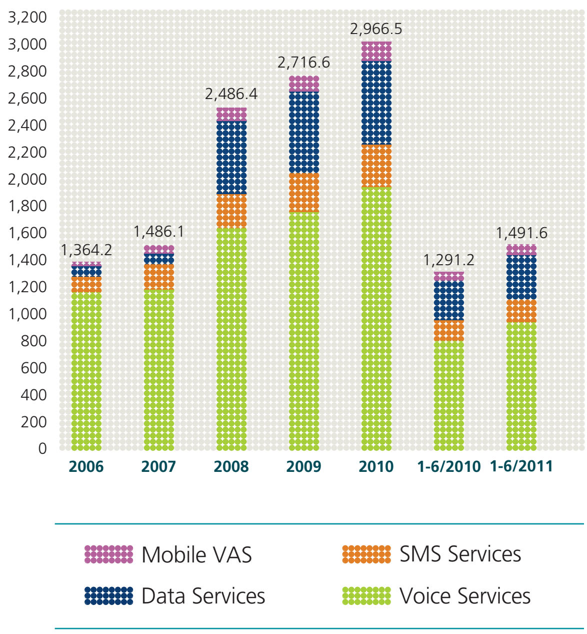
Financial Review

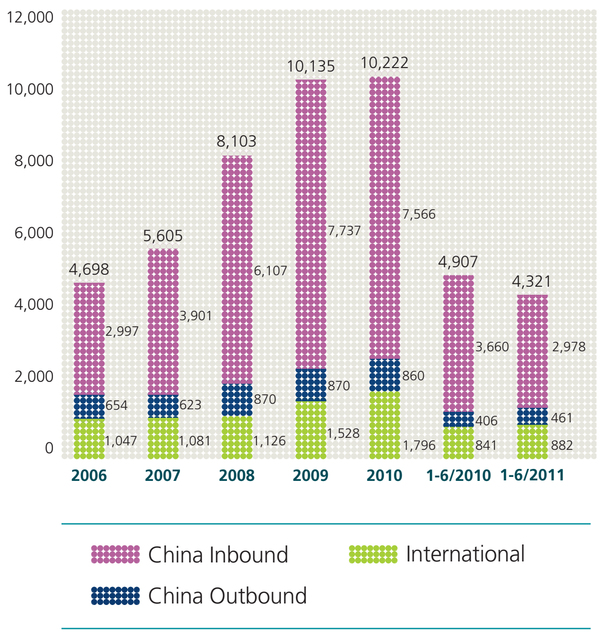
TURNOVER

HK$ Million



TRAFFIC (BY LOCATION)

Minutes in Million



INTRODUCTION

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

The Interim Report contains the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity and Consolidated Cash Flow Statement. Following these financial information are notes that further explain certain figures presented in the report.

The Interim Report contains the report of CITIC Telecom International's auditor — KPMG — of their independent review of the Group's interim financial report.

BASIS OF ACCOUNTING

The Group prepares its interim financial report in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.

REVIEW OF FINANCIAL PERFORMANCE

Turnover

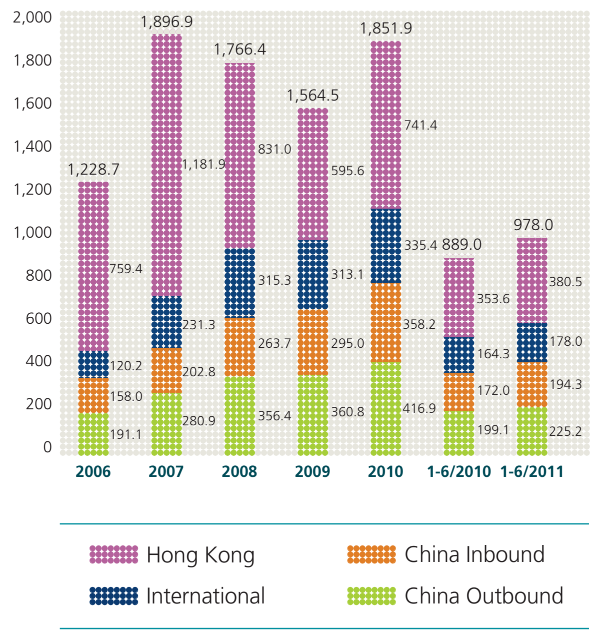
The Group's turnover for the six months ended 30 June 2011 was HK$1,491.6 million, representing an increase of 15.5% compared with HK$1,291.2 million for the same period of 2010.

