



中信國際電訊  
CITIC TELECOM INTERNATIONAL

Stock Code: 1883

## CONNECTING THE WORLD WITH QUALITY SERVICES

ANNUAL REPORT 2010



MOBILE VALUE-ADDED  
SERVICES



SHORT MESSAGE  
SERVICES



DATA SERVICES



VOICE SERVICES

## ABOUT US

CITIC Telecom International is Asia's leading telecoms services provider, specialising in hub-based services. In addition to serving its key markets in China and Hong Kong, the Group is actively expanding its services to international telecoms operators. The Group has four main types of businesses, namely Voice Services, SMS Services, Mobile VAS and Data Services. Its independent hub connects over 537 telecoms operators in 69 countries or areas.





CITIC Tower

CITIC Telecom Tower  
(Design Picture)

Telecentro

ALWAYS  
WELL-CONNECTED...

## OUR VISION

To become the International Telecommunications Hubbing Provider of choice providing voice, mobile and data services to mobile operators, ISPs, and carriers.

## OUR MISSION

To capitalise on the Mainland as the marketing base and Hong Kong as the Communications Hub for Asia to deliver telecommunications services on a global basis.

To consistently provide best-of-breed services and exceed customer expectations.

To be the partner of choice in dealing with today's dynamic and changing markets.

To deliver telecoms solutions and to provide a diverse range of services to enable our customers to capture new revenue.



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## SERVICES WE PROVIDE



### VOICE

- Providing premium international voice hubbing services to fixed line and mobile operators across the globe.
- Providing circuit switch voice service solution to corporate customers under our regional POPs around the world.
- Handled over 10 billion minutes of voice traffic in 2010.
- Being the top 12 International Carriers, ranked by the international minutes handled by the CITIC Telecom International Holdings Limited in 2009, according to the latest research published by TeleGeography Research.

### SMS

- Being one of the main international SMS carriers to China's mobile operators, carrying international SMS in and out of China to the rest of world.
- Being the dominant provider of Hong Kong inter-operator SMS hubbing services and handled over 740 million messages in 2010, which is a substantial portion in Hong Kong.
- Connecting international operators and support SMS exchanges between GSM, CDMA and PHS networks.
- Providing enterprises an effective communication way to send and receive SMS through our platform.





By Chairman Mr. Xin Yue Jiang



## MOBILE VAS

- SCCP Roaming Signaling Transit enables mobile operators to provide roaming services in overseas countries.
- Prepaid Roaming provides interface between the operators and seamless connectivity between different prepaid technologies.
- Single IMSI Multiple Numbers (SIMN) enables partner operator's subscribers to hold multiple foreign mobile phone numbers on a single SIM card.

## DATA

- Providing instantaneous, reliable and secure connectivity of the International Private Leased Circuit (IPLC).
- Operates a world class Security Operations Centre in Hong Kong, with ISO27001 Information Security Management System Certification.
- Provide fully managed VPN services access to different cities or countries in Asia Pacific, including China, Australia, Japan, Malaysia, Singapore, Vietnam etc.

## MILESTONES 2010

### JANUARY

- CPCNet became the FIRST VPN service provider in Hong Kong to receive 3 ISO certifications, including ISO9001, ISO27001 & ISO20000

### FEBRUARY

- Being the only Asian Hubbing Provider obtained Global Roaming Quality (GRQ) Monitoring Providers Certification by GSMA to enable Mobile Network Operators to monitor the quality of service offered to their roaming customers

### APRIL

- CPCNet won “Distinguished Salesperson Award (DSA)”/“Outstanding Young Salesperson Award (OYSA)” for the seventh consecutive year, organised by the Hong Kong Management Association
- Established direct connection with Lebanon’s and Slovenia’s telecoms operators
- Being the sole provider of the Indonesian CDMA operator for CDMA-to-GSM Inter-standard Roaming service

### MAY

- Further to traditional delivery method, Enterprise SMS services support alphabet caller ID to help the enterprise to deliver its own SMS by using their trade name



### MARCH

- CPCNet won “2009 Best IT Candidate Award – The Best Information Security Practitioner”, by Information Management Association of Taiwan
- All Mobile Network Operators in Macau are connected to our PRS Hub
- CPCNet was honored “Outstanding VPN Solution Provider” in “The 10th CAPITAL Outstanding Enterprise Awards”, by CAPITAL Magazine

- Acquire a 20% stake in Companhia de Telecomunicacoes de Macau, S.A.R.L from the parent company, CITIC Pacific Limited

### JUNE

- CPCNet launched the first TrustCSI™ Web Cloud Securities (WCS) gateway. Incorporating Zscaler’s industry leading security and web access technologies, TrustCSI™ WCS helps safeguard enterprise computing environments and ensure all web traffic and activities, including access from their mobile devices such as iPhones, are complied with centralised policies
- TrustCSI™ Network-X empowers organisations to optimise workflow and investment by sharing centralised resources, without compromising security or performance. Utilising existing Internet links, the solution offers industry-proven encryption leveraging signed digital SSL or IPSec certificates to ensure authenticity and prevent interceptions or alterations of en-route data traffic



- All Mobile Network Operators in Taiwan are connected to our PRS Hub
- CPCNet was honored “Customer Relationship Excellence (CRE) Awards”, organised by Asia Pacific Customer Service Consortium for “CRM Manager of the Year 2009 (ICT)”

## JULY

- Established direct connection with Malta’s telecoms operator

## AUGUST

- Established direct connection with Namibia’s telecoms operator

## NOVEMBER

- The name of the Company has been changed from “CITIC 1616 Holdings Limited” to “CITIC Telecom International Holdings Limited”
- Extended Prepaid Roaming Services in Australia
- Provided Free WiFi services platform to a China Operator during the 16th Asian Games in Guangzhou
- Connected High Definition (HD) Voice traffic on IPX network
- CPCNet was selected as one of the “2010 MIS Asia Strategic 100 – Top 20 Regional Global ICT Companies” for the second consecutive year, by Asia’s leading IT management magazine “MIS Asia”



## SEPTEMBER

- Provided Internet Protocol Packet Exchange (IPX), which was a one-stop-shop turnkey solution for IDD voice, mobile roaming signaling, SMS messaging and roaming data services for both mobile, fixed network operators as well as Internet Service Providers (ISP)
- CPCNet was honored “2010 The Best SME Partners” for the fourth consecutive year, organised by Hong Kong Economic Digest, for:
  - The Best WAN Optimization
  - The Best Managed Unified Threat Management Service
  - The Best Web Cloud Security

## OCTOBER

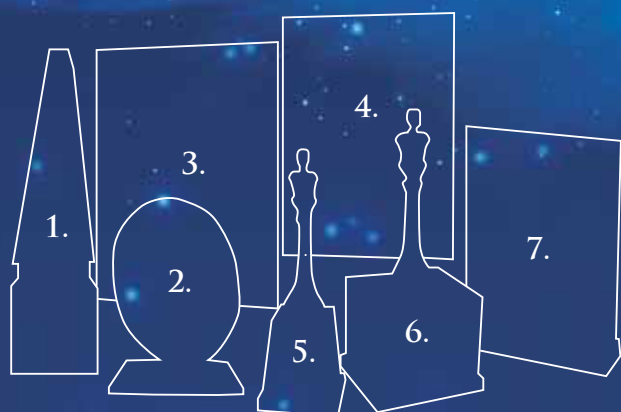
- Selected as the sole provider of CDMA Data Clearing services to an Indonesian CDMA operator

## DECEMBER

- Alphabet Caller ID functioned in SMS among all Hong Kong operators
- Deployed routers and switches running the Junos® operating system with Juniper Networks to address global market opportunities
- Won the “Most Trusted Partner Award” from a China operator in 2010
- The records of total international minutes handled in 2009 was the 12th International carriers in the latest announced research conducted by TeleGeography Research
- CPCNet won “Taiwan Top 100 MVP Managers 2010”, organised by Manager Today Magazine
- Awarded as “The Top Service Base Partner” from a Singapore operator in 2010



## OUR AWARDS



1. The 12th Golden Peak Awards – Outstanding Enterprises of the Year
2. CRE Awards – Innovative Technology of the Year, 2007
3. CRE Awards – Best Use of Technology of the Year, 2007
4. CRE Awards – Best Use of Knowledge Management of the Year, 2007
5. The 39th Distinguished Salesperson Award
6. The 40th Distinguished Salesperson Award
7. The Gold Corporate Award for Investor Relations of the Asset Corporate Awards 2009





Outstanding Strategic Performance Awards, 2009



Customer Relationship Excellence Awards, 2008



Top 20 Regional Global ICT Companies, 2009



ITes Best Choice Award, 2008



The 8th Golden Torch Award



Best Practices Award – Excellence in Growth, 2009



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



World Communication Award – The Best Managed Service, 2009



The Best SME Partners – The Best IT Managed Services – NOC, 2008



The Best SME Partners – The Best Internet Data Centre, 2008



The Best SME Partners – The Best Video Conferencing Services, 2009



Won CRE Awards for 3 consecutive years



The Asset Corporate Award Ceremony, 2009



Won the DSA/OYSA for 7 consecutive years

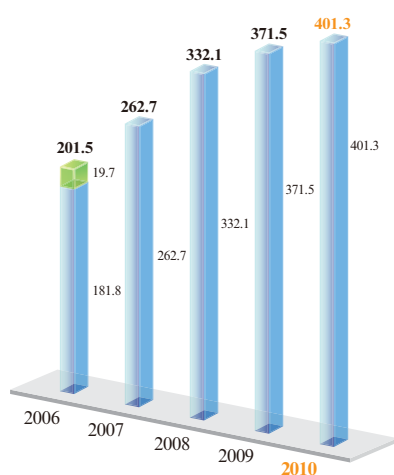


## FINANCIAL HIGHLIGHTS

- Net profit increased to HK\$ 401.3 million while turnover rose to HK\$ 2,966.5 million
- Basic and diluted earnings per share for the year 2010 were HK17.9 cents and HK17.8 cents respectively
- Voice traffic totalled 10.2 billion minutes
- 1.9 billion SMS carried
- Dividends per share for the year 2010 was HK 9.5 cents, representing a dividend payout ratio of 53.1%

### Profit attributable to equity holders of the Company

HK\$ Million



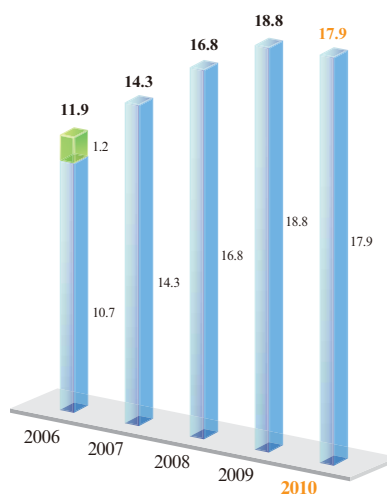
Profit for the year from discontinued operations



Profit for the year from continuing operations

### Basic earnings per share

HK Cents



From discontinued operations



From continuing operations



in HK\$ million	2010	2009	
Turnover			
Voice Services	<b>1,905.6</b>	1,726.9	Increase 10.3%
SMS Services	<b>315.7</b>	286.0	Increase 10.4%
Mobile VAS	<b>140.6</b>	112.0	Increase 25.5%
Data Services	<b>604.6</b>	591.7	Increase 2.2%
	<b>2,966.5</b>	2,716.6	Increase 9.2%
Profit attributable to equity holders of the Company	<b>401.3</b>	371.5	Increase 8.0%
Total assets	<b>4,081.7</b>	2,470.3	Increase 65.2%
Shareholders' fund	<b>2,943.8</b>	1,716.9	Increase 71.5%
Cash and bank deposits	<b>327.0</b>	686.2	Decrease 52.3%
Earnings per share (HK cents)			
Basic	<b>17.9</b>	18.8	Decrease 4.8%
Diluted	<b>17.8</b>	18.8	Decrease 5.3%
Dividends per share (HK cents)			
Interim dividend	<b>2.4</b>	2.4	Same level as last year
Final dividend	<b>7.1</b>	7.1	Same level as last year
	<b>9.5</b>	9.5	Same level as last year



## CHAIRMAN'S STATEMENT

I AM PLEASED TO PRESENT THE ANNUAL RESULTS OF CITIC TELECOM INTERNATIONAL HOLDINGS LIMITED (THE "GROUP") FOR 2010.

FOR THE GROUP, 2010 HAS BEEN A YEAR OF STABLE BUSINESS DEVELOPMENT IN GENERAL DESPITE THE MORE SEVERE MARKET CONDITIONS.



**Mr. Xin Yue Jiang**  
*Chairman*



Total revenue of the Group for 2010 amounted to HK\$2,966.5 million, representing an increase of 9.2% compared with the previous year. Net profit amounted to HK\$401.3 million, an 8.0% increase from the previous year. Basic earnings per share decreased by 4.8% to HK17.9 cents. The decline in basic earnings per share was primarily attributable to the issue of new shares to CITIC Pacific Limited, our parent company, in May 2010 as consideration for the acquisition of its equity interests in Companhia de Telecomunicacoes de Macau, S.A.R.L. ("CTM").

Through the strong support of CITIC Group, the controlling shareholder of CITIC Telecom International, the Group completed a number of important projects for its long-term development in 2010. These included the completion of the Group's acquisition of 20% interest in the share capital of CTM, the approval of the acquisition of 49% interest in China Enterprise Communications Ltd. ("CEC") at the Group's extraordinary general meeting (the remaining 45% and 6% interests are held by CITIC Group and Information Centre of State-owned Assets Supervision & Administration Commission of the State Council respectively), as well as the purchase of office space and data centre at Broadway Centre and changing the building's name to CITIC Telecom Tower. During the year the Group changed its name to "CITIC Telecom International Holdings Limited", entering into a new period of development.

Market competition for China inbound and outbound voice services intensified during the year. Despite diversion of China outbound voice traffic and slackened volume growth and declining rates of the international voice business of PRC operators, traffic volume of China outbound voice traffic via the Group's transit service was at a similar level compared with the previous year. China inbound voice services were subject to strong challenges in the market as the unit rate for China inbound voice services declined amid demand for quality improvements and competitive pricing from overseas customers. The Group's international voice services also reported a setback in profit despite increase in revenue and business volume, which was attributable to growing pressure on corporate international voice business caused by difficult market conditions. As a result of these factors combined, the Group reported a lower profit for its voice business as a whole compared with the previous year.

Revenue generated from our Mobile Value-added Services (VAS) business increased considerably by 25.5% compared with the previous year. Revenue generated from SMS Services increased by 10.4%. Other data businesses such as virtual private networks (VPN) and Internet access services maintained stable performances and reported slight improvement in revenue.

The Board recommended a final dividend of HK7.1 cents per share for 2010. Together with the interim dividend of HK2.4 cents for 2010, the total dividend per share for 2010 amounted to HK9.5 cents, which was the same as the previous year. The dividend payout ratio for the year is 53.1%.



## CHAIRMAN'S STATEMENT

### I. Review for 2010

#### **STABLE BUSINESS DEVELOPMENT ASSURED BY ONGOING ENHANCEMENT IN QUALITY OF SERVICE**

The Group maintained stable development of its business in 2010 as it continued improving its services to telecoms operators. In terms of technology and products, coordination among internal departments of the Group was enhanced. Any product issues identified were looked into and resolved to provide customers with solutions as soon as possible. For customer service, appropriate services were provided to telecoms operators by the Group's customer service centre, offering timely solutions to any problems arising. In terms of business analyses, irregularities in businesses were identified and analysed in a timely manner and responsive measures were formulated to ensure stable business development.

Confronted with competition, the Group undertook relentless effort to study the needs of PRC operators and made adjustments to accommodate their upgrades and capacity expansion. Our work won approval from the big three operators in the PRC as we played a part in ensuring smooth communications during the Shanghai World Expo and the Guangzhou Asian Games. At the "International Partners' Conference" of China Unicom held in November 2010, the Group garnered "The Most Trusted Partner Award" from China Unicom. While assuring stable development of our voice, SMS and Mobile VAS businesses in the PRC, we were also taking active moves in new markets and business developments, extending our reach to Central Asia, the Middle East and South America while starting up Home Country Direct services for PRC operators in required countries.

#### **STRENGTHENING MANAGEMENT AND SEEKING TO IMPROVE OPERATING RESULTS OF OVERSEAS GROUP COMPANIES**

Centralised management over the Group's overseas companies was strengthened in 2010. With billing and switch routing systems of our overseas group companies centrally managed at the group level, various aspects of the administration of and business guidance for these overseas companies of the Group were enhanced and synergies were realised in terms of marketing and network resources. Control over the business of overseas group companies was bolstered through regular video conferences to review their business development and identify any issues, provide timely instructions and communicate working requirements. The operational efficiency of our overseas companies has been significantly improved as a result of our effective management over them.

#### **EFFORTS TO IMPROVE MANAGEMENT STANDARDS UNDERPINNED BY INITIATIVES IN SIX KEY AREAS**

In 2010, the Group's management called for sustainable development and improvements in corporate economic benefits based on its analysis of market conditions. Managers at all levels were asked to ensure and enhance effectiveness in six key areas: 1) management; 2) quality; 3) marketing; 4) scientific decision-making; 5) caliber of the team; and 6) leadership performance. We are aiming to increase shareholders' value by improving performance in these six areas.

