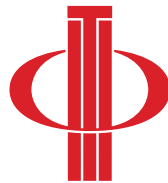


**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in CITIC 1616 Holdings Limited, you should at once hand this circular and the enclosed form of proxy to the purchaser(s) or the transferee(s), or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or the transfer was effected for transmission to the purchaser(s) or transferee(s).

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



**CITIC 1616 HOLDINGS LIMITED**

**中信1616集團有限公司**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 01883)**

**CONNECTED TRANSACTIONS  
AND  
CONTINUING CONNECTED TRANSACTIONS  
ACQUISITION OF INTERESTS IN CEC AND ITS SUBSIDIARY  
AND  
PROPOSED CHANGE OF COMPANY NAME**

Financial Adviser to the Company



**BNP PARIBAS**  
CORPORATE & INVESTMENT BANKING

Independent Financial Adviser to the Independent Board Committee  
and the Independent Shareholders



**PLATINUM**  
Securities

A letter from the Board is set out on pages 7 to 23 of this circular. A letter from the Independent Board Committee containing its recommendation is set out on pages 24 to 25 of this circular. A letter from Platinum Securities, the Independent Financial Adviser, containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 26 to 41 of this circular.

A notice convening the EGM to be held at the Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong, on Wednesday, 17 November 2010 at 9:30 a.m. is set out on pages 48 to 49 of this circular. Form of proxy for use in the EGM is enclosed. Whether or not you propose to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the registered office of the Company at 25th Floor, Broadway Centre, 93 Kwai Fuk Road, Kwai Chung, New Territories, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM and any adjournment thereof, should you so desire.

22 October 2010

# CONTENTS

	<i>Page</i>
<b>Definitions</b> .....	1
<b>Letter from the Board</b> .....	7
<b>Letter from the Independent Board Committee</b> .....	24
<b>Letter from the Independent Financial Adviser</b> .....	26
<b>Appendix – General Information</b> .....	42
<b>Notice of EGM</b> .....	48

## DEFINITIONS

*In this circular, the following expressions have the meanings respectively set opposite them unless the context otherwise requires:*

“Acquisition”	the acquisition by CPCNet of the CITIC Group Sale Interest, the CE-SCM Sale Interest, the CEC-HK Sale Shares and the Purchase Right pursuant to the Framework Agreement;
“Annual Cap(s)”	the expected maximum aggregate annual amount of the transactions contemplated under the Exclusive Service Agreement for the two months ending 31 December 2010, the two years ending 31 December 2012 and the ten months ending 31 October 2013 respectively;
“associate”, “connected person”	each has the meaning ascribed to them by the Listing Rules;
“Board”	the board of Directors;
“Business Days”	a day other than a Saturday, Sunday or public holiday, on which banks are open in Hong Kong to the general public for business;
“CEC”	中企網絡通信技術有限公司 (China Enterprise Communications Ltd.), a company incorporated and existing under the laws of the PRC;
“CEC-HK”	China Enterprise Netcom Corporation Limited (中國企業網絡通信有限公司), a company incorporated with limited liability under the laws of Hong Kong;
“CEC-HK Holdings”	China Enterprise Communications Technology (Holding) Limited (中企網絡通信科技(控股)有限公司), a company incorporated with limited liability under the laws of Hong Kong, which is an investment holding company directly wholly-owned by CEC;
“CEC-HK Reorganisation”	the reorganisation of CEC-HK to be effected such that immediately after completion of the CEC-HK Reorganisation, CEC-HK Holdings will be the legal and beneficial owner of the CEC-HK Sale Shares;

## DEFINITIONS

“CEC-HK Sale Shares”	100 shares of HK\$1.00 each in the share capital of CEC-HK (representing the entire issued share capital of CEC-HK), currently held by CEC and to be held by CEC-HK Holdings immediately after completion of the CEC-HK Reorganisation;
“CEC Reorganisation”	the reorganisation which will involve CEC’s disposal of its equity interest in the Non-Core Businesses;
“CEPA”	the Mainland and Hong Kong Closer Economic Partnership Arrangement;
“CE-SCM”	北京中經迅通網絡技術有限公司 (CE-SCM Network Technology Co., Ltd.), a company incorporated and existing under the laws of the PRC;
“CE-SCM Sale Interest”	40.77% of the equity interest in the entire registered capital of CEC as currently held by CE-SCM;
“CITIC Group”	CITIC Group (中國中信集團公司), a company established under the laws of the PRC;
“CITIC Group Sale Interest”	8.23% of the equity interest in the entire registered capital of CEC as currently held by CITIC Group;
“CITIC Pacific”	CITIC Pacific Limited (中信泰富有限公司), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange;
“Company”	CITIC 1616 Holdings Limited (中信1616集團有限公司), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange;
“Completion”	completion of the Acquisition;
“Conditions”	the conditions precedent to the Completion;
“Cooperation Agreement”	a cooperation agreement to be entered into between CEC and CPCNet relating to certain undertakings given by CEC;
“CPCNet”	CPCNet Hong Kong Limited, a wholly owned subsidiary of the Company incorporated with limited liability under the laws of Hong Kong;

## DEFINITIONS

“CTM”	Companhia de Telecomunicacoes de Macau, S.A.R.L.;
“Director(s)”	the directors of the Company;
“EGM”	an extraordinary general meeting of the Company to be convened at the Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong, on Wednesday, 17 November 2010 at 9:30 a.m. to consider and, if thought fit, approve, among other things, the Transactions (which include the Acquisition, the Exclusive Service Agreement and the Annual Caps) and the proposed change of company name of the Company;
“Enlarged Group”	the Group immediately after the Completion;
“Exclusive Service Agreement”	an exclusive service agreement to be entered into between CEC, CEC-HK and CPCNet relating to the provision of exclusive technical service by CEC to CEC-HK and CPCNet;
“Framework Agreement”	the framework agreement dated 2 September 2010 between the Company, CPCNet, CITIC Group, CE-SCM, SASACIC and CEC;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	an independent board committee of the Board consisting of Mr. Yang Xianzu, Mr. Liu Li Qing and Mr. Kwong Che Keung, Gordon, all being independent non-executive Directors;
“Independent Financial Adviser” or “Platinum Securities”	Platinum Securities Company Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Transactions (which include the Acquisition, the Exclusive Service Agreement and the Annual Caps) and a corporation licensed to carry out Type 1 (dealings in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO;

## DEFINITIONS

“Independent Shareholders”	the Shareholders who are not required under the Listing Rules to abstain from voting on the resolution(s) at the EGM approving the Transactions (which include the Acquisition, the Exclusive Service Agreement and the Annual Caps);
“Independent Shareholders’ Approval”	the passing of an ordinary resolution (or resolutions) by the Independent Shareholders at the EGM in respect of the Transactions (which include the Acquisition, the Exclusive Service Agreement and the Annual Caps);
“IP-VPN”	internet protocol virtual private network;
“Latest Practicable Date”	15 October 2010, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Longstop Date”	the last day of the 18th month following the Independent Shareholders’ Approval, or such other date as the parties to the Framework Agreement may agree in writing;
“MII”	the Ministry of Industry and Information Technology of the PRC (中國工信部);
“MOF”	the Ministry of Finance of the PRC (中國財政部);
“Non-Core Businesses”	businesses of two non-operating entities in which CEC has equity interests. These entities were originally established to provide internet content services and call centre services respectively, being non-core and peripheral business of CEC. CEC’s equity interests in these two non-operating entities will be disposed under the CEC Reorganisation;
“PRC” or “China”	the People’s Republic of China, which for the purpose of this circular, does not include Hong Kong, the Macau Special Administrative Region and Taiwan;

## DEFINITIONS

“Proposed Change of Company Name”	the proposed change of the name of the Company from “CITIC 1616 HOLDINGS LIMITED 中信1616集團有限公司” to “CITIC TELECOM INTERNATIONAL HOLDINGS LIMITED 中信國際電訊集團有限公司”;
“Purchase Right”	a right to require CITIC Group to sell to CPCNet the Remaining Interest after Completion and when CPCNet is permitted to hold more equity interest in CEC under the then prevailing laws, regulations and policies in the PRC relating to foreign investments in the telecommunications sector in the PRC;
“Remaining Interest”	45.09% of the equity interest in the entire registered capital of CEC, which will remain to be held by CITIC Group immediately after Completion;
“RMB”	Renminbi, the lawful currency of the PRC;
“SASAC”	國務院國有資產監督管理委員會 (State-owned Assets Supervision & Administration Commission of the State Council);
“SASACIC”	國務院國有資產監督管理委員會信息中心 (Information Centre of SASAC);
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Share(s)”	share(s) of HK\$0.10 each in the capital of the Company;
“Shareholders”	holders of the Share(s);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Target Group”	CEC (after completion of the CEC Reorganisation), CEC-HK Holdings, CEC-HK and its subsidiary;
“Target Group Business”	the business activities which the Target Group is carrying on or planning at the date of the Framework Agreement, including, without limitation, the IP-VPN business;
“Transactions”	the transactions contemplated under the Framework Agreement and the Transaction Documents;

## DEFINITIONS

“Transaction Documents”	the definitive agreements or documents in respect of the transactions contemplated under the Framework Agreement, including but not limited to, sale and purchase agreements for the purpose of the Acquisition, the Exclusive Service Agreement, the Cooperation Agreement and the joint venture contract and articles of association of CEC;
“US\$”	the United States dollars, the lawful currency of the United States of America; and
“VPN”	virtual private network.

*For illustration purposes in this circular, the conversion rates of US\$1.00 = HK\$7.80 and RMB0.8718 = HK\$1.00 were adopted.*





**CITIC 1616 HOLDINGS LIMITED**

**中信1616集團有限公司**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 01883)**

*Executive Directors:*

Xin Yue Jiang (*Chairman*)  
Yuen Kee Tong  
Chan Tin Wai, David

*Non-executive Directors:*

Kwok Man Leung  
Fei Yiping

*Independent non-executive Directors:*

Yang Xianzu  
Liu Li Qing  
Kwong Che Keung, Gordon

*Registered Office:*

25th Floor, Broadway Centre  
93 Kwai Fuk Road  
Kwai Chung  
New Territories  
Hong Kong

*Head office and principal place of  
business in Hong Kong:*

25th Floor, Broadway Centre  
93 Kwai Fuk Road  
Kwai Chung  
New Territories  
Hong Kong

22 October 2010

*To the Shareholders*

Dear Sir or Madam,

**CONNECTED TRANSACTIONS  
AND  
CONTINUING CONNECTED TRANSACTIONS**

**ACQUISITION OF INTERESTS IN CEC AND ITS SUBSIDIARY  
AND  
PROPOSED CHANGE OF COMPANY NAME**

**INTRODUCTION**

As announced by the Company in an announcement jointly made with CITIC Pacific dated 2 September 2010, the Company, CPCNet, CITIC Group, CE-SCM, SASACIC and CEC entered into the Framework Agreement on 2 September 2010, pursuant to which the

## LETTER FROM THE BOARD

parties, subject to certain conditions, will enter into a series of transactions involving:- (a) acquisition by CPCNet of a total of 49% equity interest in CEC from CITIC Group and CE-SCM, together with the Purchase Right to be granted by CITIC Group in favour of CPCNet to require CITIC Group to sell its remaining 45.09% equity interest in CEC to CPCNet; (b) acquisition by CPCNet of all the issued shares of CEC-HK; and (c) certain arrangements among CPCNet, CEC and CEC-HK (including but not limited to the transactions contemplated under the Exclusive Service Agreement which constitute continuing connected transactions for the Company). Reference is also made to an announcement of the Company dated 15 October 2010 regarding, inter alia, the revised caps for the transactions under the Exclusive Service Agreement and the Company's decision not to seek approval from the Independent Shareholders for the exercise of the Purchase Right at the EGM at this stage.

