date for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currency of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2008.

(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 at 31 December 2009 and 2008.

25 Acquisition of subsidiaries and an associate

(a) (i) In May 2009, the Group acquired the remaining 51% equity interest in ComNet (USA) LLC ("CN USA") at a consideration of $26,009,000. CN USA is engaged in providing wholesale and retail international direct dialing (IDD) services.

(ii) In July 2009, the Company entered into an agreement with Macquarie Telecom Group Limited to acquire the entire equity interest and shareholder's loan of its wholly-owned subsidiary, ComNet Communications (Singapore) Pte. Ltd. ("CN Singapore"). The total consideration paid for the acquisition amounted to $62,526,000. CN Singapore is engaged in the provision of telecommunications services to corporate customers in Singapore.

25 Acquisition of subsidiaries and an associate (Continued)

(a) (CONTINUED)

(iii) The Group has completed another acquisition during the year. Since it is relatively immaterial to both the Group's financial position and results, both individually and in aggregate, details of this acquisition are not separately disclosed.

(iv) The acquired companies contributed an aggregate revenue of $134,116,000 and aggregate net gain of $4,081,000 to the Group's profit for the period since acquisition. The effect on the revenue and profit of the acquired entities as if the acquisition had occurred at the beginning of the period to the Group are $215,937,000 and $3,261,000 respectively.

These amounts have been calculated using the Group's accounting policies and by adjusting the results of the relevant subsidiaries to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had been applied from 1 January 2009 together with the consequential tax effects.

(v) The acquisitions had the following effect on the Group's assets and liabilities:

(a) Acquisition of CN USA:

	Acquiree's carrying amount before combination	Fair value adjustments	Fair value
	$'000	$'000	$'000
Property, plant and equipment (note 13)	9,697	–	9,697
Intangible assets (note 14)	–	8,560	8,560
Trade and other receivables	52,049	–	52,049
Current tax recoverable (note 8(b))	3,003	–	3,003
Cash and cash equivalents	490	–	490
Trade and other payables	(62,366)	–	(62,366)
Deferred tax liabilities (note 18(a))	–	(3,595)	(3,595)
Net identifiable assets and liabilities	2,873	4,965	7,838
Share of net assets immediately prior to purchase			(3,840)
			3,998
Goodwill on acquisition (note (vi))			22,011
			26,009
Satisfied by:			
Cash paid			26,009
Cash and cash equivalents acquired			490
Cash consideration paid			(26,009)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiary			(25,519)

25 Acquisition of subsidiaries and an associate (Continued)

(a) (CONTINUED)

(v) The acquisitions had the following effect on the Group's assets and liabilities (continued):

(b) Acquisition of other companies:

	Acquiree's carrying amount before combination	Fair value adjustments	Fair value
	$'000	$'000	$'000
Property, plant and equipment (note 13)	13.406	–	13,406
Intangible assets (note 14)	–	18,310	18,310
Trade and other receivables	12,916	–	12,916
Cash and bank deposits*	2,986	–	2,986
Trade and other payables	(12,312)	–	(12,312)
Deferred tax liabilities (note 18(a))	–	(3,113)	(3,113)
Net identifiable assets and liabilities	16,996	15,197	32,193
Goodwill on acquisition (note (vi))			40,150
			72,343
Satisfied by:			
Cash paid			72,343
Cash and cash equivalents acquired			1,208
Cash consideration paid			(72,343)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			(71,135)

* Cash and cash equivalents for cash flow purposes excluded $1,778,000 pledged deposits.

(vi) Goodwill arose on the acquisitions because the cost of the combination included a control premium paid to acquire businesses. In addition, the consideration paid for the combination included the benefits of expected synergies to be achieved from integrating the subsidiaries into the Group's existing businesses, future market development and the acquired businesses' workforce.

(b) 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 ComNet International Holdings Limited and its subsidiaries ("ComNet 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.

ComNet Group was engaged in providing wholesale and retail international direct (IDD) services. The fair value 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 year since acquisition. The effects on the revenue and profit of the acquired entities as if the acquisition had occurred at the beginning of 2008 to the Group were $392,247,000 and $20,691,000 respectively.

25 Acquisition of subsidiaries and an associate (Continued)

(b) (CONTINUED)

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

	Acquiree's carrying amount before combination	Fair value adjustments	Fair value
	$'000	$'000	$'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 8(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
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)

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) ComNet Group has wholly repaid the capital element of finance lease during the 2008.

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

	Acquiree's carrying amount before combination	Fair value adjustments	Fair value
	$'000	$'000	$'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

26 Equity share-based transactions

(a) SHARE OPTION SCHEME OF AN INTERMEDIATE HOLDING COMPANY

CITIC Pacific Limited, an 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.

The following options were granted under the Plan:

Date of grant	Number of share options granted	Exercise price per share	Exercise period
28 May 2002	11,550,000	$18.20	From 28 May 2002 to 27 May 2007
1 November 2004	12,780,000	$19.90	From 1 November 2004 to 31 October 2009
20 June 2006	15,930,000	$22.10	From 20 June 2006 to 19 June 2011
16 October 2007	18,500,000	$47.32	From 16 October 2007 to 15 October 2012
19 November 2009	13,890,000	$22.00	From 19 November 2009 to 18 November 2014
14 January 2010	880,000	$20.59	From 14 January 2010 to 13 January 2015

Mr. Kwok Man Leung and Ms. Stella Chan Chui Sheung, directors of the Company during the year, had options subsisting as at 31 December 2009. The options that remained to be exercised by the directors of the Company represented less than 1% of the issued share capital of CITIC Pacific Limited as at 31 December 2009.