Our staff responded actively to the management's call. Shortcomings in the six areas in relation to actual conditions in operations were identified and measures were introduced to ensure meaningful improvement in performance. Management standards have been improved as the work of all departments and subsidiaries have become more responsive, proactive and effective with the implementation of issue-specific measures.

#### **CONSTRUCTION OF WORLDWIDE IP NETWORK SYSTEM IN PREPARATION OF TELECOMS OPERATORS' NETWORK UPGRADES**

In view of the continuously changing market environment and new market demands driven by the widespread popularisation of IP network technologies, the Group has started to build a worldwide IP-based network since the previous year. IP network routing switches were acquired for network nodes in Hong Kong, Los Angeles, London, New York and Singapore and implemented in various stages in 2010. This marked our successful construction of a worldwide IP network system to accommodate operators' demand for IP-based telecoms transmissions and their upgrades from TDM to IP-based networks. These efforts demonstrated that our technologies in network routing switches were in close tandem with developments in new-generation communications technologies.



### **COMPLETION OF THE GROUP'S CENTRALISED ROUTING AND BILLING MANAGEMENT SYSTEM**

A new routing management department was established to oversee routing management, which had previously been separately handled by our business departments and the Group's overseas companies. The routing management department adjusted routing allocation by re-classifying and optimising all routing, taking into account costing and quality issues. Efficiency has been improved while fulfilling customers' requirements.

The billing systems of our overseas companies were integrated and replaced by the Group's proprietary billing system, which is now in use for all billing and quotation purposes. The Group's billing operations have been substantially improved in terms of accuracy, timeliness and standardisation as a result, providing strong assurance for more effective business management.

### **SOLID STRIDE TOWARDS BECOMING AN OPERATING TELECOMS COMPANY WITH ACQUISITION OF 20% INTEREST IN CTM COMPLETED AND ACQUISITION OF 49% INTEREST IN CEC UNDERWAY**

In May 2010, the Group completed the acquisition of 20% interest in CTM to secure a more diversified telecoms business and a more competitive business portfolio. This acquisition drives the development of the Group's voice, SMS and Mobile VAS businesses and would allow the exploration of overseas markets through the existing international telecoms marketing network. CTM has already made significant profit contributions to the Group's results.

The acquisition of 49% interest in CEC was approved at the Group's extraordinary general meeting in November 2010 and is currently undergoing approval procedures with relevant PRC Government authorities. Through this acquisition, the Group could enlarge its market share and domestic customer base by leveraging CEC's extensive coverage and distribution network in the PRC with enhanced ability to provide superior services to overseas multinational corporations. By consolidating the networks, marketing channels, customers, equipment and system resources such as logistics support of the two companies, synergies would be realised with benefits of operating cost reductions, higher customer service standards and stronger business development capabilities.

## **II. Prospects for 2011**

Global economic recovery is expected to be difficult in 2011, with the European and U.S. economies struggling to resume growth. The overall business environment remains competitive, international voice service rates are likely to remain on the downside under intense market competition and the development of Internet IP voice technologies.

In view of the above challenges, the Group will endeavour to tap market potential by actively developing new markets and redefining existing markets into further sub-segments, devoting full effort to keep its business in the PRC stable while driving ongoing development of its overseas business. As a basic requirement, we will strive to achieve excellence in quality in all aspects of our work. By advancing business integration and fully utilising our existing economies of scale, we aim to achieve steady profit growth in 2011.

### **PROACTIVE MEASURES TO ADAPT POSITIONING AMID MARKET CHANGES IN RESPONSE TO COMPETITION**

We will continue to engage in active international market development by fully leveraging the Group's existing overseas companies, procuring stable growth in our international business through gradual expansion of our international marketing channels and coverage. Capitalising on our advantage of the diversity of services, we will market our services to international operators in the form of premium bundled services to increase their attractiveness. Through in-depth analysis of the requirements of PRC operators, we will determine our Group's positioning in the new market environment and identify new niches for cooperation with PRC operators, so that we could enter into mutually beneficial ventures in specific areas. We will also vigorously develop our voice business in overseas markets.



## CHAIRMAN'S STATEMENT

### **QUALITY ASSURANCE IS A PRIORITY UNDERPINNED BY GENERAL ENHANCEMENT IN QUALITY MANAGEMENT AND FURTHER IMPROVEMENTS IN SERVICE STANDARDS**

Quality is the essence of a business. We achieved sound results in quality management in 2010 and we shall continue to raise our standards. The assurance of quality services should always be a priority for all tasks, while quality management should be generally enhanced and service standards further improved through proactive response to customers' requests, provision of solutions to customers' problems and timely fixing of any breakdowns.

### **IMPROVEMENTS IN NETWORK MANAGEMENT WITH THE CONSTRUCTION OF A NEW DATA CENTRE**

The Group will focus on the construction of the new data centre at CITIC Telecom Tower, with a strong emphasis on the quality of deliverables based on sophisticated design and construction work. We will ensure that our investments in networks and equipment are justified by sound performance, with the proper relocation of wires and equipment. The construction of the new data centre will be completed and network relocation will be begun during the first half of 2011, with a view to further enhance our network management standards and bolstering our data business development.

### **MARKET ANALYSIS AND RESEARCH TO BE STRENGTHENED IN SUPPORT OF NEW MARKET DEVELOPMENT**

The Group now claims a more diversified business portfolio on the back of the worldwide marketing regime and telecoms network formed following mergers and acquisitions in recent years. Further to our existing efforts, we need to conduct vigorous analyses of market changes and customers' requirements to devise effective marketing measures to retain old customers and attract new ones. We aim to gain access to new markets such as Central Asia, the Middle East, Africa and South America and develop new frontiers for cooperation. We intend to endeavour to track and fulfil customers' requirements in a timely manner to help assure stable business development for our customers.

### **CONSOLIDATION AMONG BUSINESSES TO BE ADVANCED FOR GREATER SYNERGIES**

Further to the consolidation of our overseas companies in terms of global marketing, network management, equipment management, billing management, routing management and engineering technology management, we should next look to advance such consolidation through higher and more stringent standards, so that the synergies of consolidation will be more effectively realised.

### **INTERNAL MANAGEMENT TO BE REINFORCED WITH STRICT BUDGET IMPLEMENTATION AND COST CONTROL**

We will adopt more effective measures to exercise strict control over significant capital expenditure and various cost and expense items, with particular emphasis on fixed assets investments. We will ensure that our budget is soundly prepared and executed, so that budget management will attain higher standards and function effectively as a guide for corporate development. We will also further improve the system that links staff incentives to profitability of the Group.

**CONSOLIDATION OF CEC TO BE EFFECTIVELY EXECUTED WITH A VIEW TO RAPID DEVELOPMENT IN VPN**

The acquisition of CEC was approved at the Group's extraordinary general meeting on 17 November 2010. The acquisition is conducive to pricing stability in the market as it eliminates competition between the Group and CEC. Moreover, direct customers that the two companies used to compete for may be placed under effective management, whether under new contracts or renewals. Sales efficiency will be improved as a result to provide a positive drive for business development. The Group is expediting business consolidation with CEC and stepping up new product development to provide customers with superb private network services and network security solutions. We intend to commit major efforts to the development of the domestic enterprise market to sustain rapid development of our Internet VPN business.

Mr. Kwok Man Leung resigned as a Non-Executive Director of the Group on 18 November 2010 and Mr. Liu Jifu was appointed as a Non-Executive Director of the Group. I, on behalf of the Board of the Group, would like to express our sincere gratitude to Mr. Kwok for his valuable contribution to the Group during his tenure as a Non-Executive Director and I would like to welcome Mr. Liu to the Group.

The Group's management and staff have done a great job during the past year. On behalf of the Board, I would like to express sincere gratitude to them for their loyalty and hard work.

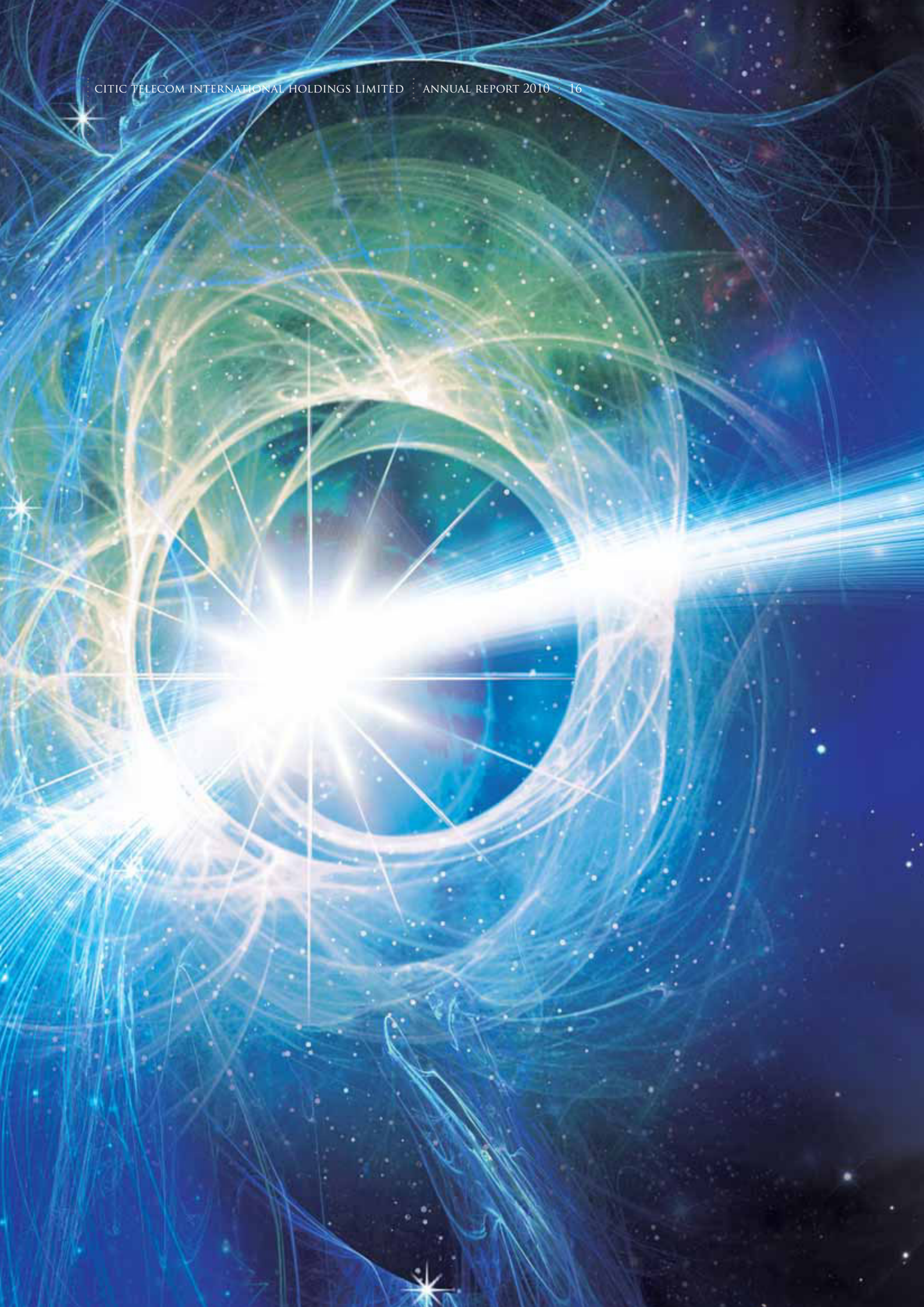
With our staff driving forward in concerted efforts, I am confident that our Group will sustain stable business development and continue to deliver sound rewards to shareholders in 2011.

**Xin Yue Jiang**

*Chairman*

Hong Kong, 25 February 2011







## BUSINESS REVIEW

2010 HAS BEEN A FRUITFUL YEAR FOR THE GROUP IN BOTH BUSINESS DEVELOPMENT AND CORPORATE ACHIEVEMENT TERMS, AND THIS IS DESPITE OPERATING IN AN ATMOSPHERE THAT WAS EXTREMELY CHALLENGING.

OWING TO SOLID DEMAND FOR CUSTOMISED AND QUALITY SERVICES, OUR MOBILE VALUE-ADDED SERVICES ACHIEVED SOLID GROWTH DURING THE YEAR WITH TURNOVER UP 25.5%. DATA SERVICES PERFORMED PARTICULARLY WELL IN THE ASIA PACIFIC REGION, BENEFITING FROM EFFECTIVE MARKETING EFFORTS. THE GROUP ALSO EXTENDED INTERNATIONAL COVERAGE WHICH CONTRIBUTED TO ENCOURAGING TURNOVER GROWTH OF SMS AND VOICE SERVICES. IT IS WORTH NOTING AS WELL THAT WE WERE ABLE TO MODESTLY INCREASE TRAFFIC VOLUME AND MAINTAIN STABLE REVENUE GROWTH DESPITE INTENSE VOICE MARKET COMPETITION THROUGHOUT 2010.

IN THE PAST YEAR, WE WERE INVOLVED IN SEVERAL IMPORTANT CORPORATE DEVELOPMENTS, INCLUDING THE ACQUISITION OF 20% INTEREST IN COMPANHIA DE TELECOMUNICACOES DE MACAU, S.A.R.L. ("CTM"). PROFIT FROM CTM BECAME AN IMPORTANT SOURCE OF PROFIT CONTRIBUTION. ANOTHER IMPORTANT DEVELOPMENT WAS THE ONGOING ACQUISITION OF CHINA ENTERPRISE COMMUNICATIONS LTD. ("CEC") – ONE OF THE MAJOR CHINA VPN OPERATORS, HELD BY OUR ULTIMATE HOLDING COMPANY – CITIC GROUP. REFLECTING OUR STRENGTHENED CAPACITY AND DETERMINATION TO DEVELOP A DIVERSIFIED TELECOMMUNICATIONS BUSINESS, WE CHANGED OUR COMPANY NAME FROM CITIC 1616 HOLDINGS LIMITED TO CITIC TELECOM INTERNATIONAL HOLDINGS LIMITED. THE NAME CHANGE UNDERScoreD THE SUPPORT FROM CITIC GROUP AND ALSO OUR OBJECTIVE OF SERVING AS THE KEY TELECOMMUNICATIONS BUSINESS PLATFORM FOR THE GROUP.



## BUSINESS REVIEW

### VOICE SERVICES



#### Voice Services – Wholesale

The Group recorded increase in traffic and revenue from wholesale voice services during the year. Turnover rose by 10.3% from 2009 to HK\$1,905.6 million in 2010. The Group handled 10,222 million minutes of voice traffic, a modest increase of 0.9% compared with 10,135 million minutes in 2009. Despite lingering effects of the recession continuing to drag on the world economy, the Group is still able to modestly increase traffic volume and maintain stable revenue growth under the intense Voice market throughout 2010. It is worth noting that according to the latest research published by TeleGeography Research, the total international minutes handled by the Group in 2009 already placed the Group 12th among the world's leading international carriers.

The China market continued to be under pressure. During the year, according to the statistics published by Ministry of Industry and Information Technology of the PRC, the China outbound traffic of both fixed line traffic and IP traffic recorded a decrease of approximately 4.8% compared to 2009. Despite the market pressure, the Group managed to handle 860 million China outbound minutes in 2010, slightly down by 1.1% from 870 million minutes in 2009. Regarding inbound China traffic, the Group handled 7,566 million minutes in 2010, a decrease of 2.2% compared to 7,737 million minutes in 2009.

The competition among the three major China telecoms operators remained intense during the year. The voice retail rates continued to fall and the operators had demanded a higher level of voice quality and service standards from their hub service partners. Accordingly we directed our focus and invested substantial resources towards enhancing our service quality. Consistent with such objectives, the Group sought to strengthen ties with telecoms operators in China by precisely addressing their customised business needs. We improved our quality management and increased investments in technology, marketing and human resources, including implementing engineering projects to boost our network capabilities. All of these initiatives contributed to the introduction of innovative solutions and services, and substantially raising our operation efficiency.

The Group has come up with innovative projects in its collaborations with the Chinese telecoms operators. During the year, we were responsible for providing high quality telecoms services to two of Asia's most important events, namely, Expo 2010 in Shanghai and the 2010 Asian Games in Guangzhou. Apart from ensuring reliable never-fail daily operations, our teams also implemented advanced quality supervision and detailed operational analyses for the events. Such measures ensured that any breakdown was quickly and accurately rectified and that timely and effective support was always provided with relevant system fault reports to these operators. The Group also customised several new solutions for the operators, subsequently earning recognitions from them as well as from their end customers.

The Group made its mark in another respect. Working with operators in China, we sought to enhance communication and information exchanges with the objective of bolstering service support and quality assurance. This commitment to constantly improving the quality of service as well as delivering innovative solutions enabled the Group to earn "The Most Trusted Partner Award" from a China operator in 2010. All these efforts contributed to our China business results. Although revenue generated from China outbound voice services and voice traffic were at similar levels with 2009, this was no mean feat in the light of the declining trend of traffic volume and rates for voice services.

On the international front, we were able to further develop our Voice services operation. The Group recruited 60 new customers during the year and we now have 537 wholesale partners around the world. As opportunities arise, we seek to capture greater market share by expanding the Group's customer base in strategic geographical locations. Through bilateral cooperation with new customers, we are not only able to bring greater revenue contributions to the Group, but provide more direct termination capacities as well as competitive costs. In addition, such arrangements enable us to further enhance our global presence and competitiveness.