The Board also proposes to change the name of the Company from "CITIC 1616 HOLDINGS LIMITED 中信1616集團有限公司" to "CITIC TELECOM INTERNATIONAL HOLDINGS LIMITED 中信國際電訊集團有限公司". The Proposed Change of Company Name is subject to (i) the passing of a special resolution by the Shareholders at the EGM; and (ii) the approval of the Registrar of Companies in Hong Kong.

The purposes of this circular are to provide you with, among other things, (i) further details of the Transactions (which include the Acquisition, the Exclusive Service Agreement and the Annual Caps); (ii) the recommendation of the Independent Board Committee to the Independent Shareholders regarding the Transactions (which include the Acquisition, the Exclusive Service Agreement and the Annual Caps); (iii) the advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders regarding the Transactions (which include the Acquisition, the Exclusive Service Agreement and the Annual Caps); (iv) details of the Proposed Change of Company Name; and (v) a notice of the EGM.

### FRAMEWORK AGREEMENT

**Date** : 2 September 2010

**Parties** :

- (1) the Company
- (2) CPCNet, a wholly owned subsidiary of the Company
- (3) CITIC Group
- (4) CE-SCM
- (5) SASACIC
- (6) CEC

## LETTER FROM THE BOARD

### Acquisition

Subject to all the Conditions being satisfied or waived, the Company will (through CPCNet) acquire at Completion:-

- (a) an aggregate of 49% equity interest in CEC, which, after completion of the CEC Reorganisation, comprises:-
  - (i) CITIC Group Sale Interest – 8.23% equity interest in the entire registered capital of CEC, currently held by CITIC Group; and
  - (ii) CE-SCM Sale Interest – 40.77% equity interest in the entire registered capital of CEC, currently held by CE-SCM;
- (b) the Purchase Right, i.e. in consideration of the Advance Payment (as defined in the section headed “Consideration and basis for its determination” below), a right to require CITIC Group to sell to CPCNet the Remaining Interest (being the remaining 45.09% equity interest which will remain to be held by CITIC Group immediately after Completion), which is exercisable by CPCNet after Completion and when CPCNet is permitted to hold more equity interest in CEC under the then prevailing laws, regulations and policies in the PRC relating to foreign investments in the telecommunications sector in the PRC; and
- (c) CEC-HK Sale Shares – the entire issued share capital of CEC-HK (being 100 shares of HK\$1.00 each in the share capital of CEC-HK), currently held by CEC and to be held by CEC-HK Holdings immediately after completion of the CEC-HK Reorganisation.

The Company will procure and guarantee the performance of the obligations of CPCNet under the Framework Agreement. SASACIC has agreed to the Transactions and agreed to do such things as are necessary to give effect to the Framework Agreement, the Transaction Documents and the Transactions.

### Arrangements involving CPCNet, CEC and CEC-HK

CEC, CEC-HK and CPCNet will enter into the following arrangements before Completion:-

- (a) within five Business Days following the Independent Shareholders’ Approval, CEC, CEC-HK and CPCNet will enter into the Exclusive Service Agreement, pursuant to which CEC shall provide technical and support services to the customers of CEC-HK and CPCNet in relation to value-added telecom business for a fixed term of 3 years with effect from the date of such agreement. The transactions contemplated under the Exclusive Service

## LETTER FROM THE BOARD

Agreement constitute continuing connected transactions subject to the reporting, announcement and independent shareholders' approval requirements for the Company under Chapter 14A of the Listing Rules. Further details of such transactions are set out in the section headed "Continuing Connected Transactions";

- (b) within five Business Days following the Independent Shareholders' Approval, CEC and CPCNet will enter into the Cooperation Agreement, pursuant to which CEC shall undertake, save and except with the prior written consent from CPCNet, with effect from the date of such agreement, not to engage in any transaction which may have actual impacts to its assets, obligations, rights or operation of CEC which include: (i) obtaining funding from any person or entity (other than from any member of the Group); (ii) selling to or purchasing from any person or entity (other than from any member of the Group) any assets or business; and (iii) providing guarantee or security over its assets to any person or entity (other than to any member of the Group); and
- (c) within five Business Days following the Independent Shareholders' Approval and completion of the CEC-HK Reorganisation, CITIC Group, CE-SCM and CEC will agree to, and procure, all the management and operation controls over CEC, CEC-HK Holdings and CEC-HK to be taken over by CPCNet, including but not limited to the appointment of such persons as recommended by the Company to act as directors of CEC-HK Holdings and CEC-HK, CEC's new directors, general manager and financial controller.

### Consideration and basis for its determination

The aggregate amount payable by the Group for the purpose of Completion is approximately HK\$258,383,266 comprising (a) the consideration for the Acquisition in the total sum of approximately RMB163,561,768 (approximately HK\$187,613,866), subject to audit adjustments; and (b) the assumption of debts in the amount of US\$9,073,000 (approximately HK\$70,769,400) owed by CEC-HK to a subsidiary of CITIC Group as follows:-

- (a) The aggregate consideration payable by the Company for the Acquisition of approximately RMB163,561,768 (approximately HK\$187,613,866) (subject to certain audit adjustment pursuant to the Framework Agreement as described below), comprises:-
  - (i) RMB80,818,000 (approximately HK\$92,702,455), which shall be paid to CITIC Group in cash at Completion. Such amount comprises the consideration for the CITIC Group Sale Interest and an advance payment pursuant to the Purchase Right which amount shall be used to pay for the Remaining Interest upon exercise of the Purchase Right (the "Advance Payment").

## LETTER FROM THE BOARD

The consideration for the CITIC Group Sale Interest shall be RMB16,632,604 (approximately HK\$19,078,462), or such amount after audit adjustments. The balance shall form the Advance Payment.

- (ii) RMB82,395,048 (approximately HK\$94,511,411) (subject to certain audit adjustment pursuant to the Framework Agreement as described below), which have been/shall be paid to CE-SCM in cash in the following instalments: 10% by signing of the Framework Agreement, 50% by the fifth Business Day following the Independent Shareholders' Approval and completion of the CEC-HK Reorganisation, and the balance of 40% by earlier of Completion and the Longstop Date. If Completion does not take place by the Longstop Date or the Framework Agreement is otherwise terminated, any amount so paid shall be refunded by CE-SCM.
  - (iii) HK\$400,000 (approximately RMB348,720), being consideration for the CEC-HK Sale Shares, which shall be paid to CEC-HK Holdings in cash on the fifth Business Day following the Independent Shareholders' Approval.
- (b) In addition, CPCNet will, in its capacity as the holding company of CEC-HK upon Completion, be responsible to repay debts in the amount of US\$9,073,000 (approximately HK\$70,769,400) owed by CEC-HK to a subsidiary of CITIC Group.

The consideration for the CITIC Group Sale Interest and the consideration for the CE-SCM Sale Interest, shall be adjusted for certain liabilities of the Target Group with reference to the accounts of the Target Group made up to 30 June 2010 to be audited in accordance with international financial reporting standards and pursuant to the Framework Agreement.

Upon CPCNet's exercise of the Purchase Right, the Company shall pay to CITIC Group the consideration for the Remaining Interest. The consideration for the Remaining Interest will be determined with reference to the appraised value of such Remaining Interest based on the appraisal performed by an independent PRC certified public valuer in accordance with applicable PRC laws and regulations at the relevant time. If such amount is less than or equals to the Advance Payment, the exercise price is US\$1.00. If such appraised value is higher, the exercise price is the difference between such appraised value and the amount of the Advance Payment. The Advance Payment shall be refundable (without interest) in cash or otherwise at the option of CPCNet, if the Purchase Right does not become exercisable within 10 years from Completion. The Company will comply with relevant applicable Listing Rules requirements when it contemplates to exercise the Purchase Right.

## LETTER FROM THE BOARD

The Company may choose to pay all or part of the consideration payable under the Framework Agreement in US\$ or RMB. If the Company chooses to pay in US\$, the amount of the relevant consideration payable shall be calculated with reference to the prevailing exchange rate prior to payment. The consideration payable under the Framework Agreement is expected to be funded by the Group's internal resources.

The total consideration of HK\$258,383,266 payable by the Company for the purpose of Completion as mentioned above was determined after arm's length negotiation between the parties, and taking into account of CEC's historical financial performance in 2009 (in particular, its revenue of approximately RMB154,400,000, its revenue growth of 15.6% and its ability to turn profitable), business operation conditions, and debt level. For purpose of illustration, the entire valuation for the Acquisition implies a sales multiple of approximately 1.55 times. Such sales multiple is calculated as a ratio of such entire valuation compared to CEC's unaudited combined revenue for the year ended 31 December 2009 on the basis that the total consideration payable by the Company represents 94.09% of such entire valuation. The Directors consider that sales multiple is the relevant benchmark given that CEC has just turned profitable in 2009 and has not been operating at full scale which earning potential may not be fully reflected.

CITIC Group made investments in CEC in January 2004 and January 2008 respectively. The original acquisition costs for the CITIC Group Sale Interest and the Remaining Interest, representing a total of 53.32% equity interest in CEC in the entire registered capital of CEC, was approximately RMB80,818,000 (approximately HK\$92,702,455).

CEC acquired CEC-HK in March 2002 at HK\$100.

### **Non-compete undertakings**

CE-SCM has undertaken that it will not, save and except with the written consent from CPCNet, directly or indirectly engage in any business activity which competes with the Target Group Business from the date of the Framework Agreement until three years after Completion. Mr. Zhu Jianhua, a major shareholder of CE-SCM, has also given a similar non-compete undertaking in favour of CPCNet. CITIC Group has also given a non-compete undertaking in favour of CPCNet not to, save and except with the written consent from CPCNet, directly or indirectly engage in any IP-VPN business which competes with the Target Group Business from the date of the Framework Agreement and for so long as it is the holding company of the Company.

### **Conditions and Completion**

Completion is conditional upon the following Conditions being satisfied (or waived, other than the Condition set out in (a) below which is incapable of waiver) on or before the Longstop Date:-

- (a) the Independent Shareholders' Approval;

## LETTER FROM THE BOARD

- (b) the obtaining of such consents and approvals of the relevant PRC governmental authorities (including but not limited to the MOF, the MII and the Ministry of Commerce of the PRC (商務部)) as are necessary for the execution and performance of the relevant transaction documents and the Transactions (including but not limited to such consents and approvals as are necessary under the CEPA requirements);
- (c) if applicable, the obtaining of such consents and approvals of the relevant regulatory authorities in Hong Kong or elsewhere (including but not limited to the Stock Exchange) as are necessary for the execution and performance of the relevant transaction documents and the Transactions (including but not limited to such consents and approvals as are necessary under the CEPA requirements);
- (d) each member of the Target Group having received all relevant consents and approvals from third parties as are necessary in connection with the proposed change in shareholding of each member of the Target Group as a result of the Transactions so as to ensure that each member of the Target Group maintains all its existing material contractual and other rights following Completion;
- (e) the transfer of the CITIC Group Sale Interest contemplated under the Framework Agreement having complied with the statutory procedures applicable to transfer state-owned assets;
- (f) CPCNet having undertaken and completed a due diligence review of each member of the Target Group;
- (g) completion of the CEC Reorganisation and the CEC-HK Reorganisation; and
- (h) execution of all the Transaction Documents (save and except for such agreements or documents as agreed among the parties to be executed at Completion).