Voice Services turnover has grown by HK$134.3 million or 17.0% to HK$924.4 million for the six months ended 30 June 2011 as compared to 2010. The Group handled total traffic of 4.32 billion minutes, a decrease of 11.9% as compared with the same period of last year. The decrease was mainly caused by an 18.6% drop in China inbound traffic to 2.98 billion minutes which was partly compensated by the increases in China outbound and international traffic. During the period, the Group carried 0.46 billion China outbound minutes and 0.88 billion international minutes, an increase of 13.5% and 4.9% respectively as compared with the corresponding period of 2010. The increase in China outbound traffic and international traffic was the result of the Group's enhanced focus on higher yield routes.

SMS Services continued to maintain stable growth during the first six months of 2011. SMS turnover increased by HK$16.6 million to HK$168.0 million for the six months ended 30 June

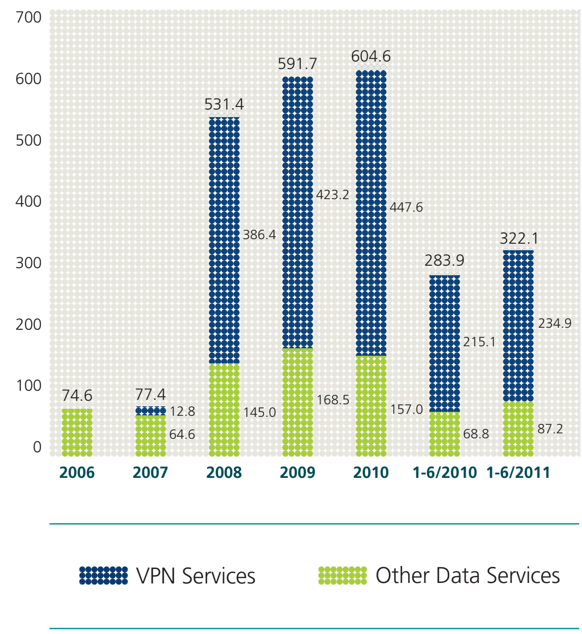
NUMBER OF SMS

Messages in Million



DATA SERVICES TURNOVER

HK$ Million



2011, representing an 11.0% growth as compared to the same period of 2010. During the period, the Group handled 978.0 million messages, representing an increase of 10.0% as compared to 2010. The Group's expansion in international network coverage successfully enabled us to secure additional China inbound and outbound traffic which grew by 13.0% over last year. For the Hong Kong market, the Group recorded a 7.6% growth in traffic during the first half of 2011. The Group continued to secure its leading market position by enhancing service quality and effective pricing strategy.

Mobile Value-added Services ("VAS") recorded good growth momentum during the first half of 2011. The Group's strategy to provide bundle services continued to be well accepted by our customers. Turnover for the six months ended 30 June 2011 amounted to HK$77.1 million, representing an increase of 17.2% compared with the corresponding period of 2010.

Data Services comprise managed VPN services and other services such as resale of lease lines. During the first six months of 2011, turnover from data services increased by 13.5% to HK$322.1 million as compared with HK$283.9 million for the same period of 2010. Turnover of VPN services increased by 9.2% to HK$234.9 million benefiting from the strengthening of the marketing and sales effort in the Asia Pacific Region.

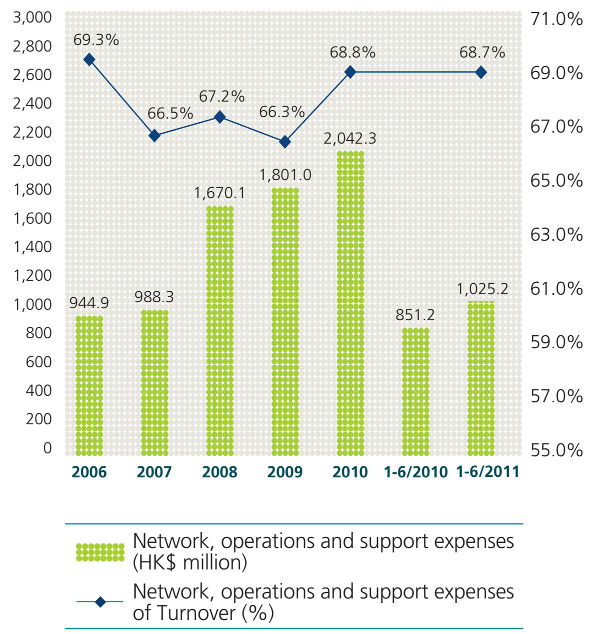
Other revenue

The Group's other revenue for the first half of 2011 amounted to HK$1.0 million, a decrease of HK$1.4 million as compared to the same period of 2010. As the Group has terminated several rental agreements with the tenants in CITIC Telecom Tower for the expansion of the new data centre, the Group's rental income decreased from HK$1.7 million to HK$0.5 million as compared with the same period of last year.