While seeking to expand our reach, we have also sought to enhance our routing capability and network efficiency. Couple with the development of our IPX product, the Group has expanded the infrastructure capacity for both TDM and IP to accommodate future growth.

The voice services wholesale market, which contributed an important part of the Group's revenue, was one of the most competitive parts of the telecoms sector. Though intense competition in the wholesale market will persist in 2011, the Group has attained good scale of operations and will look to capitalise on the trend of outsourcing by telecoms operators and adopt an aggressive strategy to capture greater market share. Moreover, in order to improve profit margin and to establish more stable traffic, the Group will address demands from the end-users, especially in the enterprise segment. The Group hopes to realise solid growth in both areas in the coming years.



## Voice Services – Retail

The Singapore operations performed satisfactorily during the year. Following our acquisition of ComNet Communications (Singapore) Pte. Ltd. in 2009, the Group now provided enterprises voice services to over 760 multinational enterprises. In addition, the prepaid calling card

business also achieved significant growth in 2010, with card activation increasing by 33% to 167,000, and minute volume rising by 27% to 49 million minutes. Span of channel distribution continued to grow as well, driven by a variety of prepaid calling cards that catered for mounting demands from the domestic markets.

Despite the tough competition in the Hong Kong market, the Group has laid a solid foundation in the local retail market. Services including IDD0050 have continued to be supported by end consumers. Besides traditional IDD service, the Group launched our IP phone service in April 2010, in view of the continuing growth of the VoIP market. The introduction of our own brand of prepaid calling cards also expanded our retail service coverage in Hong Kong.

These retail businesses have provided us with steadily growing income and minute volume from the Hong Kong market.

The Taiwan operations made a significant breakthrough in channel development, resulting in a significant growth of its prepaid calling card business. The expansion of distribution points to major convenience stores and telecommunications shops based on an efficient business model helped increase the penetration of the ComNet-brand prepaid calling cards to end users. With over 88,000 card activations in 2010, the Group achieved a 10-fold increase in calling card revenue in Taiwan compared with last year. Despite the competition in the prepaid calling card market, the Group successfully established a strong footing in the Taiwan market in 2010.

Our North America operation provides voice services and related products to the retail and wholesale markets, including prepaid and rechargeable calling cards and wholesale carrier services in US and Canada. Despite intense competition, the North America operation activated a total of 1.1 million calling cards and handled over 331 million minutes of traffic in 2010. While the calling card business reaches a high level of maturity in North America, the Group will strive to further expand its retail business by extending the distribution of its prepaid and rechargeable calling cards to countries in Latin America, where the demand for such services remains strong.





## BUSINESS REVIEW

### SHORT MESSAGE SERVICES



### SMS Services

SMS Services experienced consistent growth during the year. Turnover has grown by 10.4% to HK\$315.7 million compared with HK\$286.0 million for 2009.

The Group's philosophy of success is to build and grow business based on the foundation of striving for the highest quality of service. Similar to past years, the Group continued to invest in the enhancement of our SMS service, making it one of the most reliable and acclaimed service in the industry. As a result of our strong brand in the market, the Group has successfully signed up long term commitment contracts with key customers, securing a solid base for future growth.

P2P (Person to Person) traffic in SMS has shown stable growth from organic traffic as well as new customers acquisition. The Group continued its efforts in expanding its international mobile telecoms business during the year, and has successfully captured new SMS customers from Asia, Europe and Africa. This improved our market position in countries like Singapore, Malaysia, Japan, Laos, Lithuania, Malta, UK, Namibia and Spain. In addition to the expansion of our SMS customer base, the Group has also expanded the coverage of the international SMS services to over 600 operators including those in North America.

Our local Inter-Operator SMS (IOSMS) business recorded 25% traffic growth. With strong support from the mobile network operators in Hong Kong, the Group has gained market share over the year and continued to handle the majority of the total IOSMS traffic.

The Group had a great year in the A2P (Application to Person) SMS market with traffic growth of over 29% compared with 2009. In addition to expanding the local market, the Group has been very successful in increasing international SMS traffic through active partnerships with international SMS aggregators.



During the year, the Group has completed the enhancement of our A2P SMS platform, which would allow the use of alpha numeric sender addresses.

This means that enterprises can now use their own company names as the sender of SMS to promote their brands while sending important information to their customers. This feature also helps enterprises to personalise their services to their customers by using different service names as the SMS sender. The enterprise SMS market is expanding fast as SMS has become a popular alternative customer notification channel for critical and delay sensitive application, such as stock price alerts and trade confirmations. The alpha numeric sender address could be the

feature that stimulates further growth in SMS traffic in 2011.

The Group expects the SMS business to remain strong in 2011 with the healthy growing trends of both local and international markets.





## BUSINESS REVIEW

### MOBILE VAS



### Mobile VAS

Mobile VAS offered by the Group includes prepaid roaming service (“PRS”), single IMSI multiple number service (“SIMN”), mobile roaming call back service, and roaming signalling service (“SCCP”). In addition, we introduced and launched a new Mobile VAS that features roaming signalling conversion (“ANSI/ITU”), inter-standard roaming service (C2G), and CDMA roaming service (“C2C”). During the year, Mobile VAS continued to be well received by mobile operators, with revenue contribution from this service up by 25.5% compared with 2009. Moreover, our C2C roaming service achieved significant progress and the Group became the exclusive provider of such service in Indonesia. Also, ANSI/ITU conversion service gained customers from Macau, and a large number of mobile operators from Asia showed interest in subscribing to the service as well. C2G has been launched with a mobile operator in Congo, Africa and the Group is now in close discussion with other operators in emerging markets such as Papua New Guinea and different parts of Africa.

As the communication industry has been moving towards “all – IP” (Internet Protocol), we have invested substantial effort to developing the next generation of IPX (IP eXchange) to cope with the bandwidth demand from new mobile applications. Regarding roaming data service, the Group has a solid foundation on global IP network, utilising the latest MPLS technology. Leveraging the mature backbone network system, we are capable of rapidly developing IPX service suites that address mobile operators’ demand for high quality IP related transit services.



## PRS

During the year, we offered PRS services to a new 3G operator in China. Benefiting from the increasing number of mainland tourists to Hong Kong, Macau and Taiwan, the Group recorded significant growth in PRS usage. At the end of 2010, we had direct connections for PRS service with 29 operators and coverage over 16 countries and regions across Asia, Oceania, Europe and Africa.

## SIMN

SIMN achieved a year-on-year increase in turnover of 11.6%. Further enhancement has been made to the platform allowing more flexible subscription models such as monthly and daily subscriptions. The daily model was well received by travellers who enjoyed the service on a pay-as-you-go basis. The Group duly benefited from this new feature during the Expo 2010 in Shanghai and the 2010 Asian Games in Guangzhou.

## SCCP

The growth in SCCP revenue can be attributed to both new customers and organic growth from existing customers in the region. Roaming revenue has become a significant portion of income for many of the world's mobile operators. Hence, good quality SCCP service plays a crucial role in ensuring the functionality of roaming service. Our SCCP service is considered to be of world class quality and a market leader in Asia. We launched our SIGTRAN service (via our IPX service suite) to allow customers the ability to establish additional SCCP connectivity and thereby further strengthen the stability of the service.



## BUSINESS REVIEW

### DATA SERVICES



### Data Services

The Group's data services include connectivity, data centre and integrated ICT solutions. Contributions from our data services increased by 2.2% compared with 2009. The Group's IFC2 Data Centre continued to enjoy strong demand due to its high-quality facilities and location advantage. Renovation of the data centre space in our newly purchased CITIC Telecom Tower was making good progress. This new data centre will provide a total of over 20,000 sq. ft. of space. Designed with Tier III+ infrastructure, the centre is expected to be launched in the first quarter of 2011 and we are aggressively building up a strong customer pipeline.

As a widely accepted quality communications and security solutions provider to multinational corporations, CITIC Telecom International CPC Limited ("CPCNet", formerly CPCNet Hong Kong Limited), a Group's wholly owned subsidiary, offers innovative and cost-effective communication products and services to clients across the Asia-Pacific region. CPCNet specialises in providing state-of-the-art Multi Protocol Label Switching Virtual Private Network (MPLS VPN) solutions, Information Security Services, Cloud Computing Solutions and IP-based Value Added Managed Services to multi-national corporations and business partners. It offers a fully-meshed MPLS VPN managed network and innovative IP solutions that provides enterprises with unsurpassed quality and reliability, connecting them to Asia from anywhere in the world.

CPCNet launched a range of innovative value-added services in 2010, including the following:

- TrueCONNECT™ PREMIUM HA – A value-added option to complement existing flagship product "TrueCONNECT™ PREMIUM" MPLS VPN service. The solution deploys two individual local-loop services for traffic sharing as well as network redundancy.



- TrustCSI™ Web Cloud Security – The first web cloud security service provides a true and cost-effective Security-as-a-Service (SecaaS) solution that allows businesses to leverage the Internet to increase business efficiencies. Using multi-tenant architecture and Single Scan Multi-Action (SSMA) technology, the solution can eliminate real-time challenges arisen from web with nearly no latency. All global and external web traffic, including access from mobile devices, will be under the control of businesses' centralised policies.
- TrustCSI™ Network-X – Utilising existing Internet links, the solution offers industry-proven encryption leveraging signed digital SSL or IPSec certificates to ensure authenticity and prevent interceptions or alterations of en-route data traffic. In addition, TrustCSI™ Network-X combines network firewall, intrusion detection and protection, as well as anti-virus features with optimised performance to deliver comprehensive protection and connect business points of presence anywhere in the world via strong encryption.



CPCNet always strive to provide the best-in-class communications and value-added IP services to customers. As a result, it has been gaining remarkable recognition from the market over recent years. In 2010, its products and services were recognised with a dozen of significant awards and accreditations, testifying to the recognition it enjoys worldwide for its innovative technology and excellent quality services.

In early 2010, CPCNet has become the first managed services provider in Hong Kong to receive all three ISO (International Organization for Standardization), includes ISO9001 Quality Management System, ISO20000 Information Technology Service Management System and ISO27001 Information Security Management System certifications. This recognises our subsidiary's system and service infrastructure, such as CPCNet's Network Operations Centre (NOC) and Security Operations Centre (SOC) are complied with world-class standard on provision and operation of TrueCONNECT™ MPLS VPN and TrustCSI™ Managed Security Services to customers.

A major development last year was the acquisition of CEC, a China VPN operator, which was approved in November 2010 by our independent shareholders. The Group started the application for CEPA approval. Leveraging CEC's resources in China, we will expand our network coverage, service profile and customer base based on CEC's nationwide IP-VPN licence. Also, the synergies generated between CPCNet and CEC via the sharing of networking technologies and assets, and human resources should lead to greater economies of scale as well as enhanced profitability. In 2011, CPCNet will seek to broaden its relationship with existing customers, secure new ties and establish international partnerships that enable it to extend our network and service reach.





## FINANCIAL REVIEW



### 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.

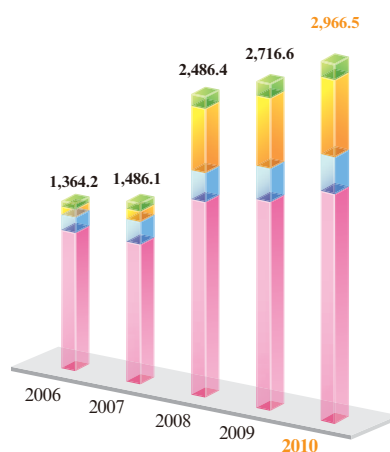
Pages 62 to 68 of the Annual Report contain the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Balance Sheet, Consolidated Statement of Changes in Equity, Statement of Changes in Equity and Consolidated Cash Flow Statement. Following these financial information, on pages 69 to 122 of the Annual Report are Notes that further explain certain figures presented in the report.

On page 61 is the report of CITIC Telecom International's auditor – KPMG – of their independent audit of the Group's financial statements.

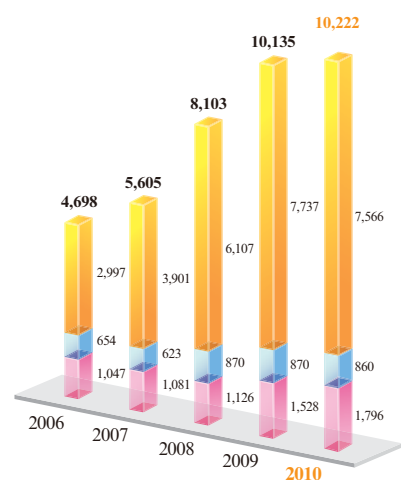
### Basis of Accounting

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

**Turnover**  
HK\$ Million



**Traffic (By location)**  
Minutes in Million



## Review of Financial Performance

### TURNOVER

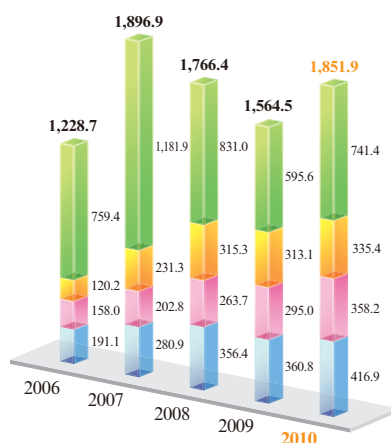
The Group's turnover for 2010 was HK\$2,966.5 million, representing an increase of 9.2%, compared with HK\$2,716.6 million for 2009.

Voice Services turnover has grown by HK\$178.7 million or 10.3% to HK\$1,905.6 million for 2010 compared to 2009. Total traffic carried by the Group was of similar level to 2009. In particular, following the Group's effort to increase international coverage over the years, the Group handled 1.80 billion international minutes during the year, a growth of 17.5% as compared to 2009. On the other hand, the China market continued to be under pressure. According to the statistics published by the Ministry of Industry and Information Technology of the PRC, the China outbound traffic of both fixed line traffic and IP traffic for 2010 recorded a decrease of approximately 4.8% as compared to 2009. During the year, the Group handled 860 million China outbound minutes, a slight decrease of 1.1% from 2009 and continued to outperform the market. For China inbound traffic, the Group handled 7.57 billion minutes, a decrease of 2.2% as compared to 2009.

SMS Services continued to maintain stable growth during the year. The Group's continued expansion in international network coverage successfully enabled us to secure additional traffic from existing customers to new destinations. SMS turnover increased by HK\$29.7 million to HK\$315.7 million for 2010, representing a 10.4% growth as compared to 2009. The Group handled 1,851.9 million messages for 2010, representing an increase of 18.4% as compared to 2009. During the year, the China market performed satisfactorily with traffic growth of 15.5% and 21.4% for China outbound traffic and China inbound traffic respectively. For the Hong Kong market, the Group continued to adopt a flexible but effective pricing strategy to secure its leading market position. The Group recorded a 24.5% growth in traffic for the Hong Kong market during the year. The Group's initiatives to enter into the enterprise SMS market had also received good feedbacks from multinational companies in the region.

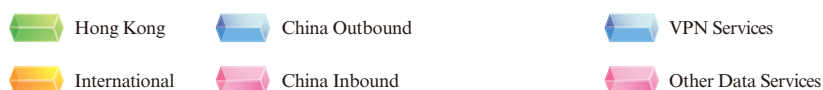
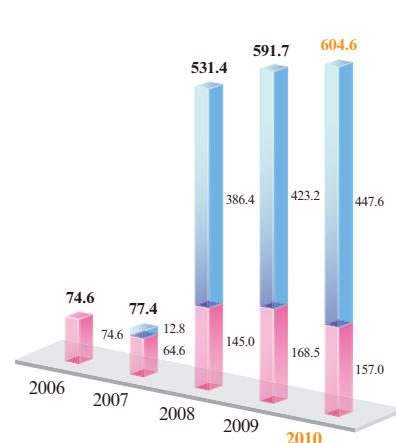
### Number of SMS

Messages in Million



### Data Services Turnover

HK\$ Million





## FINANCIAL REVIEW

Mobile Value-added Services (“VAS”) recorded good growth momentum during the year. The Group’s strategy to provide bundle services continued to be well accepted by our customers. Turnover for 2010 amounted to HK\$140.6 million, representing an increase of 25.5% compared with HK\$112.0 million for 2009. In addition, the Group was actively promoting new products under the CDMA technology and secured its first CDMA customer in Indonesia in 2010.

Data Services comprise managed VPN services and other services such as resale of lease lines. During the year, turnover from data services increased by 2.2% to HK\$604.6 million as compared with HK\$591.7 million for 2009. The increase was mainly due to the growth in VPN revenue. Turnover from VPN services increased by 5.8% to HK\$447.6 million for 2010. As most of the Group’s VPN customers are multinational companies, the Group managed to offset the adverse impact of the financial crisis in Europe and North America, by stepping up our marketing and sales effort in the Asia Pacific Region.

### OTHER REVENUE

The Group’s other revenue for 2010 amounted to HK\$3.5 million, a decrease of HK\$2.0 million as compared to 2009. The decrease was mainly due to the decline in bank interest income as a result of the decrease in bank balance and the average deposit interest rate during the year.