Completion will take place within three Business Days following satisfaction or waiver of the Conditions, or at such other date as all parties to the Framework Agreement may agree in writing.

If any of the Conditions has not been satisfied (or waived to the extent applicable) on or before the Longstop Date, then the Framework Agreement and the Transaction Documents will immediately terminate and CEC and CE-SCM shall refund to the Company such part of consideration already received from the Company without interest within ten Business Days after the date of termination.



## LETTER FROM THE BOARD

### CONTINUING CONNECTED TRANSACTIONS

As mentioned above, pursuant to the Exclusive Service Agreement, CEC shall provide technical and support services to the customers of CEC-HK and CPCNet in relation to value-added telecom business for a fixed term of three years with effect from the date of such agreement. The transactions under the Exclusive Service Agreement mentioned above constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules, as CEC is an associate of CITIC Group.

Under the Exclusive Service Agreement, CEC will provide technical and support services to customers of CEC-HK and CPCNet in the PRC to facilitate the provision of value-added telecom services to these customers. CEC will be responsible for arranging, operating and maintaining all necessary technical and support services exclusively in the PRC to service the customers of CEC-HK and CPCNet in the PRC. A service fee shall be payable to CEC with reference to CEC's costs in servicing such customers provided that CEC-HK and CPCNet shall be entitled to retain the first 30% of the corresponding sales proceeds from customers such that the service fee shall not in any event exceed 70% of the relevant sales proceeds. If CEC's costs shall be less than 70% of the corresponding sales proceeds, CEC on one hand and CEC-HK and CPCNet on the other shall be entitled to share the surplus equally. Such service fee was agreed by CEC-HK, CPCNet and CEC on an arm's length basis and shall be settled monthly. Relevant parties have already agreed on an agreed form of the Exclusive Service Agreement and major terms of which are disclosed in this circular.

The Group currently engages other business partners in the PRC to provide similar technical and support services to its customers in the PRC. CEC-HK currently engages CEC only to provide the technical and support services to its customers in the PRC. It is expected that upon the Exclusive Service Agreement taking effect, the Group will, and CEC-HK will continue to, engage CEC to provide the technical and support services for their customers in the PRC.

The service fees paid by the Group to its business partners for the provision of equivalent technical and support services for each of the three years ended 31 December 2009 and the half year ended 30 June 2010 amounted to US\$15,300,000 (approximately HK\$119,340,000), US\$22,400,000 (approximately HK\$174,720,000), US\$22,500,000 (approximately HK\$175,500,000) and US\$9,900,000 (approximately HK\$77,220,000), respectively. There were no comparable historical figures in respect of the provision of services by CEC to CEC-HK as the fees payable by CEC-HK to CEC for the services were not based on the same mechanism as that provided for under the Exclusive Service Agreement. The sales proceeds of CEC-HK from its customers utilizing CEC's technical and support services for each of the three years ended 31 December 2009 and the half year ended 30 June 2010 were US\$8,700,000 (approximately HK\$67,860,000), US\$12,200,000 (approximately HK\$95,160,000), US\$14,800,000 (approximately HK\$115,440,000) and US\$8,400,000 (approximately HK\$65,520,000), respectively. For illustration purposes, had



## LETTER FROM THE BOARD

the service fees payable by CEC-HK to CEC been charged using the same mechanism as that provided for under the Exclusive Service Agreement, the maximum amount of service fees that would have been payable by CEC-HK to CEC (i.e. 70% of the relevant sales proceeds) for each of the three years ended 31 December 2009 and the half year ended 30 June 2010 would have been US\$6,100,000 (approximately HK\$47,580,000), US\$8,500,000 (approximately HK\$66,300,000), US\$10,400,000 (approximately HK\$81,120,000) and US\$5,900,000 (approximately HK\$46,020,000) respectively.

Based on (i) the historical amounts of service fees paid by the Group to its business partners as set out above; (ii) the maximum amount of the service fees that would have been payable by CEC-HK to CEC if they had been charged using the same mechanism as that provided under the Exclusive Service Agreement as set out in the preceding paragraph; (iii) an estimated business growth of approximately 20% per annum taking into account the synergy to be brought about by the cooperation between the Group and CEC going forward, the increase in customers' demand for the Group's services generally which contributes further to the demand for technical and support services from CEC as required by the Group; (iv) arms-length negotiation by the Company with CITIC Group's respective representatives in CEC's existing management; and (v) potential impact of appreciation of the value of RMB as CEC's costs will be in RMB, and assuming that the Exclusive Service Agreement will be for a term from 1 November 2010 to 31 October 2013, the Annual Caps for the transactions under the Exclusive Service Agreement for the two months ending 31 December 2010, the two years ending 31 December 2012 and the ten months ending 31 October 2013 are estimated to be US\$3,000,000 (approximately HK\$23,400,000), US\$40,000,000 (approximately HK\$312,000,000), US\$55,000,000 (approximately HK\$429,000,000) and US\$60,000,000 (approximately HK\$468,000,000), respectively. The Company will arrange renewing the Exclusive Service Agreement prior to the expiry of the period covered by the Annual Caps and the Company will re-comply with relevant applicable Listing Rules requirements at such relevant time.

### INFORMATION ON CEC AND CEC-HK

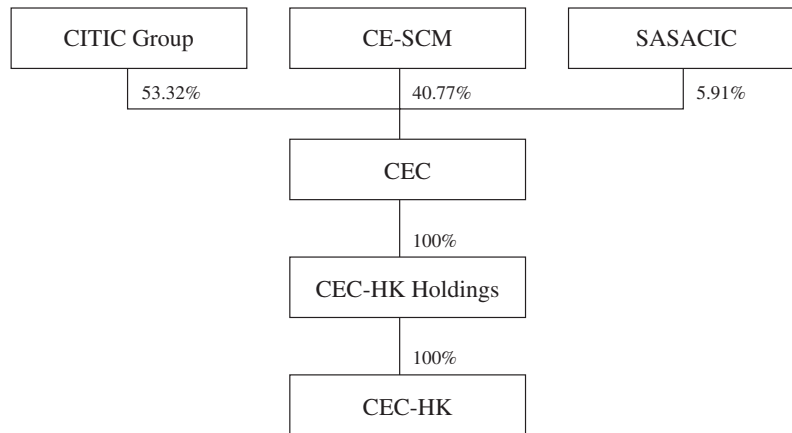
CEC is one of the leading VPN services providers in the PRC and is a unique independent VPN services provider which was granted a nationwide IP-VPN license from MII in January 2008, which allows CEC to provide domestic IP-VPN services throughout China. CEC was founded in 2000 and has since built an extensive network in the PRC with its headquarters in Beijing. CEC-HK is a company registered in Hong Kong engaging in the sales of internet and IP-VPN services to business customers.

CEC is a company established under the laws of the PRC with a registered capital of RMB84,620,000 (approximately HK\$97,063,547) currently owned as to 53.32% by CITIC Group, 5.91% by SASACIC and 40.77% by CE-SCM. CEC currently owns 100% of all the issued shares of CEC-HK and certain interests in the Non-Core Businesses.

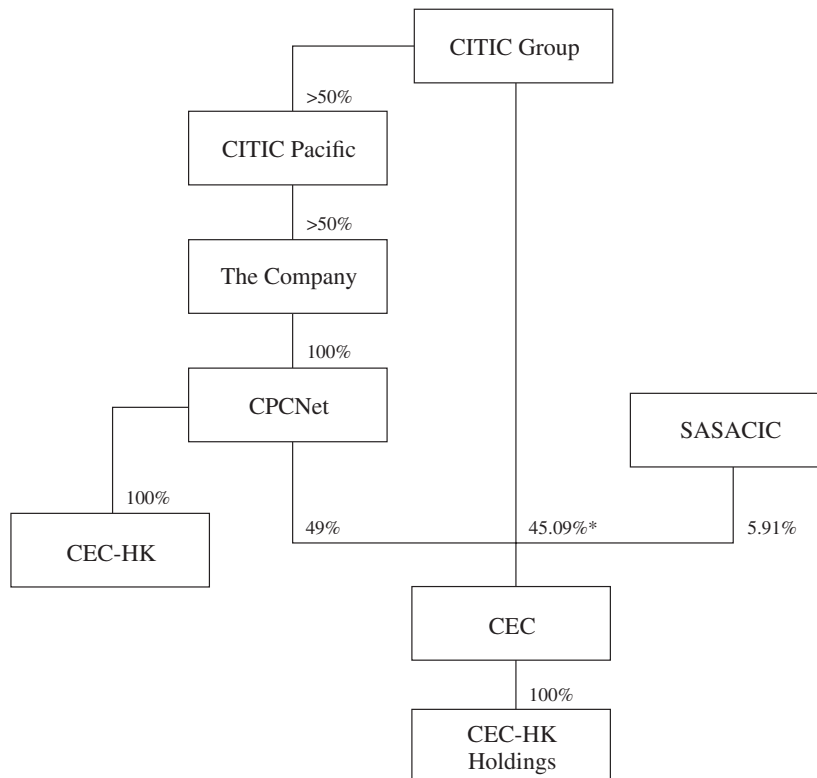
## LETTER FROM THE BOARD

The shareholding structures of CEC, CEC-HK Holdings and CEC-HK (i) immediately after completion of the CEC Reorganisation and the CEC-HK Reorganisation; and (ii) immediately after Completion, are illustrated below:-

### Immediately after the CEC Reorganisation and the CEC-HK Reorganisation



### Immediately after Completion



\* CPCNet will have a right to require CITIC Group to sell to CPCNet its remaining 45.09% equity interest in CEC after Completion and when CPCNet is permitted to hold more equity interest in CEC under the then prevailing laws, regulations and policies in the PRC relating to foreign investments in the telecommunications sector in the PRC.

## LETTER FROM THE BOARD

Upon completion of the Acquisition, CEC will be accounted for as a subsidiary of the Company. Upon completion of the acquisition of CEC-HK Sale Shares by CPCNet, CEC-HK will be a wholly-owned subsidiary of the Company. The results of CEC will be consolidated into the Company's account after completion of its acquisition of 49% interests in CEC but prior to the exercise of the Purchase Right since by that time all the management and operation controls over CEC will be taken over by CPCNet.

### HISTORICAL FINANCIAL INFORMATION ON CEC AND CEC-HK

As at 31 December 2009, the consolidated net liability of CEC based on its management accounts and assuming that the CEC Reorganisation and CEC-HK Reorganisation had been completed as at 31 December 2007 amounted to approximately RMB5.4 million (approximately HK\$6.2 million).