Net foreign exchange gain/(loss)

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

NETWORK, OPERATIONS AND SUPPORT EXPENSES



PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Network, operations and support expenses

Network, operations and support expenses amounted to HK$1,025.2 million in the first half of 2011, representing an increase of 20.4% as compared with the corresponding period of 2010. The increase was mainly due to the expansion of the Group's global MPLS network. The expansion of the Global MPLS network further enhanced the Group's network coverage and service quality thereby enabling the Group's acquisition of higher value international traffic which in turn, drove up the Group's average rate per minute. The percentage of network, operations and support expenses over turnover increased by 2.8% to 68.7% for the first half of 2011 as compared to same period of 2010 and was similar to that for the full year of 2010.

Staff costs

Staff costs for the six months ended 30 June 2011 amounted to HK$136.2 million, representing an increase of 22.6% as compared with HK$111.1 million for the same period of 2010. The increase was due to salary adjustment in 2011, an increase in performance incentives which are in line with the business performance and the increase in headcount for business expansion.

Other operating expenses

Other operating expenses for the six months ended 30 June 2011 amounted to HK$82.3 million, representing a slight decrease of 1.6% as compared with HK$83.6 million for the corresponding period of 2010. The decrease was a result of the Group's effective cost control policy.

Share of profit of an associate

During the first six months of 2011, the Group's 20% share of profit of the associate, Companhia de Telecomunicacoes de Macau, S.A.R.L. ("CTM") amounted to HK$77.0 million. For the same period of last year, the share of profit of CTM from 5 May 2010 to 30 June 2010 amounted to HK$21.7 million.

Income tax

The Group's income tax expense for the six months ended 30 June 2011 amounted to HK$33.3 million, representing a rise of 14.8% as compared with the corresponding period of last year. Effective tax rate decreased from 13.9% in 2010 to 12.5% in 2011 owing to the increased profit contribution from CTM. If the effect of the share of profit of CTM was excluded, the effective tax rate would be 17.5% in 2011.

Profit attributable to equity holders of the Company

The Group recorded a net profit of HK$233.8 million for the six months ended 30 June 2011, an increase of 29.8% as compared with the same period of 2010. The increase was mainly due to the first time inclusion of the six months contribution from CTM. If the effect of the share of profit of CTM was excluded, the net profit for the first half of 2011 was maintained at the same level as 2010.

BASIC EARNINGS PER SHARE

HK Cents

DIVIDEND PER SHARE (POST IPO)

HK Cents

Earnings per share ("EPS")

Basic EPS and diluted EPS were both HK9.8 cents for the six months ended 30 June 2011, representing an increase of 14.0% and 15.3% as compared with the corresponding period of last year. The increase was mainly due to the first time inclusion of the six months contribution from CTM.

Dividend per share

An interim dividend of HK2.4 cents per share is proposed for the first half of 2011.

Capital expenditure

Capital expenditure was HK$66.4 million for the first six months of 2011, an increase of 44.7% as compared to 2010. During the period, the Group incurred HK$40.3 million fitting-out cost for the new data centre at CITIC Telecom Tower. If the capital expenditure on the data centre was excluded, capital expenditure for the first half of 2011 amounted to HK$26.1 million, a decrease of 40.1% as compared to the same period of last year.

TREASURY POLICY AND RISK MANAGEMENT

General

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

Exchange rate risk

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

Credit risk

Credit evaluations are performed on all customers with credit level over a certain amount. Trade receivables are due within 7 to 180 days from the date of billing. The Group will assign an officer who will be responsible to agree on a settlement plan with those debtors with balances due over one year to reduce the outstanding balance within a reasonable period.

The Group has certain concentration risk in respect of trade receivables due from the Group's five largest customers who accounted for approximately 47% and 43% of the Group's total trade receivables at 30 June 2011 and 31 December 2010 respectively. The credit risk exposure to trade receivables balance has been and will be monitored by the Group on an ongoing basis and the impairment loss on doubtful debts has been within management's expectations.

GROUP LIQUIDITY AND CAPITAL RESOURCES

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

During the review period, the Group recorded HK$193.6 million operating cash inflow and received HK$157.6 million final dividend for 2010 from CTM. In the meantime, the Group paid HK$101.2 million for capital expenditure. In addition, the Group repaid a loan from CTM of HK$96.9 million and paid final dividend for 2010 of HK$169.4 million during the period. As a result, the Group's cash and cash equivalents decreased by HK$17.2 million to HK$308.3 million at 30 June 2011 compared to HK$325.5 million at 31 December 2010.