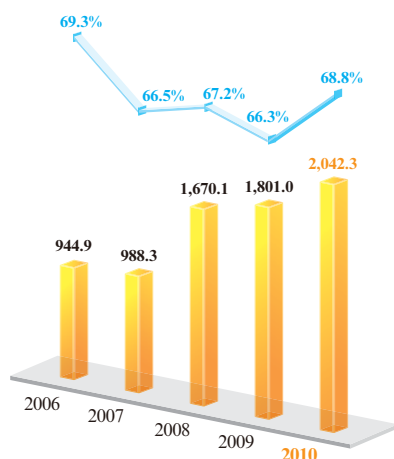
### NET FOREIGN EXCHANGE LOSS

Net foreign exchange 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 year.

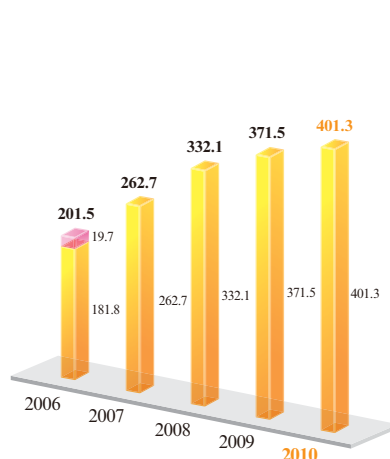
### NETWORK, OPERATIONS AND SUPPORT EXPENSES

In the year 2010, network, operations and support expenses amounted to HK\$2,042.3 million, representing an increase of 13.4% as compared with 2009. The increase was mainly due to the Group’s effort to increase international coverage and the establishment of the Group’s global MPLS network. The improvement of coverage and the Global MPLS network enabled the Group to further enhance its quality of service and laid a good foundation for acquiring international traffic. As a result of the investments, the percentage of network, operations and support expenses over turnover increased from 66.3% in 2009 to 68.8% in 2010.

**Network, operations and support expenses**  
HK\$ Million



**Profit attributable to equity holders of the Company**  
HK\$ Million



**Basic earnings per share**  
HK Cents



Network, operations and support expenses of Turnover (%)

Network, operations and support expenses (HK\$ million)

Profit for the year from discontinued operations

Profit for the year from continuing operations

From discontinued operations

From continuing operations

**STAFF COSTS**

Staff costs for 2010 amounted to HK\$262.8 million, representing an increase of 19.2% as compared with HK\$220.5 million for 2009. The increase was mainly due to the increase in share option expense from HK\$4.9 million in 2009 to HK\$14.6 million in 2010 and the first time inclusion of full-year impact of the companies, such as ComNet (USA) LLC and ComNet Communications (Singapore) Pte. Ltd. acquired in 2009. If the share option expense and the impact of the companies acquired in 2009 were excluded, the staff costs for 2010 increased by 11.8%.

**OTHER OPERATING EXPENSES**

Other operating expenses for 2010 amounted to HK\$187.2 million, representing an increase of 31.9% compared with HK\$141.9 million for 2009. The increase was mainly due to increase in professional fees and doubtful debts provision, and the first time inclusion of full-year impact of companies acquired in 2009. Owing to change in accounting standards, professional fees in relation to the acquisition of subsidiaries are required to be absorbed to current year's profit and loss account starting from 2010 instead of being capitalised as in prior years. The doubtful debts provision arose as a result of several European and US customers who went bankrupt during the economic crisis. If these impacts were excluded, other operating expenses for the year increased by 9.7%.

**SHARE OF PROFIT OF AN ASSOCIATE**

The amount of HK\$89.0 million for 2010 represented the Group's 20% share of the profit of Companhia de Telecomunicacoes de Macau, S.A.R.L. ("CTM") after the acquisition of 20% interest in CTM on 5 May 2010.

**INCOME TAX**

The Group's income tax expense decreased by 41.0% from HK\$75.4 million to HK\$44.5 million for 2010. Effective tax rate decreased from 16.9% in 2009 to 10.0% in 2010. If the effect of the share of profit of an associate was excluded, the effective tax rate would be 12.5% in 2010.

**PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY**

The Group recorded a net profit of HK\$401.3 million for 2010, an increase of 8.0% as compared to 2009. The increase was mainly due to the first time inclusion of the contribution from CTM, which was partly offset by the increase in network, operations and support expenses, staff costs and other operating expenses.

**EARNINGS PER SHARE ("EPS")**

Basic EPS and diluted EPS were HK17.9 cents and HK17.8 cents respectively for 2010, a decrease of 4.8% and 5.3% as compared with 2009. The decrease was mainly due to the dilution effect of the issuance of 405.8 million new shares for the acquisition of 20% interest in CTM in May 2010.

**DIVIDEND PER SHARE**

A final dividend of HK7.1 cents per share is proposed for 2010. As a result, the total dividend per share is HK9.5 cents for the year.

**CAPITAL EXPENDITURE**

Capital expenditure was HK\$158.8 million for 2010, a decrease of 39.9% as compared to 2009. During the year, the Group incurred HK\$46.3 million renovation cost for the new data centre at CITIC Telecom Tower. If the capital expenditure of 2010 and 2009 on CITIC Telecom Tower was excluded, capital expenditure for the year amounted to HK\$92.7 million, a decrease of 13.4% as compared to 2009.

**ACQUISITION OF AN ASSOCIATE**

The Group acquired 20% interest in CTM from CITIC Pacific Limited for a total consideration of HK\$1,396.4 million on 5 May 2010. The total consideration was satisfied with HK\$406.2 million in cash and HK\$990.2 million by the issuance of new shares at fair value.



## FINANCIAL REVIEW

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

#### CREDIT RISK

Credit evaluations are performed on all customers with credit level over a certain amount. Trade receivables are due within 7 to 180 days from the date of billing. Debtors with balances due over one year, the Group will assign an officer who will be responsible to agree on a settlement plan with those debtors 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 43% and 44% of the Group's total trade receivables at 31 December 2010 and 2009 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 year, the Group paid HK\$410.1 million cash for the CTM acquisition and HK\$132.8 million for capital expenditure. In addition, the Group paid dividends of HK\$197.6 million during the year for returning the profits to its shareholders. In the meantime, the Group recorded HK\$346.9 million operating cash inflow and received a HK\$96.9 million loan from an associate in 2010. As a result, the Group's cash and cash equivalents decreased by HK\$358.9 million to HK\$325.5 million at 31 December 2010 compared to HK\$684.4 million at 31 December 2009.

#### CURRENCY PORTFOLIO

The original denomination of the Group's cash and bank deposits by currencies at 31 December 2010 is summarised as follows:

HK\$ million equivalent	Denomination					Total
	HK\$	US\$	EURO	RMB	Others	
Cash and bank deposits	88.7	147.3	8.4	38.9	43.7	327.0
Percentage of total amount	27.1%	45.0%	2.6%	11.9%	13.4%	100.0%

At 31 December 2010, the Group maintained Renminbi balance with Hong Kong dollar equivalent 38.9 million in order to support the operating needs of settlements in Renminbi in the future. 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 31 December 2010, the Group had HK\$96.4 million short-term loan from an associate. The loan bears interest at the prevailing market rate. It is unsecured and repayable on 31 March 2011.

At 31 December 2010, the Group had no outstanding bank borrowings.

**NET CASH**

At 31 December 2010, the Group maintained a net cash position of HK\$230.7 million.

**BANKING FACILITIES**

At 31 December 2010, the Group had banking facilities amounted to SG\$0.3 million, US\$4.2 million and HK\$100.0 million (equivalent to a total of HK\$134.2 million). About HK\$4.2 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 31 December 2010, the Group pledged SG\$85,000 and US\$130,000 (equivalent to a total of HK\$1.5 million) of fixed deposits to secure its banking facilities. The Group had not created any other security over its assets and had not provided any corporate guarantee.

**CONTINGENT LIABILITIES**

Details of the Group's contingent liabilities at 31 December 2010 are stated under Note 25 to the consolidated financial statements.

**CAPITAL COMMITMENTS**

At 31 December 2010, the Group had outstanding capital commitments of HK\$94.4 million, mainly for the acquisition of network equipment which had yet to be delivered to the Group and the new data centre renovation cost, of which HK\$48.8 million were outstanding contractual capital commitments and HK\$45.6 million were capital commitments authorised but for which contracts had yet to be entered into.

**OTHER COMMITMENTS**

Details of the Group's other commitments at 31 December 2010 are stated under Note 24(c) to the consolidated financial statements.

## Forward Looking Statements

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

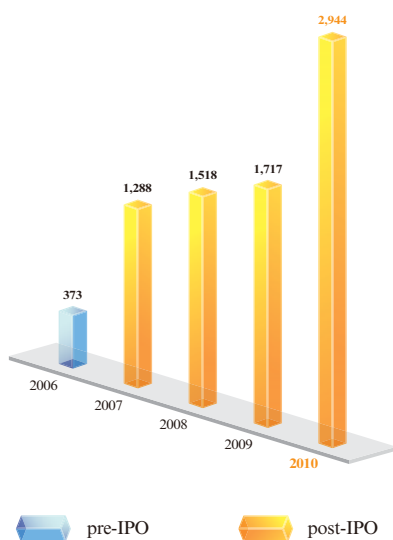
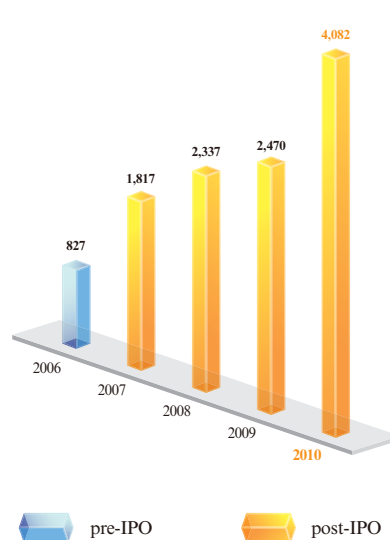
Forward looking statements involve inherent risks and uncertainties. Readers should be cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward looking statement.



## FIVE YEAR SUMMARY

At 31 December

	2006 HK\$'000	2007 HK\$'000	2008 HK\$'000	2009 HK\$'000	2010 HK\$'000
<b>Assets and liabilities</b>					
Property, plant and equipment	278,073	326,489	363,105	541,691	<b>595,350</b>
Intangible assets	–	28,717	34,849	55,232	<b>48,362</b>
Goodwill	–	9,455	214,269	277,419	<b>281,465</b>
Interest in an associate	–	–	5,163	–	<b>1,489,382</b>
Non-current other receivables and deposits	37,891	34,772	29,716	21,481	<b>171,370</b>
Deferred tax assets	7,478	42,096	29,907	14,284	<b>22,172</b>
Net current assets	86,925	881,446	876,901	845,122	<b>476,722</b>
Non-current other payables	–	–	–	–	<b>(102,582)</b>
Deferred tax liabilities	(37,450)	(35,125)	(36,200)	(38,289)	<b>(38,424)</b>
<b>NET ASSETS</b>	<b>372,917</b>	<b>1,287,850</b>	<b>1,517,710</b>	<b>1,716,940</b>	<b>2,943,817</b>
<b>Capital and reserves</b>					
Share capital	1	197,807	197,773	197,773	<b>238,520</b>
Reserves	372,916	1,090,043	1,319,937	1,519,167	<b>2,705,297</b>
<b>TOTAL EQUITY</b>	<b>372,917</b>	<b>1,287,850</b>	<b>1,517,710</b>	<b>1,716,940</b>	<b>2,943,817</b>

Shareholders' Fund  
HK\$ MillionTotal Assets  
HK\$ Million

For the years ended 31 December

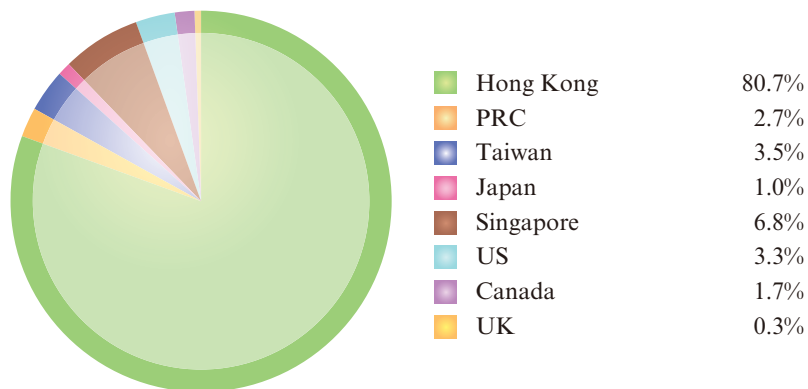
	2006 HK\$'000	2007 HK\$'000	2008 HK\$'000	2009 HK\$'000	2010 HK\$'000
<b>Results</b>					
<b>Turnover</b>	1,364,209	1,486,071	2,486,362	2,716,559	<b>2,966,469</b>
Profit before taxation	219,903	306,377	397,875	446,959	<b>445,757</b>
Income tax	(38,095)	(43,678)	(65,747)	(75,432)	<b>(44,469)</b>
<b>Profit for the year from continuing operations</b>	181,808	262,699	332,128	371,527	<b>401,288</b>
Discontinued operations					
Profit for the year from discontinued operations	19,710	—	—	—	—
<b>Profit attributable to equity holders of the Company</b>	201,518	262,699	332,128	371,527	<b>401,288</b>
<b>Basic earnings per share</b>					
From continuing and discontinued operations (HK cents)	11.9	14.3	16.8	18.8	<b>17.9</b>
From continuing operations (HK cents)	10.7	14.3	16.8	18.8	<b>17.9</b>
From discontinued operations (HK cents)	1.2	—	—	—	—
<b>Diluted earnings per share</b>					
From continuing and discontinued operations (HK cents)	11.9	14.3	16.8	18.8	<b>17.8</b>
From continuing operations (HK cents)	10.7	14.3	16.8	18.8	<b>17.8</b>
From discontinued operations (HK cents)	1.2	—	—	—	—
<b>Dividends per share (Post IPO)</b>					
Interim dividend (HK cents)	N/A	1.0	2.0	2.4	<b>2.4</b>
Final dividend (HK cents)	N/A	3.1	6.4	7.1	<b>7.1</b>
	N/A	4.1	8.4	9.5	<b>9.5</b>

## HUMAN RESOURCES

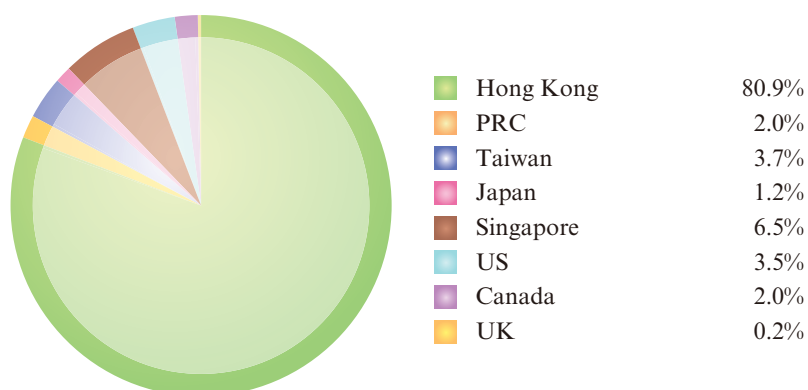


### People

As at the end of December 2010, the Group employed a total of 517 employees (2009: 491) for its headquarters in Hong Kong and its principal subsidiaries. Employees in overseas and Mainland China totalled 100.



2010



2009

### Remuneration Policy

The Group's compensation strategy is to cultivate a pay-for-performance culture to incentivise and reward employee performance that will lead to a long-term enhancement of the overall calibre of the Group. The Group reviews the cash compensation and benefit packages provided to its employees to ensure that the total compensation is internally equitable, externally competitive and supports the Group's business strategy. Member companies of the Group largely conform with this policy.

### Retirement Benefits

For Hong Kong employees, the Group has set up the Mandatory Provident Fund Scheme (the "MPF Scheme").

Employees of the Group's subsidiaries in Mainland China and overseas are required to participate in retirement schemes administered and operated by the respective local authorities and contributions are made according to the local requirements.





## Remuneration Committee

Remuneration of Executive Directors and Senior Management is monitored by the Remuneration Committee. A majority of the committee members including the Committee Chairman are Independent Non-Executive Directors. They exercise power of the Board to determine and review the remuneration packages of Executive Directors and Senior Management so as to align their remuneration with shareholders' interests.

## Workplace

The Group is an equal opportunity employer and adheres to non-discriminatory employment practices and procedures in recognising and respecting individuals' rights. The Group promotes equal opportunities to applicants and existing employees, determining staff promotion and development in accordance with individual performance and job requirements. It also upholds a high standard of business ethics and personal conduct of its employees. Every employee of the Group is required to strictly follow the Code of Conduct.

## Staff Training and Development

The Group continues its effort in staff training and development to support the needs of its business and staff. The Group also encourages and facilitates knowledge sharing and skill transfer between staff in Hong Kong and other regions to strengthen business integration. In 2010, the Group provided training to employees for 1,544 times. We also support and encourage self-initiated personal development of our employees by providing training subsidies for external training courses to enhance their skills and abilities.

## Employee Relations

The Group organises a variety of employee activities and provided channels for employee communication. These actions help to enhance mutual communication among different levels of employees and increase their sense of belonging to the Group.