Set out below are the unaudited combined financial information of CEC for the financial years ended 31 December 2008 and 2009 based on its management accounts prepared based on HKFRS and assuming that the CEC Reorganisation and CEC-HK Reorganisation had been completed as at 31 December 2007, respectively:-

	Year ended 31 December 2008 RMB'000	Year ended 31 December 2009 RMB'000
<b>CEC*:</b>		
Revenue	135,465	<b>154,412</b>
Net profit/(loss) before taxation	(9,091)	<b>4,526</b>
Net profit/(loss) after taxation	(9,091)	<b>4,526</b>

\* *adjusted for the CEC-Reorganisation and the CEC-HK Reorganisation*

### INFORMATION ON CITIC GROUP, CE-SCM AND SASACIC

CITIC Group, the ultimate controlling shareholder of CITIC Pacific and the Company, is a state-owned enterprise established in 1979 with the approval of the State Council of the PRC. CITIC Group operates a wide range of business in the financial services and industrial investment sectors, including real estate, contracting, raw material and resources, information, manufacturing and the services industry. CE-SCM is principally engaged in the provision of information management and consultancy, and the development of applied technology platform and maintenance services to enterprises. SASACIC is the direct unit under SASAC and is responsible for, among others, the development and maintenance of the information network and platform of SASAC.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiry, CE-SCM, SASACIC and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

## LETTER FROM THE BOARD

### REASONS FOR AND BENEFITS OF THE TRANSACTIONS

The Group is one of the leading value-added services providers to telecoms operators in Asia, specialising in hub-based services, particularly focusing on the PRC and Hong Kong. The Group has 4 main business segments, namely voice services, short messaging services (SMS), mobile value-added services (VAS) and data services. Its independent hub connects with over 440 telecom operators in 62 countries or regions. The Group is also a major virtual private network service provider in Asia, serving multinational corporations in the PRC.

The Group is CITIC Group's major subsidiary in the telecom sector. The Acquisition will mark the first direct asset injection by CITIC Group to the Group in support of the Group's strategic development and further enhance its leadership position in China VPN services. As a strategic initiative to expand its leadership position and offer more diversified telecom solutions to customers, the Group has identified China VPN services as one of the major growth initiatives. The Group currently offers China VPN access to multinational corporations via its business partners in China.

The Directors believe that the Transactions will generate positive impacts to the Group for the following reasons:-

**(1) Unique opportunity to obtain a nationwide VPN license and tap into the large domestic VPN services market**

CEC is a unique independent VPN services provider in China which has been granted a nationwide IP-VPN license. Other than CEC, the PRC government has only granted a small number of VPN licenses and these licenses are generally limited to the provincial level. The Directors consider that VPN licenses have significant scarcity value as they are strictly controlled by the PRC government, so the opportunity to leverage on such a license (via the acquisition of CEC) can allow the Group to tap directly into the large domestic VPN services market, without the need to rely on the network infrastructure of third parties in China.

**(2) Extension to the CPCNet's VPN services with significant areas of synergy**

Since the Group's acquisition of CPCNet from CITIC Pacific, CPCNet has been an important growth driver to the Group's business. Currently, CPCNet offers China VPN access to multinational corporations via its business partners in China. The Acquisition and the entering into of the Exclusive Service Agreement will allow CPCNet to achieve potential significant areas of synergy such as cost savings arising from the cooperation of CEC, CEC-HK and CPCNet through the Exclusive Service Agreement, sharing of network and manpower resources. The Company further considers that by obtaining technical and support services directly from CEC, in which the Company has management and operation control, could achieve economic efficiency maximization.

## LETTER FROM THE BOARD

### **(3) Extend customer base in the PRC domestic VPN market**

CEC has strong presence in China with over 450 customers including established Chinese enterprises. The Group can leverage on CEC's customers base to expand revenue via cross selling opportunities and introduce or develop new services.

### **(4) Increase market presence by consolidating a market leader in China VPN services**

Strengthen competitive positioning following merger with a strong domestic player. The combination of the 2 leading VPN players (namely, CPCNet and CEC) will significantly expand the Group's market presence, improve bargaining power over suppliers/customers and increase productivity.

The ambitions of the Group to leverage on its leadership position in the telecom hubbing business and to become the alternative choice of value-added telecom service provider in Greater China will be closer to realisation upon completion of the Acquisition and other announced acquisitions including the 20% acquisition of CTM and the 100% acquisition of CPCNet from CITIC Pacific. The Directors will continue to explore new investment opportunities that are consistent with its stated ambitions, further delivering sustainable long term returns to the Shareholders.

None of the Directors has a material interest in the Transactions (which include the Acquisition, the Exclusive Service Agreement and the Annual Caps) or, save as mentioned below, is required to abstain from voting on the board resolution for considering and approving the Transactions (which include the Acquisition, the Exclusive Service Agreement and the Annual Caps). In view of the above potential benefits and synergies, the Directors (other than the independent non-executive Directors whose views is set out in the "Letter from the Independent Board Committee" in this circular) consider that (i) the terms of the Transactions (which include the Acquisition, the Exclusive Service Agreement and the Annual Caps) are on normal commercial terms, fair and reasonable and in the interests of the Shareholders as a whole; (ii) the transactions contemplated under the Exclusive Service Agreement are in the ordinary and usual course of business of the Group; and (iii) the Annual Caps are fair and reasonable, and approved the Transactions (which include the Acquisition, the Exclusive Service Agreement and the Annual Caps).

## LETTER FROM THE BOARD

### INFORMATION ABOUT CITIC PACIFIC

CITIC Pacific's operational focus is on China, both the mainland and Hong Kong. Its major businesses are special steel manufacturing, iron ore mining and property development in mainland China. Other businesses include energy and civil infrastructure. CITIC Pacific also holds controlling interests in the Company and Dah Chong Hong Holdings Limited.

### LISTING RULES IMPLICATIONS

CITIC Group is the controlling shareholder of CITIC Pacific, which in turn is a holding company of the Company and therefore CITIC Group is a connected person of the Company. The Acquisition constitutes connected transactions for the Company and is subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

Since each of the percentage ratios calculated with reference to the largest Annual Cap for the transactions contemplated under the Exclusive Service Agreement is more than 5% for the Company, the transactions contemplated under the Exclusive Service Agreement constitute continuing connected transactions for the Company and are subject to the reporting, announcement and the independent shareholders' approval requirements under the Listing Rules.

The EGM will be convened to seek the Independent Shareholders' approval of the Transactions (which include the Acquisition, the Exclusive Service Agreement and the Annual Caps). Platinum Securities has been appointed as the Independent Financial Adviser for advising the Independent Board Committee and the Independent Shareholders in respect of the Transactions (which include the Acquisition, the Exclusive Service Agreement and the Annual Caps). The Company will comply with relevant applicable Listing Rules requirements when it contemplates to exercise the Purchase Right.



As at the Latest Practicable Date, CITIC Group and its associates have an aggregate holding of 1,445,584,370 Shares which are held by CITIC Pacific and its subsidiaries. CITIC Group and its associates will abstain from voting at the EGM on the ordinary resolution for approving the Transactions (which include the Acquisition, the Exclusive Service Agreement and the Annual Caps).

Save as the aforesaid, none of the Shareholders will be required to abstain from voting under the Listing Rules at the EGM on the ordinary resolution for approving the Transactions (which include the Acquisition, the Exclusive Service Agreement and the Annual Caps).

The results of the poll will be published on the websites of the Company and the Stock Exchange on the day of the above meeting.

## LETTER FROM THE BOARD

### PROPOSED CHANGE OF COMPANY NAME

The Board proposes to change the name of the Company from “CITIC 1616 HOLDINGS LIMITED 中信1616集團有限公司” to “CITIC TELECOM INTERNATIONAL HOLDINGS LIMITED 中信國際電訊集團有限公司” and also the logo of the Company from “” to “” when the change of name becomes effective.

The Board considers that the change of name and logo of the Company will better reflect the Group’s business activities. The Board therefore believes that the Proposed Change of Company Name is in the interests of the Company and the Shareholders as a whole.

The Proposed Change of Company Name is subject to (i) the passing of a special resolution by the Shareholders at the EGM; and (ii) the approval of the Registrar of Companies in Hong Kong. The change of name of the Company shall take effect from the date on which the Certificate of Change of Name is issued by the Registrar of Companies in Hong Kong. The Company will, subject to the passing of a special resolution by the Shareholders at the EGM, carry out the necessary filing procedures with the Registrar of Companies in Hong Kong.

The proposed change of name and logo of the Company will not affect any of the rights of the Shareholders. All existing share certificates in issue bearing the Company’s existing name will, after the change of company name becoming effective, continue to be evidence of title to the Shares under its new name and will be valid for trading, settlement and delivery for the same number of the Shares in the new name and logo of the Company on the Stock Exchange. Accordingly, there will not be any arrangement for free exchange of existing certificates of securities for new share certificates bearing the new name and logo of the Company. Once the change of name has become effective, new share certificates will be issued in the new name and logo of the Company and the Shares will be traded on the Stock Exchange in its new name.

Further announcement will be made by the Company in relation to the effective date of the change of name of the Company and the change of the stock short name of the Company.

### EGM

Set out on pages 48 to 49 of this circular is a notice convening the EGM. A form of proxy for use at the EGM is enclosed. Whether or not you intend to be present at the EGM, you are requested to complete the form of proxy and return it to the registered office of the Company in Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting if you so wish.

## LETTER FROM THE BOARD

In accordance with Rule 13.39(4) of the Listing Rules, the voting of shareholders at the EGM will be taken by poll. The chairman of the EGM will demand a poll for the resolutions to be proposed at the EGM in accordance with the Company's Articles of Association.

### RECOMMENDATION

Your attention is drawn to the letter of the Independent Board Committee set out on pages 24 to 25 of this circular containing its recommendation to the Independent Shareholders, the letter from Platinum Securities set out on pages 26 to 41 of this circular containing its advice to the Independent Board Committee and to the Independent Shareholders in relation to the Transactions (which include the Acquisition, the Exclusive Service Agreement and the Annual Caps).

Taking into account the recommendations of Platinum Securities, the Independent Board Committee is of the opinion that the Transactions (which include the Acquisition, the Exclusive Service Agreement and the Annual Caps) are in the ordinary and usual course of business of the Group and on normal commercial terms; and that the terms of the Transactions (which include the Acquisition, the Exclusive Service Agreement and the Annual Caps) are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole. The Board therefore recommends the Independent Shareholders to vote in favour of the ordinary resolution in relation to the Transactions (which include the Acquisition, the Exclusive Service Agreement and the Annual Caps) to be proposed at the EGM.

The Board considers that the Proposed Change of Company Name is in the interests of the Shareholders as a whole. Accordingly, the Board recommends that the Shareholders should vote in favour of the special resolution set out in the notice of the EGM to approve the Proposed Change of Company Name.

### ADDITIONAL INFORMATION

The Independent Board Committee, comprising all of the three independent non-executive Directors, has been established to advise the Independent Shareholders on the Transactions (which include the Acquisition, the Exclusive Service Agreement and the Annual Caps). Your attention is drawn to the "Letter from the Independent Board Committee" set out on pages 24 to 25 of this circular.

BNP Paribas Capital (Asia Pacific) Limited is acting as the sole financial adviser to the Company in respect of the Acquisition.



## LETTER FROM THE BOARD

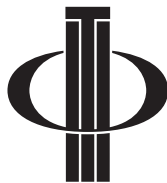
Platinum Securities has been appointed by the Company as its Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Transactions (which include the Acquisition, the Exclusive Service Agreement and the Annual Caps). Your attention is drawn to the “Letter from the Independent Financial Adviser” set out on pages 26 to 41 of this circular.