(b) SHARE OPTION SCHEME OF THE COMPANY

The Company has a share option plan ("CITIC 1616 Plan") which was adopted on 17 May 2007 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.

Since adoption of the CITIC 1616 Plan, the Company has granted two lots of share options on 23 May 2007 and 17 September 2009 respectively. On 23 May 2007, options to subscribe for a total of 18,720,000 shares ("the First Lot") 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 First Lot.

(Expressed in Hong Kong dollars unless otherwise indicated)

26 Equity share-based transactions (Continued)

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

On 17 September 2009, options to subscribe for a total of 35,825,000 shares ("the Second Lot") 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. The first 50% of the Second Lot is exercisable from 17 September 2010 to 16 September 2015 and the remaining 50% of the Second Lot is exercisable from 17 September 2011 to 16 September 2016. The exercise price is $2.10 per share, being the closing price of the Company's ordinary shares on the date of grant of the Second Lot.

No option was exercised during the years ended 31 December 2009 and 2008.

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 condition	Contractual life of options
Options granted to directors:				
– on 23 May 2007	$3.26	10,290,000	Fully vested on date of grant	Expire at the close of business on 22 May 2012
– on 17 September 2009	$2.10	3,150,000	Vesting from 17 September 2010	Expire at the close of business on 16 September 2015
– on 17 September 2009	$2.10	3,150,000	Vesting from 17 September 2011	Expire at the close of business on 16 September 2016
Options granted to employees:				
– on 23 May 2007	$3.26	8,430,000	Fully vested on date of grant	Expire at the close of business on 22 May 2012
– on 17 September 2009	$2.10	14,762,500	Vesting from 17 September 2010	Expire at the close of business on 16 September 2015
– on 17 September 2009	$2.10	14,762,500	Vesting from 17 September 2011	Expire at the close of business on 16 September 2016
Total share options		54,545,000		

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:

	2009		2008	
	Average exercise price	**Number of options**	Average exercise price	Number of options
		'000		'000
Outstanding at the beginning of the year	**$3.26**	**15,165**	$3.26	18,720
Granted during the year	**$2.10**	**35,825**	–	–
Cancelled during the year	**$2.10**	**(115)**	–	–
Lapsed during the year	**$3.26**	**(300)**	$3.26	(3,555)
Outstanding at the end of the year	**$2.44**	**50,575**	$3.26	15,165
Exercisable at the end of the year	**$3.26**	**14,865**	$3.26	15,165

No option was exercised, but options for 115,000 (2008: Nil) shares have been cancelled and options for 300,000 (2008: 3,555,000) shares have lapsed during the year ended 31 December 2009. The value of lapsed options in respect of the options granted on 23 May 2007 was $207,000 (2008: $2,453,000) and was released directly to retained earnings. No option was lapsed in respect of the options granted during the year ended 31 December 2009.

The options outstanding at 31 December 2009 had an average exercise price of $2.44 (2008: $3.26) and a remaining contractual life of 4.23 (2008: 3.39) years.

(iii) Fair value of share options and assumptions

(a) The average fair value of an option on one CITIC 1616 share granted during the year ended 31 December 2009 measured as at the date of grant of 17 September 2009 was $0.733 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 4.3 years;

– Expected volatility of CITIC 1616's share price at 50% per annum (based on historical movements of the Company's and its comparators' share prices);

– Expected annual dividend yield of 2.5%;

– Rate of eligible grantees leaving service assumed at 10% 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 1.55% per annum (based on linearly interpolated yields of the Hong Kong Exchange Fund Notes as at the grant date).

26 Equity share-based transactions (Continued)

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

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

(a) (continued)

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 Binomial Model.

The total expense recognised in the Group's income statement for the year ended 31 December 2009 in respect of the grant of the aforesaid 35,825,000 options is $4,872,000.

(b) 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.

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 contributions 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 employed 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 and amortisation

Property, plant and equipment and intangible assets are depreciated and amortised 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 and amortisation expense for future periods is adjusted if there are significant changes from previous estimation.

28 Accounting estimates and judgements (Continued)

KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

(b) Impairment

Notes 15 and 24(a) contain information about the assumptions and risk factors relating to goodwill impairment and the fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

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.

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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

29 Immediate parent and ultimate controlling party

At 31 December 2009, the directors consider the immediate parent and the ultimate controlling party of the Group to be Ease Action Investments Corp., which is incorporated in the British Virgin Islands, and CITIC Group, which is a state-owned enterprise in the PRC, respectively. 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 22(a).

On 11 February 2010, the Company entered into an agreement with CITIC Pacific Limited, in relation to the acquisition of its 20% interest in CTM for a consideration of $1,400,400,000 subject to the approval from the relevant parties including respective government bodies. The consideration shall be satisfied by the issue of shares of the Company amounting to $933,400,000 and $467,000,000 in cash.

31 Comparative figures

As a result of the application of HKAS 1 (revised 2007), *Presentation of financial statements* and HKFRS 8, *Operating segments*, certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 2.

32 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2009

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 2009 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 Interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on 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
HKFR3 (Revised), *Business combinations*	1 July 2009
Amendments to HKAS 27, *Consolidated and separate financial statements*	1 July 2009
Improvements to HKFRSs 2009	1 July 2009 or 1 January 2010