## CORPORATE SOCIAL RESPONSIBILITY







The Group has been active in fulfilling its social responsibility and encouraging its staff to support voluntary service & community activities through various means.

### Staff Volunteerism

As a member of Hong Kong Community Volunteer of Agency for Volunteer Service, the Group has established its own volunteer team who regularly provide volunteer services to the community. This year, our volunteers were awarded a certificate of Appreciation from the Agency for Volunteer Service for their dedication to volunteer work.



### Nurturing Youth

Our subsidiary worked with the Hong Kong Federation of Youth Groups on "Job Shadowing Program", which offered job attachments to 18 students with on-the-job training provided by 18 mentors from our subsidiary. This program gives students a better understanding on different functional roles in an office environment and assists them in their future career planning.





## CORPORATE SOCIAL RESPONSIBILITY

### Community Support

The Group continues to support community work on technology sector by sponsoring the projects of the Hong Kong Internet Exchange (HKIX) and Hong Kong Internet Exchange 2 (HKIX2), both of which are non-profit organisations. The Group provides networking equipment and two protected 10 Gbps optical fibre connections between HKIX to co-location spaces. In addition, 7 x 24 support services are provided by the Group to ensure stable daily operations and to provide users with quality internet service in Hong Kong. The Group also assists in expanding the number of internet users and extent of usage.

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

### Donation

The Group made a donation through Hong Kong Red Cross for the victims of the earthquake in Qinghai this year. Donations were also made to Agency for Volunteer Service and Oxfam Trailwalker. Our subsidiary also participated in “Red Decor Day 2010” to raise money for Hong Kong Red Cross in supporting their humanitarian services around the world. To arouse staff’s awareness on the activities of Hong Kong Red Cross, we have placed a Red Cross “leaflet-take-one-box” at our reception. We also circulate messages of their activities via email and intranet, and have placed their eBanner and a link to their website on our official website.



### Youth Ice Hockey Programme Sponsorship

Our Hong Kong subsidiary has sponsored the Hong Kong Typhoons Ice Hockey Club’s Youth Ice Hockey Programme for the year 2010-2011. The programme is organised for local underprivileged children who are registered with the Society for Community Organisation, giving them opportunities to learn ice hockey, develop confidence and make new friends. The club will also select children aged between 6 and 9 years for playing in the HK Junior Hockey League.



## Environmental Protection

The Group believes strongly the importance on environmental protection and making the workplace more environmental-friendly. Environmental considerations were taken into account in the planning, design and choice of materials for our Kwai Chung new office.

Our Hong Kong subsidiary held a “Make Office Green Competition” in May 2010 to raise staff’s awareness of environmental protection and creating an environmental-friendly office. In the competition, staff was encouraged to provide creative ideas for making a green office.

Green effort by the Group’s overseas office have also been acknowledged worldwide. Our Singapore office was awarded the Eco-Office Certificate by the Singapore Environment Council in 2010 in recognition of their environmental friendly practices and effective carbon emission reduction within the workplace in constantly improving the company’s environmental performance.

## Children’s Library

In a recent feat to promote learning, the Group’s overseas office in Singapore worked with Evercare Welfare Centre to set up a small library equipped with children’s books to encourage reading for children in the community. Reading sessions are also organised regularly to emphasise the importance and benefits of reading.

## CORPORATE GOVERNANCE

### Corporate Governance Practices

The Company is committed to maintaining high standards of corporate governance. The Board believes that good corporate governance practices are important to maintain and promote investor confidence, protect the interests of shareholders and enhance shareholder value. Corporate governance requirements keep changing, therefore the Board reviews its corporate governance practices to ensure they meet stakeholders' expectations, comply with legal and professional standards and reflect the latest local and international developments. The Board will continue to commit itself to achieving a high quality of corporate governance.

Throughout the year of 2010, the Company has complied with all code provisions in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). The Company has also applied all the principles in the aforesaid code and the manner in which they are applied is explained in the following parts of the Corporate Governance Report.

### Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in Appendix 10 of the Listing Rules. All directors have fully complied with the required standard set out in the Model Code throughout the year of 2010.

### Board of Directors

The Board currently comprises three executive and five non-executive directors of whom three are independent as defined under the Listing Rules (the biographies of the directors are set out on pages 46 to 47). Independent non-executive directors are more than one-third and non-executive directors are more than half of the Board.

There is no nomination committee in the Company for the time being. Candidates to be nominated as directors are experienced, high calibre individuals and the appointment of all the new directors will be put to the full Board or the shareholders in general meeting for approval. Under the Company's New Articles of Association, any director appointed by the Board shall hold office only until the next following annual general meeting of the Company and shall then be subject to re-election by the shareholders. Apart from this, every director, including the non-executive directors, is subject to retirement by rotation at least once every three years. One-third of the directors must retire from office at each annual general meeting and their re-election is subject to a vote of shareholders. This means that the specific term of appointment of a director cannot exceed three years.

The Board determines the overall strategies, monitors and controls operating and financial performance and sets appropriate policies to manage risk in pursuit of the strategic objectives of the Company.

Day-to-day management of the Company's businesses is delegated to the executive director or officer in charge of each division. The functions and power that are so delegated are reviewed periodically to ensure that they remain appropriate. Matters reserved for the Board are those affecting the Company's overall strategic policies, finance and shareholders, including financial statements, dividend policy, significant changes in accounting policy, material contracts and major investments. All Board members have separate and independent access to senior management in order to fulfil their duties. They also have full and timely access to relevant information about the Company and are kept abreast of the conduct, business activities and development of the Company. Independent professional advice can be sought at the Company's expense upon their request.



The Board meets regularly to review the financial and operating performance of the Company and other business units and to discuss future strategy. Five Board meetings were held in 2010. Individual attendance of each director at the Board meetings, the Audit Committee meetings and the Remuneration Committee meeting during 2010 is set out below:

### Attendance/Number of Meetings in 2010

Director	Board	Audit Committee	Remuneration Committee
<b>Executive Director</b>			
Mr. Xin Yue Jiang	5/5		
Mr. Yuen Kee Tong	5/5		
Dr. David Chan Tin Wai	5/5		
<b>Non-executive Director</b>			
Mr. Liu Jifu (appointed on 18 November 2010)	1/1		1/1
Mr. Kwok Man Leung (resigned on 18 November 2010)	4/4		
Mr. Fei Yiping	4/5		
<b>Independent Non-executive Director</b>			
Mr. Yang Xianzu (Chairman of the Remuneration Committee)	5/5	2/2	1/1
Mr. Liu Li Qing	5/5	2/2	1/1
Mr. Gordon Kwong Che Keung (Chairman of the Audit Committee)	5/5	2/2	1/1

To implement the strategies and plans adopted by the Board effectively, executive directors and senior managers meet on a regular basis to review the performance of the businesses of the Group, co-ordinate overall resources and make financial and operational decisions. In addition, a Risk Management Committee, comprising the executive directors and senior managers, will meet regularly to enhance the risk management and corporate governance of the Group. The Capex Review Board is also set up in which the chief executive officer and the chief financial officer of the Company will review the capital investments initiated by different departments that will materially affect the profitability and cashflow of the Group, to ensure that the proposed investments are in the best interests of the Group, both commercially and strategically.

### Chairman and Chief Executive Officer

The Company has appointed a chairman, Mr. Xin Yue Jiang, and a chief executive officer, Mr. Yuen Kee Tong. The roles of the chairman and the chief executive officer are segregated. The primary role of the chairman is to provide leadership for the Board, to ensure that it works effectively in discharging its responsibilities and to report to the Board on the strategy of the Company. The chief executive officer is responsible for the day-to-day management of the Company's business. Their respective roles and responsibilities are set out in writing, which has been approved and adopted by the Board.

## CORPORATE GOVERNANCE

### Remuneration of Directors

The Remuneration Committee, established in March 2007, has clear terms of reference and is accountable to the Board. The terms of reference can be found in the Company's website ([www.citictel.com](http://www.citictel.com)). The principle role of the committee is to exercise the powers of the Board to determine and review the remuneration packages of individual executive directors and senior management, including salaries, bonuses, benefits in kind and the terms under which they participate in any share option and other plans. The committee considers factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors and senior management, employment conditions elsewhere in the Group and desirability of performance-based remuneration so as to align management incentives with shareholders' interests.

During 2010, the Remuneration Committee reviewed the remuneration policies and approved the salaries and bonuses of the executive directors and senior management. No executive director took part in any discussion about his own remuneration. Its members comprise:

Mr. Yang Xianzu – *Chairman*  
Mr. Liu Li Qing  
Mr. Gordon Kwong Che Keung  
Mr. Liu Jifu

A meeting was held in 2010. A majority of the committee members including the chairman are independent non-executive directors.

In 2010, the fee for each director sitting on the Board is HK\$120,000 per annum and the additional fees for the directors serving in the Audit Committee and the Remuneration Committee are HK\$80,000 per annum and HK\$40,000 per annum respectively. An ordinary resolution will be put forth to the shareholders in the annual general meeting to be held on 21 April 2011, proposing that with effect from the financial year ending 31 December 2011:

- a. the director's fee for all directors of the Company (other than the executive directors and directors with employment with CITIC Pacific Limited) be fixed at HK\$150,000 per annum;
- b. additional remuneration payable to each of the directors (other than the executive directors and directors with employment with CITIC Pacific Limited) who serves on the Audit Committee and the Remuneration Committee shall remain unchanged; and
- c. the executive directors and directors who are employed by CITIC Pacific Limited will not receive any directors' fee for serving on the Board and the Board Committees of the Company.

Details of the Company's remuneration policies are set out in the Human Resources section on pages 34 to 35. Directors' emoluments and retirement benefits are disclosed on pages 88 to 89 and page 121. Details of the Company's share option plan and the granting of options are disclosed on pages 54 to 57 and pages 118 to 120.

### Auditor's Remuneration

KPMG has been appointed by the shareholders annually as the Company's external auditor since 2005. During the year, the fees charged by KPMG for the audit of the Company and its subsidiaries amounted to approximately HK\$2.6 million. In addition, approximately HK\$2.1 million was charged for non-audit services. The non-audit services mainly consist of completion audit for acquisition, taxation services, interim review, agreed upon procedures and other services in relation to the notifiable transactions.

## Audit Committee

The Board established an Audit Committee in 2007. The Audit Committee has clear terms of reference and is accountable to the Board. The terms of reference can be found in the Company's website ([www.citictel.com](http://www.citictel.com)). It assists the Board in meeting its responsibilities for ensuring an adequate system of internal control and compliance, and in meeting its external financial reporting obligations. All committee members including the chairman are independent non-executive directors. Its members comprise:

Mr. Gordon Kwong Che Keung – *Chairman*  
 Mr. Yang Xianzu  
 Mr. Liu Li Qing

The chairman has appropriate professional qualifications and experience in accounting matters, and the other committee members possess experience in telecommunications industry. The committee meets two times each year, together with senior management and auditors, both internal and external.

During 2010, the Audit Committee considered the external auditor's projected audit fees; discussed with the external auditor their independence and the nature and scope of the audit; reviewed the interim and annual financial statements, particularly judgmental areas, before submission to the Board; reviewed the internal control system and the internal audit plan, findings and management's response; reviewed the Group's adherence to the code provisions in the Code on Corporate Governance Practices. The Audit Committee recommended the Board to adopt the interim and annual reports for 2010.

## Internal Audit

The Group has continued to engage the Group Internal Audit Department ("Internal Audit Department") of CITIC Pacific Limited ("CITIC Pacific", the listed parent company of the Company) to perform internal audits for the Group. The Internal Audit Department performs independent internal audit reviews for all business units and functions in the Group on a systematic and ongoing basis. The frequency of review of individual business unit or function is determined after an assessment of the risks involved. The Audit Committee endorses the internal audit plan annually. The Internal Audit Department has unrestricted access to all parts of the business, and direct access to any level of management including the chairman of the Company and the chairman of the Audit Committee as it considers necessary. It submits regular reports for the Audit Committee's review in accordance with the approved internal audit plan. Concerns which have been reported by the Internal Audit Department are monitored by management by taking appropriate remedial actions.

## Internal Controls

The Board is responsible for maintaining an adequate system of internal control and reviewing its effectiveness.

The internal control system is designed to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorised use and disposition, ensure the maintenance of proper accounting records and the truth and fairness of the financial statements, and ensure compliance with relevant legislation and regulations. It provides reasonable, but not absolute, assurance against material misstatement or loss, and management rather than elimination of risks associated with its business activities.

During the year, the Board has reviewed the effectiveness of the Group's internal control system covering all material controls and risk management functions, including the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting functions and their training programme and budget. The review is conducted annually in accordance with the requirement of the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules. The management assessed the risks and the internal controls with reference to the five components of the COSO (The Committee of Sponsoring Organisation of the Treadway Commission) internal control framework. The result of the review has been summarised and reported to the Audit Committee and the Board.

In addition, the Internal Audit Department conducts regular and independent reviews of the effectiveness of the Group's internal control system. The Audit Committee reviews the findings and opinion of the Internal Audit Department on the effectiveness of the Group's internal control system and reports to the Board on such reviews.



## CORPORATE GOVERNANCE

### Codes

To ensure the highest standard of integrity in our businesses, the Group adopted a Code of Conduct defining the ethical standards expected of all employees as well as non-discriminatory employment practices. Briefings on the Code of Conduct are held regularly for our new employees during orientation session. A set of Code of Conduct would be distributed to our employees and can be accessed through the Company intranet.

Throughout the year of 2010, the Company has complied with the code provisions in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules.

### Notifiable Transactions, Connected and Continuing Connected Transactions, Annual Reports and Interim Reports

During 2010, the Company issued press announcements in respect of a few notifiable, connected and continuing connected transactions, which can be viewed on the Company's website ([www.citictel.com](http://www.citictel.com)).

The annual and interim reports of the Company can also be viewed on the Company's website.

### Non-competition Undertaking

CITIC Pacific has executed a deed of non-competition dated 21 March 2007 ("Non-competition Undertaking") in favour of the Company, details of which are set out in the prospectus of the Company, mainly to the effect that at any time during which the shares of the Company are listed on the Stock Exchange and CITIC Pacific and/or its associates are regarded as a controlling shareholder of the Company under the Listing Rules, (i) CITIC Pacific will not engage and will procure its subsidiaries (excluding the Group) not to engage in the provisions of telecommunications hub-based service ("Restricted Activity") globally or in any other business that may compete with the Restricted Activity, and (ii) in the event that any opportunity is made available to CITIC Pacific to invest in any independent third party's business engaging in the Restricted Activity, CITIC Pacific will use its best efforts to procure that such investment opportunity is offered to the Group and the Group shall have a first right of refusal.

CITIC Pacific has reviewed its business and businesses of its subsidiaries (excluding the Group) and advised that their businesses do not compete with the Restricted Activity and that during the year, there was no opportunity made available to CITIC Pacific to invest in any independent third party which was engaged in the Restricted Activity. CITIC Pacific has given a written confirmation to the Company that it had fully complied with the terms of the Non-competition Undertaking. The independent non-executive directors of the Company have reviewed the confirmation and concluded that CITIC Pacific has made the compliance.

### Communication with Shareholders

The Company's annual general meeting is one of the principal channels of communication with its shareholders. It provides an opportunity for shareholders to ask questions about the Group's performance. Separate resolutions will be proposed for each substantially separate issue at the annual general meeting.

In accordance with the Listing Rules, voting by poll is mandatory at all general meetings and the poll results will be posted on the websites of the Stock Exchange and the Company respectively on the same day of the shareholders' meeting.

## Fair Disclosure and Investor Relations

The Company uses its best endeavours to distribute material information about the Group to all interested parties as widely as possible. When announcements are made through the Stock Exchange, the information will also be sent to the press and investment analysts where an e-mail address or fax number is known and will be made available to shareholders in the Company's website.

The Company recognises its responsibility to explain its activities to those with a legitimate interest and to respond to their questions. Investors are regularly received and visited to explain the Group's businesses. In addition, questions received from the general public and individual shareholders are answered promptly. In all cases great care is taken to ensure that no price sensitive information was disclosed selectively.

The Company is committed to maintain a high degree of corporate transparency as well as good communication with banks, research analysts and investors. The Company has used various channels including regular meetings, investor conferences, result briefings and the website ([www.citictel.com](http://www.citictel.com)) to disseminate information on the Group's latest developments to various investors, fund managers and analysts.

Information about the Company can be found in the Company's website including descriptions of the business and the annual and interim reports.

## Financial Reporting

The directors of the Company acknowledge their responsibility for preparing the Group's financial statements which give a true and fair view and are in accordance with the Hong Kong Financial Reporting Standards published by the Hong Kong Institute of Certified Public Accountants. The directors of the Company endeavour to ensure a balanced, clear and understandable assessment of the Group's performance, position and prospects in financial reporting. Accordingly, appropriate accounting policies are selected and applied consistently; judgments and estimates made are prudent and reasonable. The adoption of new or amended accounting standards that became effective during the year has not resulted in substantial changes to the Group's accounting policies and has no significant impact on the results reported for the year ended 31 December 2010, the details of which are disclosed on pages 81 to 82.

The responsibilities of the external auditor with respect to financial reporting are set out in the Independent Auditor's Report on page 61.