Your attention is also drawn to the additional information set out in the appendix to this circular.

Yours faithfully,  
By Order of the Board  
**CITIC 1616 Holdings Limited**  
**Xin Yue Jiang**  
*Chairman*

## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

*The following is the text of the letter of recommendation from the Independent Board Committee which has been prepared for the purpose of inclusion in this circular:*



### **CITIC 1616 HOLDINGS LIMITED**

**中信1616集團有限公司**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 01883)**

22 October 2010

*To the Independent Shareholders*

Dear Sir or Madam,

### **CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS**

### **ACQUISITION OF INTERESTS IN CEC AND ITS SUBSIDIARY**

#### **INTRODUCTION**

We refer to the circular of the Company dated 22 October 2010 (the “Circular”), of which this letter forms part. Unless specified otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed by the Board to advise you on the Transactions (which include the Acquisition, the Exclusive Service Agreement and the Annual Caps). Platinum Securities has been appointed as the Independent Financial Adviser to advise you and us in this regard. Details of their advice, together with the principal factors and reasons they have taken into consideration in giving such advice, are set out on pages 26 to 41 of the Circular. Your attention is also drawn to the letter from the Board in the Circular and the additional information set out in the appendix thereto.

## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

### RECOMMENDATION

As the Independent Board Committee, we have discussed with the management of the Company the reasons for the entering into of the Transactions (which include the Acquisition, the Exclusive Service Agreement and the Annual Caps) and the basis upon which the terms and the Annual Caps have been determined. We have also discussed with Platinum Securities the principal factors and reasons in arriving at its advice set out in the “Letter from the Independent Financial Adviser”.

Taking into account the independent advice of the Independent Financial Adviser and the relevant information contained in the letter from the Board, we are of the opinion that the Transactions (which include the Acquisition, the Exclusive Service Agreement and the Annual Caps) are in the ordinary and usual course of business of the Group and on normal commercial terms; and that the terms of the Transactions (which include the Acquisition, the Exclusive Service Agreement and the Annual Caps) are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

We recommend the Independent Shareholders to vote in favour of the ordinary resolution in relation to the Transactions (which include the Acquisition, the Exclusive Service Agreement and the Annual Caps) to be proposed at the EGM.

Yours faithfully

For and on behalf of

**Independent Board Committee**

**Yang Xianzu**

*Independent non-executive  
Director*

**Liu Li Qing**

*Independent non-executive  
Director*

**Kwong Che Keung, Gordon**

*Independent non-executive  
Director*

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

*The following is the text of the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders for the purpose of incorporation into this circular.*



**PLATINUM** Securities Company Limited

22/F Standard Chartered Bank Building  
4 Des Voeux Road Central  
Hong Kong

**Telephone** (852) 2841 7000

**Facsimile** (852) 2522 2700

**Website** [www.platinum-asia.com](http://www.platinum-asia.com)

22 October 2010

*To the Independent Board Committee and the Independent Shareholders*

Dear Sir or Madam,

### CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS ACQUISITION OF INTERESTS IN CEC AND ITS SUBSIDIARY

#### INTRODUCTION

We refer to the joint announcement of the Company and CITIC Pacific dated 2 September 2010 (the “Announcement”). On 22 October 2010, the Company dispatched a circular (the “Circular”) to the Shareholders. Details of the Transactions are contained in the letter from the Board in the Circular. You should read the Circular, including the letter from the Board, carefully.

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Transactions are on normal commercial terms, in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Company and the Shareholders as a whole, and as to whether the Independent Shareholders should vote in favour of the Transactions at the EGM. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

We are independent from, and are not connected with the Company, any other party to the Transactions or any of their respective associates, connected persons or parties acting in concert with any of them and accordingly, we are considered eligible to give independent advice to the Independent Board Committee and the Independent Shareholders.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We will receive a fee from the Company for our role as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Transactions. Apart from this normal professional fee payable to us in connection with this appointment, no arrangements exist whereby we will receive any fees or benefits from the Company or any other party to the Transactions or any of their respective associates, connected persons or parties acting in concert with any of them.

In formulating our opinion, we have relied on the information and facts supplied to us by the Company. We have reviewed, among other things: the annual report of the Group for the financial year ended 31 December 2009 (the "2009 Annual Report"); and the interim report of the Group for the six months ended 30 June 2010 (the "2010 Interim Report").

We have assumed that all information, facts, opinions and representations contained in the Circular are true, complete and accurate in all material respects and we have relied on the same. The Directors have confirmed that they take full responsibility for the contents of the Circular, and have made all reasonable inquiries that no material facts have been omitted from the information supplied to us.

We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy or completeness of the information of all facts as set out in the Circular and of the information and representations provided to us by the Company. Furthermore, we have no reason to suspect the reasonableness of the opinions and representations expressed by the Company and/or the Directors which have been provided to us. In line with normal practice, we have not, however, conducted a verification process of the information supplied to us, nor have we conducted any independent in-depth investigation into the business and affairs of the Company. We consider that we have reviewed sufficient information to enable us to reach an informed view and to provide a reasonable basis for our opinion regarding the Transactions.

The Independent Board Committee, comprising all of the independent non-executive directors of the Company, namely, Mr. Yang Xianzu, Mr. Liu Li Qing and Mr. Kwong Che Keung, Gordon, has been established to advise the Independent Shareholders in relation to the Transactions.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In formulating our opinion in relation to the Transactions, and giving our independent financial advice to the Independent Board Committee and the Independent Shareholders, we have considered the following principal factors and reasons:-

#### **1. Background of the Transactions**

On 2 September 2010, the Company, CPCNet, CITIC Group, CE-SCM, SASACIC and CEC entered into the Framework Agreement, pursuant to which the parties, subject to certain conditions, will enter into a series of transactions involving:-

- (a) acquisition by CPCNet of a total of 49% equity interest in CEC from the CITIC Group and CE-SCM, together with the Purchase Right to be granted by the

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

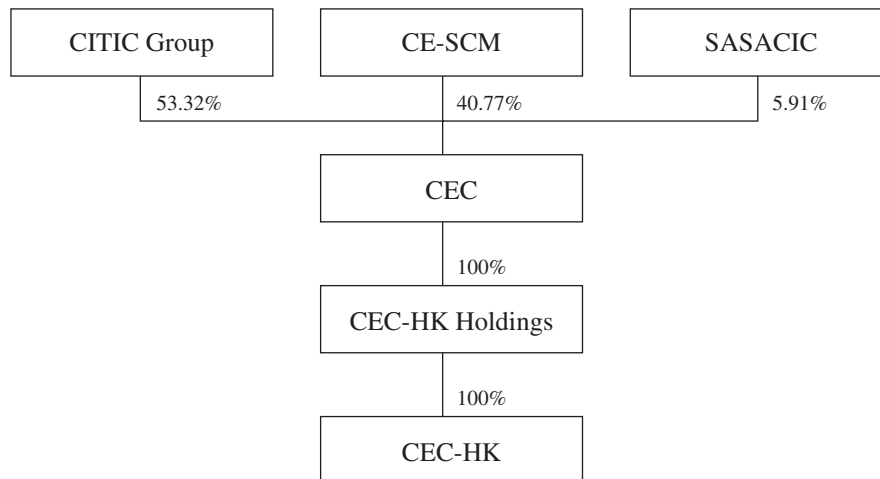
CITIC Group in favour of CPCNet to require the CITIC Group to sell its remaining 45.09% equity interest in CEC to CPCNet;

- (b) acquisition by CPCNet of all the issued shares of CEC-HK; and
- (c) certain arrangements among CPCNet, CEC and CEC-HK (including but not limited to the transactions contemplated under the Exclusive Service Agreement which constitute continuing connected transactions for the Company).

The aggregate consideration payable by the Company for the Acquisition is approximately RMB163,561,768 (approximately HK\$187,613,866) (subject to certain audit adjustments pursuant to the Framework Agreement). In addition, CPCNet will, in its capacity as the holding company of CEC-HK upon Completion, be responsible to repay debts in the amount of US\$9,073,000 (approximately HK\$70,769,400) owed by CEC-HK to a subsidiary of CITIC Group.

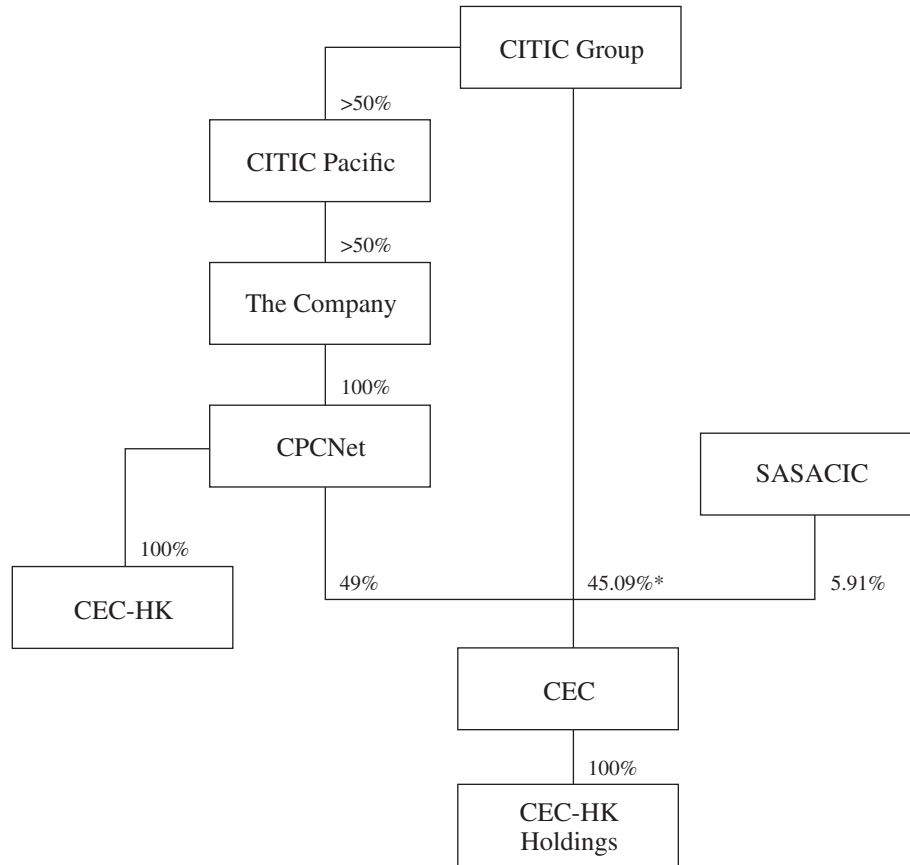
The shareholding structures of CEC, CEC-HK Holdings and CEC-HK (i) immediately after completion of the CEC Reorganisation and the CEC-HK Reorganisation; and (ii) immediately after the Completion, are illustrated below:-

### Immediately after the CEC Reorganisation and the CEC-HK Reorganisation



**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

**Immediately after the Completion**



\* *CPCNet will have a right to require the CITIC Group to sell to CPCNet its remaining 45.09% equity interest in CEC after the Completion and when CPCNet is permitted to hold more equity interest in CEC under the then prevailing laws, regulations and policies in the PRC relating to foreign investments in the telecommunications sector in the PRC.*

Upon completion of the Acquisition, CEC will be accounted for as a subsidiary of the Company. Upon completion of the acquisition of the CEC-HK Sale Shares by CPCNet, CEC-HK will be a wholly-owned subsidiary of the Company. The results of CEC will be consolidated into the Company’s account after completion of its acquisition of 49% interests in CEC but prior to the exercise of the Purchase Right since by that time all the management and operation controls over CEC will be taken over by CPCNet.