Currency Portfolio

The original denomination of the Group's cash and bank deposits by currencies at 30 June 2011 is summarised as follows:

	Denomination				
HK$ million equivalent	HKD	USD	SGD	Others	Total
Cash and bank deposits	107.9	143.6	13.2	44.7	309.4
Percentage of total amount	34.9%	46.4%	4.3%	14.4%	100.0%

The Group maintained currencies other than Hong Kong dollar and United States dollar at the balance sheet date to meet the business needs in different regions.

Borrowings

At 30 June 2011, the Group had no outstanding borrowings.

Banking facilities

At 30 June 2011, the Group had banking facilities amounted to SGD0.3 million, USD4.2 million, TWD10.0 million and HK$100.0 million (equivalent to a total of HK$137.0 million). About HK$6.9 million of these facilities was required to be secured by pledged deposits.

Of the total banking facilities, approximately HK$11.0 million was utilised as guarantees for the Group's purchases from telecoms operators, performance to customers, and rental deposits.

Securities and guarantees

At 30 June 2011, the Group pledged SGD85,000 and USD80,000 (equivalent to a total of HK$1.2 million) of fixed deposits to secure its banking facilities. The Group had not created any other security over its assets and had not provided any corporate guarantee.

Capital commitments

At 30 June 2011, the Group had outstanding capital commitments of HK$127.3 million, mainly for the acquisition of network equipment which had yet to be delivered to the Group and the new data centre fitting-out cost, of which HK$43.7 million were outstanding contractual capital commitments and HK$83.6 million were capital commitments authorised but for which contracts had yet to be entered into.

Other commitments

On 2 September 2010, the Group entered into a framework agreement (the "Framework Agreement") with CITIC Group, CE-SCM Network Technology Co., Ltd. ("CE-SCM"), Information Centre of State-owned Assets Supervision & Administration Commission of the State Council and China Enterprise Communications Ltd. ("CEC"), pursuant to which the Group, through CITIC Telecom International CPC Limited ("CPCNet"), a wholly-owned subsidiary of the Company, will, upon satisfaction of certain conditions set out therein, acquire:

(i) 40.77% equity interest in CEC from CE-SCM;

(ii) 8.23% equity interest in CEC from CITIC Group together with a purchase right (the "Purchase Right") to acquire the remaining 45.09% equity interest in CEC held by CITIC Group, in which the Purchase Right shall be exercisable by CPCNet when CPCNet is permitted to hold more equity interest in CEC under the then prevailing PRC laws and regulations; and

(iii) all the issued shares of China Enterprise Netcom Corporation Limited ("CEC-HK") held by China Enterprise Communications Technology (Holding) Limited ("CEC-HK Holding"), a wholly-owned subsidiary of CEC.

The aggregate consideration payable by the Group is approximately HK$280.8 million comprising:

(i) RMB93.3 million (approximately HK$112.3 million) payable to CE-SCM by instalments;

(ii) RMB80.8 million (approximately HK$97.3 million) payable to CITIC Group at completion, out of which RMB62.0 million (approximately HK$74.6 million) is paid as advance payment for the acquisition of the remaining 45.09% equity interest in CEC held by CITIC Group upon CPCNet exercising the Purchase Right;

(iii) HK$0.4 million as consideration for the entire equity interest in CEC-HK; and

(iv) the assumption of debts in amount of USD9.1 million (approximately HK$70.8 million) owed by CEC-HK to a subsidiary of CITIC Group.

Details of the Framework Agreement are set out in the Company's circular to shareholders dated 22 October 2010.

At 30 June 2011, the Group has, pursuant to the Framework Agreement, paid approximately HK$65.6 million to CE-SCM and HK$0.4 million to CEC-HK Holding. The remaining sum of approximately $214.8 million, being the unpaid portion of the aggregate consideration (including the advance payment), shall be payable at completion after the Framework Agreement becoming unconditional.

On 29 July 2011, the Group completed the acquisition of CEC-HK through CPCNet pursuant to the Framework Agreement dated 2 September 2010. Details of the acquisition of CEC-HK are set out in the Company's circular to shareholders dated 22 October 2010.

FORWARD LOOKING STATEMENTS

The Interim Report contains certain forward looking statements with respect to the financial condition, results of operations and business of the Group. These forward looking statements represent the Company's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements.

Forward looking statements involve inherent risks and uncertainties. Readers should be cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward looking statement.