## DIRECTORS AND SENIOR MANAGEMENT



**Chan Tin Wai, David**  
Executive Director &  
Chief Financial Officer

**Yuen Kee Tong**  
Executive Director &  
Chief Executive Officer

**Xin Yue Jiang**  
Executive Director &  
Chairman

**Liu Jifu**  
Non-Executive Director

**Fei Yiping**  
Non-Executive Director

### Directors

#### Executive Directors

**Mr. Xin Yue Jiang**, aged 62, has been appointed as the chairman of the Company from 19 March 2009. He joined the Company in January 2008 as executive director and vice chairman of the Board. Mr. Xin graduated from China Naval Aeronautic Engineering Institute and Central University of Finance and Economics and obtained a Master degree in Economics and Management from the Graduate School of Chinese Academy of Social Sciences. After serving a substantial period of time in the PRC government in which Mr. Xin was involved in the administration of science, technology information and economics, Mr. Xin joined in succession various major conglomerates as senior management, researcher or chief engineer. When Mr. Xin was with China Netcom (Hong Kong) Operations Limited, he held the position of senior vice president and senior consultant. Mr. Xin had also participated in the planning, implementation and management of many different important state projects. Mr. Xin thus possesses extensive knowledge and experience in science and technology information, business operation and management, and capital market operation. Since 1985, Mr. Xin has joined many different overseas studies and visits, and gained many valuable experiences in promoting co-operation with overseas enterprises, technology exchange, product research and development, and product marketing. Mr. Xin has long been interested in the study and research of corporate governance and corporate culture, in particular the characteristics of Western economy and the corporate governance practices adopted by overseas enterprises, and has made significant achievement in that regard.

**Mr. Yuen Kee Tong, J.P.**, aged 62, is the chief executive officer of the Company. Mr. Yuen is a member of the Association of Chartered Certified Accountants of the United Kingdom and also a member of the Hong Kong Institute of Certified Public Accountants. He joined CITIC Pacific Limited ("CITIC Pacific"), the controlling shareholder of the Company, in 2001 as the deputy

managing director. Mr. Yuen resigned from the Board of CITIC Pacific on 8 January 2007 and assumed the position of director and chief executive officer of the Company on the same day. Mr. Yuen has more than 20 years extensive experience in all aspects of telecoms industry. Mr. Yuen was the deputy chief executive of Hong Kong Telecommunications Ltd. and later, Pacific Century CyberWorks Ltd.. Mr. Yuen served many public bodies and advisory committees.

**Dr. Chan Tin Wai, David**, aged 46, is the chief financial officer of the Company and he joined the Company in June 2006. Dr. Chan obtained a LLB (Hons) degree and a Master degree of Law from the University of London in the United Kingdom, a Master degree of Accounting from Curtin University in Australia and a Doctor degree of Business Administration from the University of Newcastle in Australia. He is a member of the Institute of Chartered Accountants in England and Wales and also a fellow member of the Association of Chartered Certified Accountants, the Institute of Chartered Secretaries and Administrators, the Hong Kong Institute of Certified Public Accountants, the Taxation Institute of Hong Kong and the Hong Kong Institute of Chartered Secretaries. Dr. Chan worked in CITIC Pacific during the period from 1994 to 2000. He had worked in several multi-national and Hong Kong blue chip companies and has over 20 years of experience in overseeing corporate finance, merger and acquisition activities, accounting, company secretarial, administration, human resources and legal matters. Before joining the Company, he was the general manager – Finance of Sino Land Company Limited.

#### Non-Executive Directors

**Mr. Liu Jifu**, aged 67, has been a director of the Company since November 2010. Mr. Liu is an executive director of CITIC Pacific, a director of CITIC Hong Kong (Holdings) Limited ("CITIC HK") and CITIC International Financial Holdings Limited. He was with the Financial and Economics Research Institute in the China Academy of Social Sciences, an executive director of China Everbright Group Limited, and the chairman of China Everbright Travel Inc and China PINGHE Import & Export Co., Ltd.





**Liu Li Qing**  
Independent Non-Executive  
Director

**Yang Xianzu**  
Independent Non-Executive  
Director

**Kwong Che Keung, Gordon**  
Independent Non-Executive  
Director

**Mr. Fei Yiping**, aged 47, has been a director of the Company since January 2010. Mr. Fei is the group financial controller of CITIC Pacific, a director and the chief financial officer of CITIC HK, a non-executive director of Dah Chong Hong Holdings Limited, a fellow subsidiary of the Company, and a director of CITIC Guoan Co., Ltd.. Mr. Fei is a graduate from Beijing Science and Technology University and received a Master in Business Administration from the University of Edinburgh in the United Kingdom. Mr. Fei has over 10 years experience in accounting and financial management before joining the Company. He has been with CITIC Group, the ultimate holding company of the Company, since 1991. Between 2001 and 2008, Mr. Fei first acted as treasurer and director of CitiSteel USA, Inc. and then as vice president of CITIC USA Holdings, Inc. and chief representative of CITIC Group in New York. When he returned to China in 2008, he became deputy director-general of the Finance Department of CITIC Group.

#### Independent Non-Executive Directors

**\*<sup>Δ</sup>Mr. Yang Xianzu**, aged 71, joined the Company as an independent non-executive director in March 2007. Mr. Yang, a senior engineer, graduated in 1965 from the Department of Telephone and Telegraph at the Wuhan College of Posts and Telecommunications. From 1990 to early 1999, Mr. Yang served as Vice Minister of the Ministry of Posts and Telecommunications and later as Vice Minister of the Ministry of Information Industry. In 1999, Mr. Yang was appointed chairman of the Board of Directors and president of Unicom Group. During the period from 2000 to August 2003, Mr. Yang was the chairman of the Board of Directors and chief executive officer of China Unicom Limited, now known as China Unicom (Hong Kong) Limited. Mr. Yang is currently a member of Head of Strategic Development Consultation Committee of China Unicom, and an independent non-executive director of Dongfeng Motor Group Company Limited, China Wireless Technologies Limited and Net263 Ltd. (listed on the Shenzhen Stock Exchange in The People's Republic of China on 8 September 2010).

**\*<sup>Δ</sup>Mr. Liu Li Qing**, aged 70, joined the Company as an independent non-executive director in March 2007. Mr. Liu, a senior economist, graduated from Management Engineering in Beijing University of Posts and Telecommunications in 1963. Mr. Liu served as a Vice Minister of Ministry of Posts and Telecommunications during the period from 1996 to 1998 and the Head of State Postal Bureau from March 1998 to April 2003. Mr. Liu is currently the chairman of Sino-French Life Insurance Co., Ltd. and the chairman of China Association of Communications Enterprises.

**\*<sup>Δ</sup>Mr. Kwong Che Keung, Gordon**, aged 61, joined the Company as an independent non-executive director in March 2007. Mr. Kwong is also an independent non-executive director of a number of companies listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange"), including COSCO International Holdings Limited, Beijing Capital International Airport Company Limited, NWS Holdings Limited, OP Financial Investments Limited, China Chengtong Development Group Limited, Global Digital Creations Holdings Limited, Quam Limited, China Power International Development Limited, Henderson Land Development Company Limited, Henderson Investment Limited and Agile Property Holdings Limited. Mr. Kwong has a Bachelor of Social Science degree from the University of Hong Kong and is a fellow member of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants. From 1984 to 1998, he was a partner of Price Waterhouse and was a council member of the Stock Exchange from 1992 to 1997. Mr. Kwong previously served as an independent non-executive director of Frasers Property (China) Limited (listed in Hong Kong) until 14 January 2011.

\* Member of the Audit Committee

<sup>Δ</sup> Member of the Remuneration Committee

## DIRECTORS AND SENIOR MANAGEMENT

### Senior Management

**Mr. Cheung Yuet Pun**, aged 38, is the chief technology officer of the Company. He joined the Company in February 2002 and was responsible in areas such as product marketing, development and management within the organisation. Mr. Cheung obtained a Bachelor of Science degree of Electrical Engineering from Queen's University at Kingston, Canada in 1995 and also completed the Master of Science (MSc) in Financial Analysis and the Executive Diploma in Management at the Hong Kong University of Science and Technology in 2010 and 2006 respectively. From his professional certification aspect, he was granted the Professional Engineer Licence of Ontario, Canada in 1999. Mr. Cheung previously held various positions within Nortel Networks Corporation during 1996 to 2002, responsible for software design, technical support, and sales & marketing. To date, Mr. Cheung has about 15 years of operational experience in the telecoms industry.

He is now serving as the president of the Regulation Issues Group (2010 – now) in the Executive Committee of Communications Association of Hong Kong (CAHK). He is the committee member of Cyberport IncuTrain Centre Vetting Committee and is also participating in the Steering Committee of i3 Forum, which comprised more than 37 telecommunication providers representing a combined retail base in excess of 1.5 billion customers in over 100 countries.

**Mr. Ho Wai Chung, Stephen**, aged 52, is the chief executive officer (“CEO”) of CITIC Telecom International CPC Limited (“CPCNet”, formerly known as CPCNet Hong Kong Limited). He joined CITIC Pacific Communications Limited, a wholly owned subsidiary of CITIC Pacific, as executive vice president in April 2001 and was appointed CEO of CPCNet in 2002. He was transferred to the Group in 2007 when CPCNet was acquired by the Group. Mr. Ho holds an Honor Bachelor Degree in Electrical Engineering specialising in digital communications from McGill University of Canada. Prior to joining the CITIC Pacific Group, Mr. Ho held senior positions at Cable and Wireless Systems Limited, Hong Kong Telecom CSL Limited, Hong Kong Telecommunications Limited (“Hong Kong Telecom”) and iAdvantage Limited. Mr. Ho carries with him more than 20 years of extensive industry experience. He was the project director for numerous important telecommunication projects on public transportation in both Hong Kong and Taiwan. His experience spans marketing and sales of telecommunications products and services, logistics and strategic purchasing management, operations and technical management for the Hong Kong Telecom engineering support unit at the Hong Kong Kai Tak International Airport and other Hong Kong Government facilities. Mr. Ho also led Hong Kong Telecom's regional market development in mainland China, Taiwan, Singapore, Korea and Japan in the early 90s. He is a founder of two Internet Data Centres between 1999 and 2001.

Mr. Ho has been named to several leaderships award, including “The CEO of the Year 2007” by Asia Pacific Customer Service Consortium. He is an Executive Committee Member of the Communications Association of Hong Kong (CAHK) and is now serving the post of president, Internet Service & Content Provider Group (2006 – Present). He also serves on the Board of Governors of the US Pacific Telecommunications Council (PTC) and appointed as the deputy chairman of the Council's Finance and Audit Committee for 2011.

## DIRECTORS' REPORT

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2010.

### Principal Place of Business

CITIC Telecom International Holdings Limited ("the Company") is a company incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 25/F, CITIC Telecom Tower, 93 Kwai Fuk Road, Kwai Chung, New Territories, Hong Kong.

### Principal Activities

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

### Dividends

The directors declared an interim dividend of HK2.4 cents (2009: HK2.4 cents) per share in respect of the year ended 31 December 2010 which were paid on 8 September 2010. The directors recommended, subject to the approval of the shareholders at the forthcoming Annual General Meeting, the payment of a final dividend of HK7.1 cents (2009: HK7.1 cents) per share in respect of the year ended 31 December 2010 payable on 28 April 2011 to shareholders on the Register of Members at the close of business on 21 April 2011.

### Major Customers and Suppliers

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	15.4%	
Five largest customers in aggregate	40.0%	
The largest supplier		19.8%
Five largest suppliers in aggregate		41.9%

At no time during the year have the directors of the Company, their associates or any shareholder of the Company (which to the knowledge of the directors of the Company own more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

### Financial Statements

The profit of the Group for the year ended 31 December 2010 and the state of the Company's and the Group's affairs as at the date are set out in the financial statements on pages 62 to 122.



## DIRECTORS' REPORT

### Transfer to Reserves

Profits attributable to equity holders of the Company, before dividends, of HK\$401,288,000 (2009: HK\$371,527,000) have been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity.

### Change of the Company's Name

By a special resolution passed on 17 November 2010 and by a Certificate of Change of Name issued by the Registrar of Companies on 23 November 2010, the name of the Company was 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).

### Charitable Donations

Charitable donations made by the Group during the year amounted to approximately HK\$251,000 (2009: HK\$352,000).

### Property, Plant and Equipment

During the year, there were additions of property, plant and equipment amounted to HK\$158,765,000. Details of these additions and other movements in property, plant and equipment are set out in note 13 to the financial statements.

### Directors

The directors of the Company in office during the financial year ended 31 December 2010 were:

Mr Xin Yue Jiang

Mr Yuen Kee Tong

Dr David Chan Tin Wai

Mr Liu Jifu (appointed with effect from 18 November 2010)

Mr Kwok Man Leung (resigned with effect from 18 November 2010)

Mr Fei Yiping

Mr Yang Xianzu

Mr Liu Li Qing

Mr Gordon Kwong Che Keung

Mr Liu Jifu was appointed as non-executive director of the Company with effect from 18 November 2010. Thus, in accordance with Article 95 of the New Articles of Association of the Company, he shall hold office only until the forthcoming Annual General Meeting and is then eligible for re-election. In addition, pursuant to Article 104(A) of the New Articles of Association of the Company, Messrs Xin Yue Jiang and Yuen Kee Tong shall retire by rotation in the forthcoming Annual General Meeting and all, being eligible, offer themselves for re-election.

### Directors Service Contracts

As at 31 December 2010, there were no service contracts which were not determinable by the employer within one year without payment of compensation (other than statutory compensation) between any company in the Group and any director of the Company proposed for re-election at the forthcoming Annual General Meeting.

## Directors' Interests in Contracts

No contract of significance to which the Company, any of its holding companies, subsidiaries or fellow subsidiaries was a party, and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

## Competing Interests

Save as disclosed below, none of the directors of the Company and their respective associates had any direct or indirect interest in a business which competes or may compete with the business of the Group:

Mr Kwok Man Leung, a former non-executive director of the Company who resigned on 18 November 2010, and Mr Fei Yiping, a non-executive director of the Company, are directors 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, 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.

## Connected Transactions and Continuing Connected Transactions

Connected transactions disclosed in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") are as follows:

1. On 11 February 2010, the Company and CITIC Pacific Limited ("CITIC Pacific") entered into a sale and purchase agreement, pursuant to which the Company conditionally agreed to acquire from CITIC Pacific a 20% interest in the share capital of Companhia de Telecomunicacoes de Macau, S.A.R.L. ("CTM"), representing the entire interest in CTM held by CITIC Pacific, for a consideration of HK\$1,400.40 million to be satisfied by the Company as to HK\$467.00 million in cash and as to HK\$933.40 million by the issue of 405,826,087 new shares of the Company to CITIC Pacific (or its nominees) at the issue price of HK\$2.30 per share. CTM is engaged in the provision of fixed telephone services, telegram services, fixed telex services, fixed services for data transmission (except internet) and leased circuit services in Macau under a franchise with exclusive rights until 2011. CTM is also granted licences by the Macau Government to provide mobile services in competition with other operators in Macau. The licence for GSM 2G mobile services is up to 8 July 2012 and the licence for WCDMA 3G mobile services is up to 28 May 2015 and CTM is licensed to operate internet services on competitive basis up to 22 April 2013. CITIC Pacific is the controlling shareholder of the Company, and therefore is a connected person of the Company. The transaction was completed on 5 May 2010.
2. On 15 July 2010, ComNet Investment Limited ("ComNet Investment"), a wholly-owned subsidiary of the Company, as owner of the 16th, 17th and 18th floors, the roof and the upper roof of CITIC Telecom Tower (formerly named as Broadway Centre), 93 Kwai Fuk Road, Kwai Chung, New Territories, Hong Kong ("the Property"), confirmed, by way of a letter of acceptance after an open tender, the appointment of Dah Chong Hong (Engineering) Limited ("DCHL") as the nominated subcontractor to provide the mechanical ventilation and air-conditioning installation works ("MVAC Works") for the Property at the total contract sums of HK\$18,130,000. DCHL shall enter into subcontract(s) for the MVAC Works with the main contractor employed by ComNet Investment. DCHL is a wholly-owned subsidiary of CITIC Pacific, and therefore is a connected person of the Company.

## DIRECTORS' REPORT

3. On 2 September 2010, the Company, CITIC Telecom International CPC Limited ("CPCNet", formerly CPCNet Hong Kong Limited), being a wholly-owned subsidiary of the Company, CITIC Group, 北京中經迅通網絡技術有限公司 (CE-SCM Network Technology Co., Ltd.) ("CE-SCM"), 國務院國有資產監督管理委員會信息中心 (Information Centre of State-owned Assets Supervision & Administration Commission of the State Council) and 中企網絡通信技術有限公司 (China Enterprise Communications Ltd.) ("CEC") entered into a framework agreement, pursuant to which the Company will (through CPCNet) acquire at completion ("the Acquisition"):

- (i) 8.23% equity interest in CEC from CITIC Group and a right to require CITIC Group to sell to CPCNet the remaining 45.09% equity interest, which is exercisable by CPCNet after completion of the Acquisition 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, at a total consideration of RMB80,818,000 (approximately HK\$92,702,455);
- (ii) 40.77% equity interest in CEC from CE-SCM, at a consideration of RMB82,395,048 (approximately HK\$94,511,411) (subject to audit adjustments); and
- (iii) the entire issued share capital of China Enterprise Netcom Corporation Limited ("CEC-HK"), which currently is a subsidiary of CEC, at a consideration of HK\$400,000.