Please refer to the letter from the Board in the Circular for detailed terms and conditions of the Transactions.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### 2. Reasons for and benefits of the Acquisition

We believe that the Acquisition would be a good strategic investment for the Group that can generate a number of benefits as follows.

- (1) The Group is one of the leading value-added services providers to telecoms operators in Asia, specialising in hub-based services, particularly focusing on the PRC and Hong Kong. The Group has 4 main business segments, namely voice services, short messaging services (SMS), mobile value-added services (VAS) and data services. As part of its ambition to expand its data services business, we note that the Company had in December 2007 acquired CPCNet, a communications and network solution provider that offers corporate data services with a focus on the VPN services for multinational corporations and business enterprises in Greater China and Asia. Since the acquisition, CPCNet has not only enjoyed satisfactory growth in terms of both sales and profit, but it has also become an important source of profit for the Group as the following table shows.

**Table 1: Financial information on CPCNet**

<b>For the financial year ended 31 December</b>	<b>CPCNet sales</b> <i>HK\$ million</i>	<b>% of total sales of the Group</b> %	<b>Year-on-year growth</b> %	<b>CPCNet profit</b> <i>HK\$ million</i>	<b>Year-on-year growth</b> %
2007	339	23	n.a.	26	n.a.
2008	460	19	36	61	135
2009	507	19	10	85	39

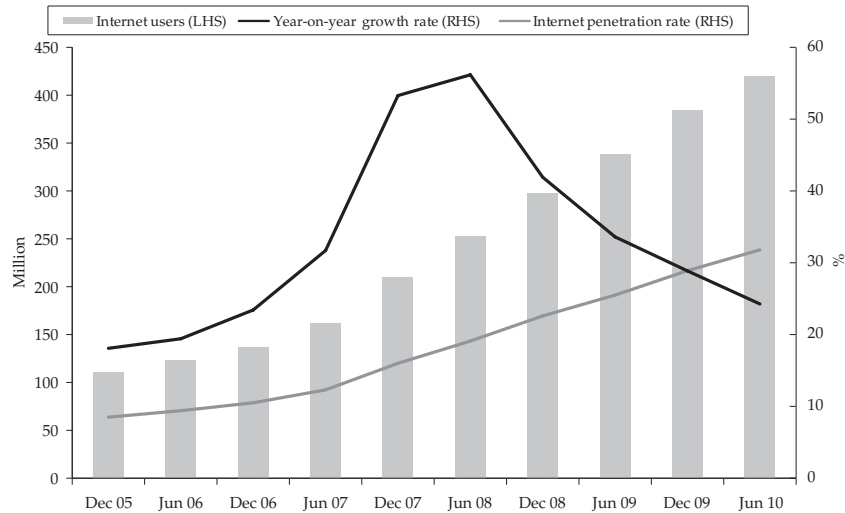
*Sources: Financial statements of the Company and Company information.*

Therefore, we believe that an investment in CEC, a leading VPN services provider in China, would enable the Company to continue to grow its VPN business, which has demonstrated a good track record.

- (2) Based on our discussion with the management of the Group, we understand that the VPN industry in China is still in its infancy. Historically, Chinese corporations have been slow to recognise and accept VPN services until the last few years. The regulatory framework has also only been implemented in 2008 when the PRC Government started to grant licenses to VPN services providers in view of the increasing demand for such services. However, we believe that with a surging internet usage in China (see chart below), VPN services are likely to become more widely accepted.



**Chart 1: Number of internet users, year-on-year growth rate and internet penetration rate in the PRC**



Source: China Internet Network Information Center.

In addition, we understand from the management of the Group that there has been an escalating demand for VPN services in China from foreign corporations, a trend which we believe is likely to continue given the increasing number of foreign corporations looking to establish operations in China, one of the world's fastest growing economies. As such, although the VPN industry in China is still relatively new, we are of the view that it has good growth potential.

- (3) Based on information obtained from the website of the Ministry of Industry and Information Technology of the PRC, we note that CEC is the only company with a national VPN license in China and that all other licensees have only been granted with provincial VPN licenses rather than a national one. Based on our discussion with the management of the Group, we also understand that there are only a few leading VPN services providers in China, with CEC being one of them. Therefore, the Acquisition would provide a unique opportunity for the Group to own a national VPN licence.
- (4) According to the prevailing laws, regulations and policies in the PRC, foreign ownership in value-added telecommunications services providers is limited to less than 50%. As such, the Company cannot apply for a VPN license on its own as it is a foreign entity in China unless it applies jointly with a local partner, but even so, national VPN licenses are rarely granted. As aforementioned, so far only CEC has been granted with a national VPN license in China.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (5) Currently, as the Company does not hold a VPN license in China, it can only provide China VPN access to its customers via its China business partners. Therefore, by acquiring a VPN licensee, the Company would no longer need to rely on others to provide VPN services in China and thereby, can achieve synergy benefits through cost savings, sharing of network and manpower resources.
- (6) Through the Acquisition, the Company would be able to extend its customer base in the PRC VPN market. The size of CEC's customer base is significant relative to the size of the Group's customer base. CEC currently has over 450 customers; whilst CPCNet has approximately 1,000 customers. Also, the Group can leverage on CEC's customer base to expand revenue via cross selling opportunities and introduce or develop new services.
- (7) Given that there are only a few leading VPN services providers in China and that CEC is the only company with a national VPN license, we believe that CEC is likely to be a potential acquisition target for foreign companies wanting to venture into the China VPN market. Our view is supported by public information that Tata Communications, an important global telecommunications provider based in India, had been in discussions to acquire a stake in CEC and that the discussions had only been terminated recently.
- (8) By combining CPCNet and CEC, both of which are leading VPN players, the Acquisition will significantly expand the Group's market presence, thereby improving its bargaining power over suppliers/customers and increasing productivity.

In light of the foregoing, we are of the view that the Acquisition is in the ordinary and usual course of business of the Company, and in the interests of the Shareholders and the Company as a whole.

### **3. Basis of the consideration**

The aggregate consideration (the "Consideration") payable by the Company for the Acquisition of approximately RMB163,561,768 (approximately HK\$187,613,866) (subject to certain audit adjustments pursuant to the Framework Agreement as described below), comprises:-

- (1) RMB80,818,000 (approximately HK\$92,702,455), which shall be paid to the CITIC Group in cash at the Completion. Such amount comprises the consideration for the CITIC Group Sale Interest (the "CITIC Group Consideration") and the Advance Payment.

The CITIC Group Consideration shall be RMB16,632,604 (approximately HK\$19,078,462), or such amount after audit adjustments. The balance shall form the Advance Payment.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (2) RMB82,395,048 (approximately HK\$94,511,411) (subject to certain audit adjustments pursuant to the Framework Agreement as described below), which have been/shall be paid to CE-SCM in cash in the following instalments:–
- (i) 10% by signing of the Framework Agreement;
  - (ii) 50% by the fifth Business Day following the Independent Shareholders' Approval and completion of the CEC-HK Reorganisation; and
  - (iii) the balance of 40% by the earlier of the Completion and the Longstop Date.

If the Completion does not take place by the Longstop Date or the Framework Agreement is otherwise terminated, any amount so paid shall be refunded by CE-SCM.

- (3) HK\$400,000 (approximately RMB348,720), being consideration for the CEC-HK Sale Shares, which shall be paid to CEC-HK Holdings in cash on the fifth Business Day following the Independent Shareholders' Approval.

In addition, CPCNet will, in its capacity as the holding company of CEC-HK upon the Completion, be responsible to repay debts in the amount of US\$9,073,000 (approximately HK\$70,769,400) owed by CEC-HK to a subsidiary of the CITIC Group.

The CITIC Group Consideration and the consideration for the CE-SCM Sale Interest shall be adjusted for certain liabilities of the Target Group with reference to the accounts of the Target Group made up to 30 June 2010 to be audited in accordance with international financial reporting standards and pursuant to the Framework Agreement.

We note that the Consideration payable by the Company consists of two main portions:

- (1) consideration for an aggregate of 49% equity interest in CEC and the entire issued share capital of CEC-HK (the "Acquisition Consideration"); and
- (2) the Advance Payment.

As such, we would analyse the basis of consideration of these two portions separately. Given that CEC-HK is a wholly-owned subsidiary of CEC and we understand that although CEC and CEC-HK are two separate legal entities, their businesses are fully integrated, we consider it is appropriate to analyse the consideration for CEC and CEC-HK in aggregate.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### *Acquisition Consideration*

To assess the fairness and reasonableness of the Acquisition Consideration, we have tried to compare the Acquisition Consideration against a pool of comparable companies listed on the Stock Exchange that are mainly engaged in the VPN business in the PRC. However, we are unable to find any listed company that has VPN as its core business in our research through public information. We then attempted to find comparable transactions that involve either acquisition or disposal of VPN business in the PRC (the “Comparable Transactions”) for comparison. However, we are again unable to identify any meaningful Comparable Transaction with adequate information for us to conduct a comparison in evaluating the Acquisition Consideration. Therefore, we have resorted to use integrated telecommunications services providers that mainly operate in the PRC (the “Comparable Companies”) and listed on the Stock Exchange instead for comparison. Although we note that none of these Comparable Companies has VPN as its core businesses, given the lack of listed comparable companies in the PRC VPN business and the lack of information on Comparable Transactions, we are of the opinion that the use of PRC telecommunications companies as comparison would provide a reasonable reference to the Acquisition Consideration. As these Comparable Companies are all sizeable integrated telecommunications services providers in the PRC; whilst CEC and CEC-HK (collectively the “Combined CEC Group”) are still in an early growth stage, the Independent Shareholders should note the difference in business segments, size, scale, development stage and profitability of the Comparable Companies as compared to the Combined CEC Group.

Based on our discussion with the management of the Group and information provided by them, we understand that the Combined CEC Group is still in an early growth stage and hence, its profitability is still not at a normalised level. As such, we consider it appropriate to use valuation benchmarks that are commonly used for growth companies including price-earnings-to-growth ratio (“PEG”), price-to-sales ratio (“PSR”) and enterprise value-to-sales ratio (“EV/Sales”). The Independent Shareholders should note that our analysis in this section focuses on evaluating the Acquisition Consideration for the 49% equity interest in CEC and the entire issued share capital of CEC-HK; whilst the sales multiple in the letter from the Board of the Circular is calculated based on the aggregate amount payable by the Group for the purposes of the Completion, which comprises the Acquisition Consideration, the Advance Payment and the assumption of the debts of CEC-HK’s subsidiary.

Below are the calculations of the respective ratios:

- (1) PEG is calculated as price-to-earnings ratio as at the Latest Practicable Date divided by 3-year compound annual growth rate of sales for the last three financial years. Price for the price-to-earnings ratio is calculated by using market capitalisation as at the Latest Practicable Date or the Acquisition Consideration in the case of the Acquisition. Earnings for the price-to-earnings ratio is calculated as profit attributable to shareholders excluding fair value adjustment, impairment loss and loss or gain on disposal.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (2) PSR is calculated as market capitalisation as at the Latest Practicable Date or the Acquisition Consideration in the case of the Acquisition divided by sales for the latest financial year.
- (3) EV/Sales is calculated by dividing enterprise value (“EV”) by sales for the latest financial year. EV is calculated as market capitalisation as at the Latest Practicable Date plus debt minus cash from the latest financial statement. For the Acquisition, the assumption of the debts of CEC-HK’s subsidiary has also been included.

The results of our analysis are detailed in Table 2 below:

**Table 2: Analysis against the Comparable Companies**

Company	PEG <i>Times</i>	PSR <i>Times</i>	EV/Sales <i>Times</i>
China Mobile Limited	0.9	3.2	2.6
China Unicom (Hong Kong) Limited	20.5	1.5	2.0
China Telecom Corporation Limited	2.2	1.4	1.7
<b>Simple average</b>	<b>7.9</b>	<b>2.0</b>	<b>2.1</b>
<b>Minimum</b>	<b>0.9</b>	<b>1.4</b>	<b>1.7</b>
<b>Maximum</b>	<b>20.5</b>	<b>3.2</b>	<b>2.6</b>
<b>The Acquisition</b>	<b>3.0</b>	<b>1.3</b>	<b>1.6</b>

*Sources: Financial statements of the respective Comparable Companies for the three years ended 31 December 2009, Company information and Bloomberg.*

As shown in Table 2 above, our analysis shows that PEG as implied by the Acquisition is below the average PEG of the Comparable Companies; whilst PSR and EV/Sales as implied by the Acquisition are below the range of that of the Comparable Companies. This illustrates that the Group is acquiring the CITIC Group Sale Interest and the CE-SCM Sale Interest at a consideration which is below the valuation of the Comparable Companies. As such, we are of the view that the basis of the Acquisition Consideration is fair and reasonable.

### *Advance Payment*

Based on our discussion with the management of the Group, we understand that the amount of Advance Payment has been determined through arm’s length negotiations between the parties to the Acquisition and as part of the negotiation for the total Acquisition rather than as a standalone item. As discussed above in the

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

section headed “Reasons for and benefits of the Acquisition”, by acquiring the Purchase Right, the Company can ensure not only that it would be able to increase its stake in CEC should the foreign investment limit in VPN businesses in China loosen, but also eliminate any possibility that the remaining shareholding in CEC would be acquired by other parties.

In addition, we note that in accordance with the Framework Agreement, CPCNet has the right to request the CITIC Group to repay the Advance Payment in the event that the Purchase Right cannot be exercised within 10 years after the Completion. Based on our discussion with the management of the Group, we understand that the CITIC Group has made a further undertaking that it will use all dividends payable to the CITIC Group which are still on the accounts of CEC at such time for the purpose of repaying the Advance Payment at the request of CPCNet. We are of the view that the aforementioned right and undertaking provide assurance that the Advance Payment will be repaid to CPCNet in the event that the PRC Government does not change its policy on the restriction of foreign investment in value-added telecommunications services providers.

Furthermore, upon CPCNet’s exercise of the Purchase Right, the Company shall pay to the CITIC Group the consideration for the Remaining Interest. The consideration for the Remaining Interest will be determined with reference to the appraised value of the Remaining Interest based on an appraisal performed by an independent PRC certified public valuer (the “Independent Valuer”) in accordance with applicable PRC laws and regulations at the relevant time. Based on our discussion with the management of the Group as well as information provided by them, we understand that the Remaining Interest will be valued by the Independent Valuer based on valuation methodologies that are widely adopted and in accordance to the applicable laws and regulations. The valuation methodologies to be adopted by the Independent Valuer include the income method, the market method and the cost method based on the appraisal target. If such amount is less than or equal to the Advance Payment, the exercise price is US\$1.00. If such appraised value is higher, the exercise price is the difference between such appraised value and the amount of the Advance Payment. The Advance Payment shall be refundable (without interest) in cash or otherwise at the option of CPCNet, if the Purchase Right does not become exercisable within 10 years from the Completion. The Company will comply with the relevant applicable Listing Rules requirements when it contemplates to exercise the Purchase Right.

In light of the above, we are of the view that the Advance Payment is fair and reasonable.

**4. Financial impact**

*(1) Effect on net asset value*

As disclosed in the 2010 Interim Report, the unaudited net asset value (“NAV”) of the Group as at 30 June 2010 was approximately HK\$2,756.2 million. Based on the discussion with management of the Group, we understand that the asset value of the Group will increase by the value of the Consideration at the date of the Completion; whilst the cash level of the Group would also be reduced by the same amount. As such, the Acquisition would have no material impact on the NAV of the Group before expenses in relation to the Acquisition.

*(2) Effect on earnings*

As disclosed in the 2009 Annual Report, profit attributable to equity holders of the Company for the financial year ended 31 December 2009 was approximately HK\$371.5 million. As stated in the Announcement, the pro forma unaudited combined net profit after taxation of CEC for the financial year ended 31 December 2009 assuming that the CEC Reorganisation had been completed as at 31 December 2009 was approximately RMB4.5 million. Taking into consideration the various benefits that the Acquisition can bring to the Group as discussed above in the section headed “Reasons for and benefits of the Acquisition”, we consider that the Acquisition is likely to have a positive effect on the earnings of the Group.

*(3) Effect on working capital and gearing*

Based on the 2010 Interim Report, the Group had a net cash of approximately HK\$306.9 million as at 30 June 2010. Although the Consideration will be settled in cash and thereby, decreasing the Group’s cash level, we note that the Group would nevertheless still be in a net cash position after paying the Consideration.

Given that the Acquisition:

- (i) would have no material effect on the NAV of the Group;
- (ii) is likely to have a positive effect on the earnings of the Group; and
- (iii) would decrease the cash level of the Group but the Group would nevertheless still be in a net cash position after paying the Consideration,

we are of the view that on balance, the Acquisition would have an overall positive financial effect on the Group and is in the interests of the Company and the Shareholders as a whole.



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### Exclusive Service Agreement

Under the Exclusive Service Agreement, CEC will provide technical and support services to the customers of CEC-HK and CPCNet in the PRC to facilitate the provision of value-added telecommunications services to these customers. CEC will be responsible for arranging, operating and maintaining all necessary technical and support services exclusively in the PRC to service the customers of CEC-HK and CPCNet in the PRC. A service fee shall be payable to CEC with reference to CEC's costs in servicing such customers provided that CEC-HK and CPCNet shall be entitled to retain the first 30% of the corresponding sales proceeds from customers such that the service fee shall not in any event exceed 70% of the relevant sales proceeds. If CEC's costs shall be less than 70% of the corresponding sales proceeds, CEC on one hand and CEC-HK and CPCNet on the other shall be entitled to share the surplus equally. Such service fee was agreed by CEC-HK, CPCNet and CEC on an arm's length basis and shall be settled monthly.

Based on our discussion with the management of the Group as well as information provided by them, we understand that the Group is under an existing contract with an independent external service provider (the "Independent Provider") to provide similar technical and support services to its existing PRC customers. CEC is a licensed national VPN services provider, which is capable of offering equivalent technical and support services as compared to that of the Independent Provider. In addition, there are significant potential synergies arising from the cooperation between the Group and CEC as mentioned in the above section headed "Reasons for and benefits of the Acquisition". Furthermore, upon the Completion, CEC will become a subsidiary of the Group and hence, the Group will be able to share part of the financial results of CEC. As such, we are of the view that it is in the interests of the Group to enter into the Exclusive Service Agreement.

In relation to the service fee sharing arrangement between CEC, CEC-HK and CPCNet, we have reviewed information provided by the management of the Group and noted that the existing contract between the Group and the Independent Provider has a similar service fee sharing arrangement on comparable terms. Under such contract, the Independent Provider is titled to share approximately 60% to 70% of the sales proceeds of the relevant projects. As such, we are of the view that the arrangement between CEC, CEC-HK and CPCNet with regards to the service fee sharing is fair and reasonable.

The Group currently engages other business partners in the PRC to provide similar technical and support services to its customers in the PRC. CEC-HK currently only engages CEC to provide the technical and support services to its customers in the PRC. It is expected that when the Exclusive Service Agreement become effective, the Group will, and CEC-HK will continue to, engage CEC to provide the technical and support services for their customers in the PRC. Table 3 below sets out the service fees paid by the Group to its business partners for the provision of equivalent technical and support services for each of the three years ended 31 December 2009 and the half year ended 30 June 2010.



**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

**Table 3: Service fees paid by the Group to its business partners**

	For the year ended 31 December			For the six months ended 30 June
	2007	2008	2009	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Service fees paid by the Group to its business partners	119,340	174,720	175,500	77,220

There were no comparable historical figures in respect of the provision of services by CEC to CEC-HK as the fees payable by CEC-HK to CEC for the services were not based on the same mechanism as that provided under the Exclusive Service Agreement. The Table 4 below sets out the sales proceeds of CEC-HK from its customers utilising CEC's technical and support services and, for illustration purposes, had the service fees payable by CEC-HK to CEC been charged using the same mechanism as that provided under the Exclusive Service Agreement, the maximum amount of service fees that would have been payable by CEC-HK to CEC (i.e. 70% of the relevant sales proceeds) (the "Theoretical Service Fees") for each of the three years ended 31 December 2009 and the half year ended 30 June 2010.

**Table 4: Sales proceeds of CEC-HK from its customers and the Theoretical Service Fees**

	For the year ended 31 December			For the six months ended 30 June
	2007	2008	2009	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales proceeds of CEC-HK from its customers utilising CEC's technical and support services	67,860	95,160	115,440	65,520
The Theoretical Service Fees	47,580	66,300	81,120	46,020

The Exclusive Service Agreement will be for a term from 1 November 2010 to 31 October 2013, the Annual Caps for the transactions under the Exclusive Service Agreement are set out below.

<b>LETTER FROM THE INDEPENDENT FINANCIAL ADVISER</b>
--

**Table 5: The Annual Caps**

	<b>For the two months ending 31 December 2010 <i>HK\$'000</i></b>	<b>For the year ending 31 December 2011 <i>HK\$'000</i></b>	<b>For the year ending 31 December 2012 <i>HK\$'000</i></b>	<b>For the ten months ending 31 October 2013 <i>HK\$'000</i></b>
The Annual Caps	23,400	312,000	429,000	468,000

Based on the discussion with the management of the Group, we understand that:

1. the relatively flat growth rates for the service fees paid by the Group to its business partners for the past two years were mainly due to the negative impact resulted from the global financial crisis, as the term of contracts between the Group and its customers mainly ranges from 1 to 2 years. As the global economy starts to recover, the management of the Group expects that such service fees will return back to a normalised growth. Based on the information provided by the Group, we note that sales of CPCNet have been improving in the past 12 months;
2. upon the Completion, the Group will switch its existing customers to CEC for the provision of the technical and support services in the PRC, but this process will take place gradually because it will depend on the progress of the integration of businesses between CEC, CEC-HK and CPCNet and expiration of the existing engagements with the Independent Provider; and
3. we understand from the discussion with the management of the Group that they are confident that the Acquisition could create substantial business opportunities to the Group through broadening its existing customer base, cost savings, sharing of network and manpower resources. As such, a reasonably optimistic approach has been adopted in estimating the Annual Caps, which would provide certain buffer for the future expansion of the Group's VPN business.