CPCNet, CEC and CEC-HK will also, before completion, enter into certain arrangements, including but not limited to the transactions contemplated under the Exclusive Service Agreement (as defined below).

The aggregate amount payable by the Group is approximately HK\$258,383,266 comprising (a) the aforesaid 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. CEC is one of the leading virtual private network ("VPN") service providers in the PRC and is a unique independent VPN service provider which was granted a nationwide internet protocol virtual private network ("IP-VPN") license by the Ministry of Industry and Information Technology of the PRC, which allows CEC to provide domestic IP-VPN services throughout China. CITIC Group is the controlling shareholder of CITIC Pacific, and therefore is a connected person of the Company. The Acquisition had not yet completed as at 31 December 2010.

Continuing connected transactions disclosed in accordance with the Listing Rules are as follows:

1. On 18 August 2004, the Company entered into a shareholders' agreement ("the Shareholders' Agreement") with, inter alia, HKIX Hong Kong Ltd. ("HKIX Co.") (which operates an exchange point ("HKIX") providing mainly interconnection amongst internet access providers in Hong Kong) and The Chinese University of Hong Kong Foundation Limited in relation to the joint venture company, Asia Pacific Internet Exchange Limited ("APIX"), for operating a secondary site ("HKIX2") to HKIX on a non-profit basis. Pursuant to the Shareholders' Agreement, APIX will, inter alia, provide various financial and operational support to HKIX Co. which includes an annual payment of HK\$1.00 million to a wholly-owned subsidiary of HKIX Co.. Such annual payment is for an initial period of six years until 17 August 2010 (which, subject to annual review by APIX, may be renewed on a yearly basis for no more than four years). The benefit to the Company is the prestige of involving in the provision of HKIX2, the mirror site of a crucial internet exchange point in Hong Kong. As HKIX is unique and crucial in maintaining the internet connection and provide community services to the Hong Kong public at large, the Company sees the entering into of the Shareholders' Agreement as a good opportunity whereby it can participate and provide community services to the public. As APIX is a subsidiary of the Company and HKIX Co. is a substantial shareholder of APIX, HKIX Co. and its subsidiaries are connected persons of the Company.



2. On 4 November 2009, the Company and Goldon Investment Limited (“Goldon”) entered into two lease agreements (“the Lease Agreements”) for the purpose of renewing the lease agreements which expired on 15 November 2009. Pursuant to the first renewed lease agreement, the Company leased from Goldon the premises located at 8th Floor, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong for a term of three years commencing from 16 November 2009. The monthly rental is approximately HK\$1,120,400 (exclusive of government rent, rates and service charge). The service charge is approximately HK\$119,300 per month, plus any additional air-conditioning charges for supply after normal office hours (including chilled water charges) which are based on actual usage. Pursuant to the second renewed lease agreement, the Company leased from Goldon the premises located at portion of 9th Floor, CITIC Tower for a term of one year commencing from 16 November 2009. The monthly rental is approximately HK\$680,000 (exclusive of government rent, rates and service charge). The service charge is approximately HK\$72,400 per month, plus any additional air-conditioning charges for supply after normal office hours which are based on actual usage. Under the Lease Agreements, the Company may rent car parking spaces in CITIC Tower from Goldon as required from time to time at the same rates payable by independent third parties to Goldon. The aggregate monthly rentals, service charges and monthly rentals for the car parking spaces in CITIC Tower under the Lease Agreements for each of the 12-month period ending 15 November 2012 will not exceed HK\$26.00 million. As CITIC Pacific has a 40% interest in Goldon, Goldon is an associate of CITIC Pacific, and therefore a connected person of the Company.

For the year ended 31 December 2010, the aggregate amount paid by the Company in respect of the Lease Agreements was HK\$24.41 million.

3. On 30 December 2009, ComNet Investment entered into a management services agreement (as supplemented by a supplemental deed dated 28 November 2010 in respect of the change of the building name from Broadway Centre to CITIC Telecom Tower) with Broadway Centre Property Management Company Limited (“the Manager”), a wholly-owned subsidiary of CITIC Pacific, pursuant to which the Manager will provide property management services, chilled water supply and air-conditioning supply in respect of the property comprising portions of ground, 1st, 2nd and 3rd floors, the whole of 5th, 16th, 17th, 18th, 23rd, 25th and 26th floors, portion of the roof and ancillary areas of CITIC Telecom Tower, 93 Kwai Fuk Road, Kwai Chung, New Territories, Hong Kong to ComNet Investment for a period of two years commencing from 30 December 2009. The current general management fee is approximately HK\$176,300 per month. The chilled water charges are based on the actual volume of chilled water used. The air-conditioning charges for supply during normal office hours are approximately HK\$80,200 per month and the air-conditioning charges for supply after normal office hours are based on the actual usage. The aggregate of the general management fees, chilled water charges and air-conditioning charges payable to the Manager for each of the 12-month period as from 30 December 2009 will not exceed HK\$6,800,000. The Manager is a wholly-owned subsidiary of CITIC Pacific, and therefore is a connected person of the Company.

The aggregate of the general management fees, chilled water charges and air-conditioning charges paid to the Manager for the year ended 31 December 2010 was approximately HK\$2.27 million.

4. On 24 November 2010, CEC, CEC-HK and CPCNet entered into an exclusive service agreement (“the Exclusive Service Agreement”), pursuant to which CEC shall provide technical and support services to the customers of CEC-HK and CPCNet in the PRC for a term of 3 years 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 monthly 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. 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 ended 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. In accordance with the Listing Rules, CEC is an associate of CITIC Group, and therefore is a connected person of the Company.

No services were provided by CEC to the customers of CEC-HK and CPCNet under the Exclusive Service Agreement for the year ended 31 December 2010. Accordingly there were no continuing connected transactions under the Exclusive Service Agreement for the year ended 31 December 2010.

## DIRECTORS' REPORT

### Review of the Continuing Connected Transactions:

The independent non-executive directors of the Company have reviewed the aforesaid continuing transactions made for the year ended 31 December 2010 and confirmed that the transactions had been entered into

- in the ordinary and usual course of business of the Group;
- on normal commercial terms; and
- in accordance with the relevant agreements on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing the findings and conclusions in respect of the Continuing Connected Transactions disclosed by the Group in pages 52 to 53 of the annual report in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited ("Stock Exchange").

### Related Party Transactions:

Details of the significant related party transactions undertaken in the normal course of business are provided under note 12 to the financial statements. None of these related party transactions constitutes a discloseable connected transaction as defined under the Listing Rules, except for those described in the section of "Connected Transactions and Continuing Connected Transactions", in respect of which the disclosure requirements in accordance with Chapter 14A of the Listing Rules have been complied with.

## Share Option Plan

The Company adopted a share option plan ("the Plan") on 17 May 2007. The major terms of the Plan are as follows:

1. The purpose of the Plan is to attract and retain the best quality personnel for the development of the Company's businesses; to provide additional incentives to Employees (as defined herebelow); and to promote the long term financial success of the Company by aligning the interests of grantees to shareholders.
2. The grantees of the Plan are any person employed by the Company or any of its subsidiaries and any person who is an officer or director (whether executive or non-executive) of the Company or any of its subsidiaries ("the Employees") as the Board may, in its absolute discretion, select.
3. The maximum number of shares over which options may be granted under the Plan must not exceed 10% of (i) the shares of the Company in issue from time to time; or (ii) the shares of the Company in issue as at the date of adopting the Plan, whichever is the lower. As at 25 February 2011, the maximum number of shares available for issue under the Plan is 139,305,000, representing approximately 5.84% of the issued share capital.
4. The total number of shares of the Company ("the Shares") issued and to be issued upon exercise of options (whether exercised or outstanding) in any 12-month period granted to each grantee must not exceed 1% of the Shares in issue. Where any further grant of options to a grantee would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant shall be subject to separate approval by the shareholders of the Company in general meeting.
5. The exercise period of any option granted under the Plan must not be more than ten years commencing on the date of grant.
6. The acceptance of an offer of the grant of the options must be made within 28 days from the date of grant with a non-refundable payment of HK\$1.00 from the grantee.
7. The subscription price determined by the Board will not be less than the higher of (i) the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.
8. The Plan shall be valid and effective till 16 May 2017.

Since the adoption of the Plan, the Company has granted two lots of share options:

Date of grant	Number of share options	Exercise period	Exercise price HK\$
23 May 2007	18,720,000	23 May 2007 to 22 May 2012	3.26
17 September 2009	17,912,500	17 September 2010 to 16 September 2015	2.10
17 September 2009	17,912,500	17 September 2011 to 16 September 2016	2.10

All options granted were accepted except for options for 115,000 shares granted on 17 September 2009. Options for 1,644,500 shares were exercised, options for 1,672,500 shares have lapsed and no options were cancelled during the year ended 31 December 2010.

A summary of the movements of the share options during the year ended 31 December 2010 is as follows:

### A. Directors of the Company

				Number of Share Options				
Name of director	Date of grant	Exercise price HK\$	Exercise period	Balance as at 1.1.2010	Granted during the year ended 31.12.2010	Exercised during the year ended 31.12.2010	Balance as at 31.12.2010	Percentage to the issued share capital %
Xin Yue Jiang	17.9.2009	2.10	17.9.2010 – 16.9.2015	900,000	–	–	900,000	
	17.9.2009	2.10	17.9.2011 – 16.9.2016	900,000	–	–	900,000	
							1,800,000	0.075
Yuen Kee Tong	23.5.2007	3.26	23.5.2007 – 22.5.2012	2,500,000	–	–	2,500,000	
	17.9.2009	2.10	17.9.2010 – 16.9.2015	800,000	–	–	800,000	
	17.9.2009	2.10	17.9.2011 – 16.9.2016	800,000	–	–	800,000	
							4,100,000	0.172
David Chan Tin Wai	23.5.2007	3.26	23.5.2007 – 22.5.2012	1,845,000	–	–	1,845,000	
	17.9.2009	2.10	17.9.2010 – 16.9.2015	700,000	–	–	700,000	
	17.9.2009	2.10	17.9.2011 – 16.9.2016	700,000	–	–	700,000	
							3,245,000	0.136



## DIRECTORS' REPORT

## Number of Share Options

Name of director	Date of grant	Exercise price HK\$	Exercise period	Balance as at 1.1.2010	Granted during the year ended 31.12.2010	Exercised during the year ended 31.12.2010	Balance as at 31.12.2010	Percentage to the issued share capital %
Kwok Man Leung	17.9.2009	2.10	17.9.2010 – 16.9.2015	150,000	–	– (Note 1)	N/A (Note 1)	N/A
	17.9.2009	2.10	17.9.2011 – 16.9.2016	150,000	–	–		
Yang Xianzu	23.5.2007	3.26	23.5.2007 – 22.5.2012	300,000	–	–	300,000	
	17.9.2009	2.10	17.9.2010 – 16.9.2015	150,000	–	–	150,000	
	17.9.2009	2.10	17.9.2011 – 16.9.2016	150,000	–	–	150,000	
							600,000	0.025
Liu Li Qing	23.5.2007	3.26	23.5.2007 – 22.5.2012	300,000	–	–	300,000	
	17.9.2009	2.10	17.9.2010 – 16.9.2015	150,000	–	–	150,000	
	17.9.2009	2.10	17.9.2011 – 16.9.2016	150,000	–	–	150,000	
							600,000	0.025
Gordon Kwong Che Keung	23.5.2007	3.26	23.5.2007 – 22.5.2012	300,000	–	–	300,000	
	17.9.2009	2.10	17.9.2010 – 16.9.2015	150,000	–	–	150,000	
	17.9.2009	2.10	17.9.2011 – 16.9.2016	150,000	–	–	150,000	
							600,000	0.025

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

## Number of Share Options

Date of grant	Exercise price HK\$	Balance as at 1.1.2010	Granted during the year ended 31.12.2010	Exercised during the year ended 31.12.2010 (Note 2)	Lapsed during the year ended 31.12.2010	Balance as at 31.12.2010
23.5.2007	3.26	9,620,000	–	–	–	9,620,000
17.9.2009	2.10	29,410,000	–	1,644,500	1,372,500 (Note 3)	26,393,000

*Notes:*

1. Mr Kwok Man Leung resigned as director of the Company on 18 November 2010. During the period from 1 January 2010 to 18 November 2010, Mr Kwok has not exercised any of his share options.
2. The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK\$2.76.
3. These are in respect of options granted to former employees under continuous contracts who have resigned. Such options have lapsed during the year ended 31 December 2010. Apart from this, options for 300,000 shares granted to a former director of the Company have lapsed during the year ended 31 December 2010.

## Directors' Interests in Securities

The interests of the directors of the Company in shares of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as at 31 December 2010 as recorded in the register required to be kept under section 352 of the SFO were as follows:

### 1. Shares in the Company and Associated Corporations

	Number of Shares	
	Personal interests unless otherwise stated	Percentage to the issued share capital %
<b>CITIC Telecom International Holdings Limited</b>		
Yuen Kee Tong	500,000	0.0210
David Chan Tin Wai	2,000	0.0001
<b>CITIC Pacific, an associated corporation</b>		
Yuen Kee Tong	1,033,000	0.0283
David Chan Tin Wai	40,000	0.0011
Liu Jifu	840,000	0.0230
Yang Xianzu	20,000	0.0005
Gordon Kwong Che Keung	70,000 ( <i>Note 1</i> )	0.0019
<b>Dah Chong Hong Holdings Limited, an associated corporation</b>		
Yuen Kee Tong	20,000	0.0011
David Chan Tin Wai	5,279	0.0003
<b>China CITIC Bank Corporation Limited (H shares), an associated corporation</b>		
David Chan Tin Wai	3,000 ( <i>Note 2</i> )	0.00002

*Notes:*

1. 20,000 shares are in respect of personal interests and 50,000 shares are in respect of corporate interests.
  2. These 3,000 shares are in respect of family interests.
- ### 2. Share Options in the Company

The interests of the directors of the Company in the share options (being regarded as unlisted physically settled equity derivatives) of the Company are stated in detail in the preceding section of "Share Option Plan".

## DIRECTORS' REPORT

### 3. Share Options in an Associated Corporation, CITIC Pacific

Name of director	Date of grant	Exercise period	Exercise price per share HK\$	Number of share options as at 31.12.2010	Percentage to the issued share capital %
Liu Jifu	20.06.2006	20.06.2006 – 19.06.2011	22.10	700,000	0.019
	16.10.2007	16.10.2007 – 15.10.2012	47.32	700,000	0.019
	19.11.2009	19.11.2009 – 18.11.2014	22.00	500,000	0.014
Fei Yiping	19.11.2009	19.11.2009 – 18.11.2014	22.00	300,000	0.008

Save as disclosed above, as at 31 December 2010, none of the directors of the Company had nor were they taken to or deemed to have, under Part XV of the SFO, any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations or any interests which are required to be entered into the register kept by the Company pursuant to section 352 of the SFO or any interests which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.

Save as disclosed above, at no time during the year was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party or parties to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

### Substantial Shareholders

As at 31 December 2010, the interests of the substantial shareholders, other than the directors of the Company or their respective associates, in the shares of the Company as recorded in the register of interests in shares and short positions required to be kept under section 336 of the SFO were as follows:





Name	Number of shares of the Company	Percentage to the issued share capital %
CITIC Group	1,445,584,370	60.606
CITIC Pacific	1,445,584,370	60.606
Crown Base International Limited	1,445,584,370	60.606
Effectual Holdings Corp.	1,445,584,370	60.606
CITIC Pacific Communications Limited ("CPC")	1,445,584,370	60.606
Douro Holdings Inc.	1,445,584,370	60.606
Ferretti Holdings Corp.	941,692,000	39.481
Ease Action Investments Corp.	941,692,000	39.481
Onway Assets Holdings Ltd.	405,826,087	17.014
Silver Log Holdings Ltd.	405,826,087	17.014
Matthews International Capital Management, LLC	120,383,000	5.047



CITIC Group is the ultimate holding company of CITIC Pacific and CITIC Pacific is the direct holding company of Crown Base International Limited, which is the direct holding company of Effectual Holdings Corp.. Effectual Holdings Corp. in turn holds CPC, which is then the direct holding company of Douro Holdings Inc.. Douro Holdings Inc. is the direct holding company of Ferretti Holdings Corp. and Onway Assets Holdings Ltd.. Ferretti Holdings Corp. is the direct holding company of Ease Action Investments Corp. and Onway Assets Holdings Ltd. is the direct holding company of Silver Log Holdings Ltd.. Accordingly, the interests of CITIC Group in the Company and the interests in the Company of all its direct and indirect subsidiaries as described above duplicate each other.