As stated in the letter from the Board in the Circular, an estimated business growth (the "Estimated Growth") of approximately 20% per annum has been applied in determining the Annual Caps. As set out in Table 1 above, CPCNet had recorded a compound annual growth rate of approximately of 22% in sales for the three financial years ended 31 December 2009. Taking into consideration the track record of CPCNet together with the potential synergies to be achieved through the cooperation between the Group and CEC, we are of the view that the Estimated Growth is reasonable.

In light of the above and taking into account that:

1. the VPN industry has good growth potential as discussed in the above section headed "Reasons for and benefits of the Acquisition"; and

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. the impact of potential appreciation of RMB on which the cost of CEC is based, we are of the view that the basis for determining the Annual Caps is fair and reasonable.

### RECOMMENDATION

We have considered the above principal factors and reasons and in particular, have taken into account the following factors in arriving at our independent opinion:

- (i) the Acquisition is in the ordinary and usual course of business of the Company, and in the interests of the Shareholders and the Company as a whole;
- (ii) the Acquisition Consideration is fair and reasonable;
- (iii) the Advance Payment is fair and reasonable;
- (iv) the Acquisition would have an overall positive financial effect on the Group and is in the interests of the Company and the Shareholders as a whole;
- (v) it is in the interests of the Group to enter into the Exclusive Service Agreement;
- (vi) the arrangement between CEC, CEC-HK and CPCNet with regards to the service fee sharing is fair and reasonable; and
- (vii) the basis for determining the Annual Caps is fair and reasonable.

Having considered the above, we are of the view that the terms of the Transactions are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders and we recommend the Independent Shareholders to vote in favour of the ordinary resolution in respect of the Transactions to be proposed at the EGM.

Yours faithfully,  
For and on behalf of

**Platinum Securities Company Limited**

**Ian Ramsay**  
*Director and Head of Corporate Finance*

**Lenny Li**  
*Director of Corporate Finance*

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTERESTS

### Interests of Directors and chief executive

- (i) As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company or any of their respective associates in any shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules were as follows:

(a) *Interest in Shares*

Name of Director	Number of Shares	
	Personal interests	Percentage of issued share capital (%)
Yuen Kee Tong	500,000	0.0210
David Chan Tin Wai	2,000	0.0001

## (b) Interest in share options granted by the Company

Name of Director	Underlying shares pursuant to share options	Percentage of issued share capital (%)	Exercise price per Share (HK\$)	Date of grant	Exercisable period
Xin Yue Jiang	900,000	0.0377	2.10	17.9.2009	17.9.2010-16.9.2015
	900,000	0.0377	2.10	17.9.2009	17.9.2011-16.9.2016
Yuen Kee Tong	2,500,000	0.1048	3.26	23.5.2007	23.5.2007-22.5.2012
	800,000	0.0335	2.10	17.9.2009	17.9.2010-16.9.2015
	800,000	0.0335	2.10	17.9.2009	17.9.2011-16.9.2016
David Chan Tin Wai	1,845,000	0.0774	3.26	23.5.2007	23.5.2007-22.5.2012
	700,000	0.0294	2.10	17.9.2009	17.9.2010-16.9.2015
	700,000	0.0294	2.10	17.9.2009	17.9.2011-16.9.2016
Kwok Man Leung	150,000	0.0063	2.10	17.9.2009	17.9.2010-16.9.2015
	150,000	0.0063	2.10	17.9.2009	17.9.2011-16.9.2016
Yang Xianzu	300,000	0.0126	3.26	23.5.2007	23.5.2007-22.5.2012
	150,000	0.0063	2.10	17.9.2009	17.9.2010-16.9.2015
	150,000	0.0063	2.10	17.9.2009	17.9.2011-16.9.2016
Liu Li Qing	300,000	0.0126	3.26	23.5.2007	23.5.2007-22.5.2012
	150,000	0.0063	2.10	17.9.2009	17.9.2010-16.9.2015
	150,000	0.0063	2.10	17.9.2009	17.9.2011-16.9.2016
Gordon Kwong Che Keung	300,000	0.0126	3.26	23.5.2007	23.5.2007-22.5.2012
	150,000	0.0063	2.10	17.9.2009	17.9.2010-16.9.2015
	150,000	0.0063	2.10	17.9.2009	17.9.2011-16.9.2016

(c) *Interest in shares of CITIC Pacific*

Name of Director	Number of shares			Percentage of issued share capital (%)
	Personal interests	Corporate interests	Total	
Yuen Kee Tong	1,033,000	–	1,033,000	0.0283
David Chan Tin Wai	40,000	–	40,000	0.0011
Yang Xianzu	20,000	–	20,000	0.0005
Gordon Kwong Che Keung	20,000	50,000	70,000	0.0019

(d) *Interest in share options granted by CITIC Pacific*

Name of Director	Underlying shares pursuant to share options	Percentage of issued share capital (%)	Exercise price per share (HK\$)	Date of grant	Exercisable period
Kwok Man Leung	600,000	0.0164	47.32	16.10.2007	16.10.2007-15.10.2012
	500,000	0.0137	22.00	19.11.2009	19.11.2009-18.11.2014
Fei Yiping	300,000	0.0082	22.00	19.11.2009	19.11.2009-18.11.2014

(e) *Interest in shares of Dah Chong Hong Holdings Limited*

Name of Director	Number of shares		Percentage of issued share capital (%)
	Personal interests	Total	
Yuen Kee Tong	20,000		0.0011
David Chan Tin Wai	5,279		0.0003

(f) *Interest in shares of China CITIC Bank Corporation Limited*

Name of Director	Class of shares	Number of shares	Percentage of issued share capital (%)
		Family interests	
David Chan Tin Wai	H shares	3,000	0.00002

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules.

- (ii) As at the Latest Practicable Date, Mr. Kwok Man Leung is an executive director of CITIC Pacific and Mr. Fei Yiping is the Group Financial Controller of CITIC Pacific. Apart from these, none of the Directors and the chief executive of the Company was a director or employee of a company which has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.
- (iii) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, any member of the Enlarged Group since 31 December 2009, being the date to which the latest published audited accounts of the Company were made up.
- (iv) None of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Enlarged Group.

### 3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into any service contract with any member of the Enlarged Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

#### 4. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, save as disclosed below, none of the Directors and their respective associates had any direct or indirect interest in a business which competes or is likely to compete with the business of the Group:-

Mr. Kwok Man Leung, a non-executive director, is a director of CITIC Guoan Co., Ltd. ("**CITIC Guoan**"). CITIC Guoan's primary business is its 41.42% interest in CITIC Guoan Information Industry Co. Ltd. ("**Guoan Information**"), a company listed on the Shenzhen Stock Exchange. Guoan Information's major activities include investment and construction of cable television networks and satellite information networks for communications network infrastructure, the provision of value-added telecommunications services in communications services sector, network system integration, software development, development of salt lake resources, the development and manufacture of new materials, as well as the development and management of properties.

#### 5. QUALIFICATIONS

The following is the qualification of the expert who has given its opinion or advice on the information contained in this circular:-

Name	Qualification
Platinum Securities	a corporation licensed to carry out Type 1 (dealings in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, Platinum Securities had no interest in the share capital of any member of the Group nor had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group, and Platinum Securities had no interest, either directly or indirectly, in any assets which have been, since 31 December 2009, the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

Platinum Securities has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which it appears.

The letter of Platinum Securities is given as of the date of this circular for incorporation herein.



**6. MATERIAL ADVERSE CHANGE**

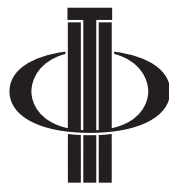
The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2009, being the date to which the latest published audited accounts of the Company were made up.

**7. GENERAL**

The English text of this circular shall prevail over the Chinese text, in case of any inconsistency.

**8. DOCUMENTS AVAILABLE FOR INSPECTION**

The Framework Agreement (together with the final forms of the Exclusive Service Agreement and the Cooperation Agreement as attachments) is available for inspection at the registered office of the Company at 25th Floor, Broadway Centre, 93 Kwai Fuk Road, Kwai Chung, New Territories, Hong Kong, during normal business hours on any weekdays other than public holidays from the date of this circular up to and including the date of the EGM.



**CITIC 1616 HOLDINGS LIMITED**

**中信1616集團有限公司**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 01883)**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “EGM”) of CITIC 1616 Holdings Limited (the “Company”) will be held at the Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong, on Wednesday, 17 November 2010 at 9:30 a.m. for the purpose of considering and, if thought fit, passing with or without modification the following resolutions of the Company:

**ORDINARY RESOLUTION**

1. “**THAT:**

- (a) the Transactions (which include the Acquisition, the Exclusive Service Agreement and the Annual Caps) (capitalised terms are defined in the circular to the shareholders of the Company dated 22 October 2010 (the “Circular”)) as set out in the abovementioned circular be and are hereby confirmed, approved, authorised and ratified; and
- (b) any one director of the Company or any two directors of the Company, if the affixation of the common seal is necessary, be and is/are hereby authorised for and on behalf of the Company to execute (and, if necessary, affix the common seal of the Company to) any such documents, instruments and agreements and to do any such acts or things as may be deemed by him/them in his/their absolute discretion to be incidental to, ancillary to or in connection with the Transactions (which include the Acquisition, the Exclusive Service Agreement and the Annual Caps).”

**SPECIAL RESOLUTION**

2. “**THAT:**

- (a) the name of the Company be and is hereby changed from ‘CITIC 1616 HOLDINGS LIMITED 中信1616集團有限公司’ to ‘CITIC TELECOM INTERNATIONAL HOLDINGS LIMITED 中信國際電訊集團有限公司’; and

## NOTICE OF EGM

- (b) any one director or the Company Secretary of the Company be and is hereby authorised for and on behalf of the Company to execute any such documents and to do any such acts or things as may be deemed by him in his absolute discretion to be incidental to, ancillary to or in connection with or to give effect to the aforesaid change of the name of the Company.”

By Order of the Board  
**CITIC 1616 Holdings Limited**  
**Xin Yue Jiang**  
*Chairman*

Hong Kong, 22 October 2010

*Notes:*

- (i) A member who is the holder of two or more shares may appoint more than one proxy to attend in the same occasion. A proxy need not be a member of the Company.
- (ii) A form of proxy for use at the EGM is enclosed. Whether or not you intend to attend the EGM in person, you are urged to complete and return the form of proxy in accordance with the instructions printed thereon as soon as possible. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof if you so wish. In the event that you attend the EGM, your form of proxy will be deemed to have been revoked.
- (iii) To be valid, the form of proxy, together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power of attorney, must be deposited at the Company’s registered office at 25th Floor, Broadway Centre, 93 Kwai Fuk Road, Kwai Chung, New Territories, Hong Kong, not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof.
- (iv) In the case of joint registered holders of any shares, any one of such joint registered holders may vote at the EGM, either in person or by proxy, in respect of such shares as if he/she/it were solely entitled thereto; but if more than one of such joint registered holders be present at the EGM, either in person or by proxy, the vote of that one of them so present, either in person or by proxy, whose name stands first on the register of members in respect of such shares shall be accepted to the exclusion of the votes of the other joint registered holder(s).