## Contracts of Significance with Controlling Shareholders

The Company and the controlling shareholders of the Company have entered into the following contracts of significance which were subsisting during the financial year ended 31 December 2010:

1. Administrative services agreement dated 21 March 2007 (“the Administrative Services Agreement”) entered into between the Company and CITIC Pacific, a controlling shareholder of the Company, pursuant to which CITIC Pacific and the Company will share the company secretarial services and the internal audit services with effect from 1 January 2007. The amount payable by the Company to CITIC Pacific for the services received shall be determined on costs basis with payment terms to be agreed between the parties from time to time. The Administrative Services Agreement may be terminated if CITIC Pacific shall hold less than 30% of the shares of the Company and is terminable by giving a six months’ prior notice in writing by either party. Mr Liu Jifu, an executive director of CITIC Pacific, Mr Kwok Man Leung, an executive director of CITIC Pacific, who has resigned as a non-executive director of the Company with effect from 18 November 2010, and Mr Fei Yiping, Group Financial Controller of CITIC Pacific have indirect interests in the Administrative Services Agreement. A copy of the Administrative Services Agreement will be available for inspection at the Annual General Meeting of the Company to be held on 21 April 2011.
2. Deed of non-competition dated 21 March 2007 executed by CITIC Pacific in favour of the Company, mainly to the effect that at any time during which the shares of the Company are listed on the Stock Exchange and CITIC Pacific and/or its associates are regarded as a controlling shareholder of the Company under the Listing Rules, (i) CITIC Pacific will not engage and will procure its subsidiaries (excluding the Group) not to engage in the provisions of telecommunications hub-based service (“Restricted Activity”) globally or in any other business that may compete with the Restricted Activity, and (ii) in the event that any opportunity is made available to CITIC Pacific to invest in any independent third party’s business engaging in the Restricted Activity, CITIC Pacific will use its best efforts to procure that such investment opportunity is offered to the Group and the Group shall have a first right of refusal.
3. Deed of Indemnity dated 21 March 2007 given by CITIC Pacific in favour of the Company (and its subsidiaries), pursuant to which CITIC Pacific will keep the Company and its subsidiaries indemnified against any taxation falling on it resulting from or by reference to any revenue, income, profits or gains granted, earned, accrued, received or made on the listing date of the Company or any event, transaction, act or omission occurring or deemed to occur on or before the listing date of the Company.
4. Trademark licence agreement dated 21 March 2007 entered into between the Company and CITIC Pacific, pursuant to which CITIC Pacific agreed to licence, on a non-exclusive basis and for nil consideration, the trademark “” for use in connection with the Group’s business. The term of the agreement is from 21 March 2007 until the expiration of the current trademark registration on 26 July 2014. However, the Company has ceased to use the trademark “” since the Company changed its name from “CITIC 1616 Holdings Limited” to “CITIC Telecom International Holdings Limited”, which took effect from 23 November 2010, whereupon the Company has adopted “” as its new logo.
5. Trademark licence agreement dated 23 November 2010 entered into between the Company, CITIC Group, a controlling shareholder of the Company, and CITIC Pacific, pursuant to which CITIC Group agreed to licence, on a non-exclusive basis, the trademarks “中信”, “CITIC” and “” for use by the Company. The agreement is for a term of 3 years up till 16 November 2013, and may be renewed thereafter. No consideration is payable by the Company to CITIC Group for the use of the aforesaid trademarks.

Apart from the above and the transactions as mentioned in the section of “Connected Transactions” and in items 2 to 4 of the section of “Continuing Connected Transactions”, none of the Company or any of its subsidiaries has entered into any other contract of significance with the Company’s controlling shareholders or their subsidiaries which were subsisting during the financial year ended 31 December 2010.

## Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the directors of the Company as at the date of this report, the Company has maintained the amount of public float as required under the Listing Rules.

## DIRECTORS' REPORT

### Borrowings

At 31 December 2010, the Group had HK\$96.35 million short-term loan from an associate. The loan bears interest at the prevailing market rate. It is unsecured and repayable on 31 March 2011.

At 31 December 2010, the Group had no outstanding bank borrowings.

### Share Capital

Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year ended 31 December 2010 and the Company has not redeemed any of its shares during the year ended 31 December 2010.

### Confirmation of Independence

The Company has received from each independent non-executive director an annual confirmation of his independence pursuant to the independence guidelines under the Listing Rules and that the Company still considers such directors to be independent.

### Disclosure Pursuant to Rule 13.51B(1) of the Listing Rules

Pursuant to Rule 13.51B(1) of the Listing Rules, set out below are the changes in monthly salaries for the following directors of the Company with effect from 1 January 2011:

Name of director	Previous monthly salary	Monthly salary (with effect from 1 January 2011)
Xin Yue Jiang	HK\$180,000	HK\$249,600
Yuen Kee Tong	HK\$240,000	HK\$249,600
David Chan Tin Wai	HK\$160,000	HK\$166,400

*Note:* For information in relation to the 2010 full year emoluments of the directors of the Company, please refer to note 9 to the financial statements.

In addition, an ordinary resolution will be put forth to the shareholders in the annual general meeting to be held on 21 April 2011, proposing that with effect from the financial year ending 31 December 2011:

- the director's fee for all directors of the Company (other than the executive directors and directors with employment with CITIC Pacific) be fixed at HK\$150,000 per annum;
- additional remuneration payable to each of the directors (other than the executive directors and directors with employment with CITIC Pacific) who serves on the Audit Committee and the Remuneration Committee shall remain unchanged; and
- the executive directors and directors who are employed by CITIC Pacific will not receive any directors' fee for serving on the Board and the Board Committees of the Company.

### Five Year Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 32 to 33 of the annual report.

### Retirement Scheme

The Group operates a Mandatory Provident Fund Scheme. Particulars of the retirement scheme is set out in note 29 to the financial statements.

### Auditor

KPMG retire and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board  
**Xin Yue Jiang**  
 Chairman  
 Hong Kong, 25 February 2011

## INDEPENDENT AUDITOR'S REPORT

**Independent Auditor's Report to the Shareholders of CITIC Telecom International Holdings Limited***(Formerly known as "CITIC 1616 Holdings Limited")*

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of CITIC Telecom International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 62 to 122 which comprise the consolidated and company balance sheets as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company statements of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Directors' responsibility for the consolidated financial statements**

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG  
Certified Public Accountants

8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong

25 February 2011



# CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2010  
(Expressed in Hong Kong dollars)

	Note	2010 \$'000	2009 \$'000
<b>Turnover</b>	4	<b>2,966,469</b>	2,716,559
Other revenue	5	<b>3,493</b>	5,455
Other net (loss)/gain	6	<b>(6,999)</b>	513
		<b>2,962,963</b>	2,722,527
Network, operations and support expenses	7(c)	<b>(2,042,320)</b>	(1,800,966)
Depreciation and amortisation	7(c)	<b>(113,633)</b>	(110,937)
Staff costs	7(b)	<b>(262,778)</b>	(220,466)
Other operating expenses		<b>(187,218)</b>	(141,876)
<b>Profit from operations</b>		<b>357,014</b>	448,282
Finance costs	7(a)	<b>(214)</b>	—
Share of profit/(loss) of associates	17	<b>88,957</b>	(1,323)
<b>Profit before taxation</b>	7	<b>445,757</b>	446,959
Income tax	8(a)	<b>(44,469)</b>	(75,432)
<b>Profit attributable to equity holders of the Company</b>		<b>401,288</b>	371,527
<b>Earnings per share (HK cents)</b>	11		
Basic		<b>17.9</b>	18.8
Diluted		<b>17.8</b>	18.8

The notes on pages 69 to 122 form part of these financial statements. Details of dividends payable to equity holders of the Company attributable to the profit for the year are set out in note 23(a).

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2010  
(Expressed in Hong Kong dollars)

	2010 \$'000	2009 \$'000
<b>Profit for the year</b>	<b>401,288</b>	371,527
<b>Other comprehensive income for the year (after tax)</b>		
Exchange differences on translation of financial statements of overseas subsidiaries	<b>14,843</b>	(3,129)
<b>Total comprehensive income for the year attributable to equity holders of the Company</b>	<b>416,131</b>	368,398

# CONSOLIDATED BALANCE SHEET

at 31 December 2010  
(Expressed in Hong Kong dollars)

	Note	2010 \$'000	2009 \$'000
<b>Non-current assets</b>			
Property, plant and equipment	13	595,350	541,691
Intangible assets	14	48,362	55,232
Goodwill	15	281,465	277,419
Interest in an associate	17	1,489,382	–
Non-current other receivables and deposits	19	171,370	21,481
Deferred tax assets	18(a)	22,172	14,284
		<b>2,608,101</b>	<b>910,107</b>
<b>Current assets</b>			
Trade receivables, other receivables and deposits	19	1,140,333	871,297
Current tax recoverable	8(b)	6,265	2,704
Cash and bank deposits	20(a)	327,026	686,190
		<b>1,473,624</b>	<b>1,560,191</b>
<b>Current liabilities</b>			
Trade and other payables	21	876,849	676,673
Loan from an associate	22	96,350	–
Current tax payable	8(b)	23,703	38,396
		<b>996,902</b>	<b>715,069</b>
<b>Net current assets</b>			
		<b>476,722</b>	<b>845,122</b>
<b>Total assets less current liabilities</b>			
		<b>3,084,823</b>	<b>1,755,229</b>
<b>Non-current liabilities</b>			
Non-current other payables	21	102,582	–
Deferred tax liabilities	18(a)	38,424	38,289
		<b>141,006</b>	<b>38,289</b>
<b>NET ASSETS</b>			
		<b>2,943,817</b>	<b>1,716,940</b>
<b>CAPITAL AND RESERVES</b>			
Share capital	23(b)	238,520	197,773
Reserves		2,705,297	1,519,167
<b>TOTAL EQUITY</b>			
		<b>2,943,817</b>	<b>1,716,940</b>

Approved and authorised for issue by the board of directors on 25 February 2011

**Xin Yue Jiang**  
Director

**Yuen Kee Tong**  
Director

The notes on pages 69 to 122 form part of these financial statements.



**BALANCE SHEET**at 31 December 2010  
(Expressed in Hong Kong dollars)

	Note	2010 \$'000	2009 \$'000
<b>Non-current assets</b>			
Property, plant and equipment	13	19,120	—
Investments in subsidiaries	16	4,071	4,071
Interest in an associate	17	1,400,268	—
Deferred tax assets	18(a)	1,832	2,305
		<b>1,425,291</b>	<b>6,376</b>
<b>Current assets</b>			
Trade receivables, other receivables and deposits	19	1,040,190	1,122,741
Cash and bank deposits	20(a)	90,523	455,281
		<b>1,130,713</b>	<b>1,578,022</b>
<b>Current liabilities</b>			
Trade and other payables	21	115,798	190,045
<b>Net current assets</b>		<b>1,014,915</b>	<b>1,387,977</b>
<b>NET ASSETS</b>		<b>2,440,206</b>	<b>1,394,353</b>
<b>CAPITAL AND RESERVES</b>	23		
Share capital	23(b)	238,520	197,773
Reserves		2,201,686	1,196,580
<b>TOTAL EQUITY</b>		<b>2,440,206</b>	<b>1,394,353</b>

Approved and authorised for issue by the board of directors on 25 February 2011

Xin Yue Jiang  
DirectorYuen Kee Tong  
Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2010  
(Expressed in Hong Kong dollars)

		Attributable to equity holders of the Company						
		Share capital	Share premium	Capital reserve	Capital redemption reserve	Exchange reserve	Retained profits	Total
	(Note 23(b))	(Note 23(c))	(Note 23(d))	(Note 23(c))	(Note 23(e))			
Note	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Balance at 1 January 2009</b>		197,773	629,517	10,464	2,034	(866)	678,788	1,517,710
<b>Changes in equity for 2009:</b>								
Dividends approved in respect of the previous year	23(a)(ii)	—	—	—	—	—	(126,574)	(126,574)
Equity-settled share-based transactions	7(b)	—	—	4,872	—	—	—	4,872
Release upon lapse of share options		—	—	(207)	—	—	207	—
Total comprehensive income for the year		—	—	—	—	(3,129)	371,527	368,398
Dividends approved in respect of the current year	23(a)(i)	—	—	—	—	—	(47,466)	(47,466)
<b>Balance at 31 December 2009 and 1 January 2010</b>		197,773	629,517	15,129	2,034	(3,995)	876,482	1,716,940
<b>Changes in equity for 2010:</b>								
Dividends approved in respect of the previous year	23(a)(ii)	—	—	—	—	—	(140,419)	(140,419)
Shares issued for acquisition of an associate	23(b)(ii)	40,583	949,603	—	—	—	—	990,186
Shares issued under share option plan	23(b)(iii)	164	4,431	(1,146)	—	—	—	3,449
Equity-settled share-based transactions	7(b)	—	—	14,578	—	—	—	14,578
Release upon lapse of share options		—	—	(97)	—	—	97	—
Total comprehensive income for the year		—	—	—	—	14,843	401,288	416,131
Dividends approved in respect of the current year	23(a)(i)	—	—	—	—	—	(57,205)	(57,205)
Share of reserve of an associate		—	—	157	—	—	—	157
<b>Balance at 31 December 2010</b>		238,520	1,583,551	28,621	2,034	10,848	1,080,243	2,943,817

The notes on pages 69 to 122 form part of these financial statements.

## STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2010  
(Expressed in Hong Kong dollars)

	Note	Share capital (Note 23(b)) \$'000	Share premium (Note 23(c)) \$'000	Capital reserve (Note 23(d)) \$'000	Capital redemption reserve (Note 23(e)) \$'000	Retained profits \$'000	Total \$'000
<b>Balance at 1 January 2009</b>		197,773	629,517	66,361	2,034	350,415	1,246,100
<b>Changes in equity for 2009:</b>							
Dividends approved in respect of the previous year	23(a)(ii)	—	—	—	—	(126,574)	(126,574)
Equity-settled share-based transactions	7(b)	—	—	4,872	—	—	4,872
Release upon lapse of share options		—	—	(207)	—	207	—
Total comprehensive income for the year		—	—	—	—	317,421	317,421
Dividends approved in respect of the current year	23(a)(i)	—	—	—	—	(47,466)	(47,466)
<b>Balance at 31 December 2009 and 1 January 2010</b>		197,773	629,517	71,026	2,034	494,003	1,394,353
<b>Changes in equity for 2010:</b>							
Dividends approved in respect of the previous year	23(a)(ii)	—	—	—	—	(140,419)	(140,419)
Shares issued for acquisition of an associate	23(b)(ii)	40,583	949,603	—	—	—	990,186
Shares issued under share option plan	23(b)(iii)	164	4,431	(1,146)	—	—	3,449
Equity-settled share-based transactions	7(b)	—	—	14,578	—	—	14,578
Release upon lapse of share options		—	—	(97)	—	97	—
Total comprehensive income for the year		—	—	—	—	235,264	235,264
Dividends approved in respect of the current year	23(a)(i)	—	—	—	—	(57,205)	(57,205)
<b>Balance at 31 December 2010</b>		238,520	1,583,551	84,361	2,034	531,740	2,440,206

The notes on pages 69 to 122 form part of these financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2010  
(Expressed in Hong Kong dollars)

	Note	2010 \$'000	2009 \$'000
<b>Operating activities</b>			
Cash generated from operations	20(b)	417,060	464,045
Hong Kong Profits Tax paid		(68,270)	(59,876)
Overseas tax paid		(3,749)	(2,047)
Hong Kong Profits Tax refunded		–	196
Overseas tax refunded		1,820	–
<b>Net cash generated from operating activities</b>		<b>346,861</b>	<b>402,318</b>
<b>Investing activities</b>			
Payment for the purchase of property, plant and equipment		(132,786)	(249,055)
Proceeds from sale of property, plant and equipment		412	–
Payment for acquisition of an associate		(410,082)	–
Payment for acquisition of subsidiaries (net of cash and cash equivalents acquired)	27	–	(96,654)
Deposit paid for acquisition of subsidiaries		(65,931)	–
Transaction costs for acquisition of subsidiaries		(3,542)	–
Decrease in pledged deposits		312	–
Interest received		1,245	6,819
<b>Net cash used in investing activities</b>		<b>(610,372)</b>	<b>(338,890)</b>
<b>Financing activities</b>			
Proceeds from new shares issued under share option plan		3,453	–
Dividends paid to equity holders of the Company		(197,624)	(174,040)
Proceeds from loan from an associate	22	96,946	–
<b>Net cash used in financing activities</b>		<b>(97,225)</b>	<b>(174,040)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(360,736)</b>	<b>(110,612)</b>
<b>Cash and cash equivalents at 1 January</b>	20(a)	<b>684,397</b>	<b>794,988</b>
<b>Effect of foreign exchange rate changes</b>		<b>1,838</b>	<b>21</b>
<b>Cash and cash equivalents at 31 December</b>	20(a)	<b>325,499</b>	<b>684,397</b>

The notes on pages 69 to 122 form part of these financial statements.



## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 1 Significant accounting policies

#### (a) STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“the SEHK”). A summary of the significant accounting policies adopted by the Group is set out below.

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

#### (b) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2010 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in an associate.

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

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 30.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 1 Significant accounting policies (Continued)

#### (c) SUBSIDIARIES

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

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

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an interest in an associate. (see note 1(d)).

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

#### (d) ASSOCIATES

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

An interest in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 1(e) and (i)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition, post-tax items of the investee's other comprehensive income is recognised in the consolidated statement of comprehensive income.

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

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

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

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

## 1 Significant accounting policies (Continued)

### (e) GOODWILL

Goodwill represents the excess of

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(i)(ii)).

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

### (f) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(i)(ii)).

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 1 Significant accounting policies (Continued)

#### (f) PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

- buildings situated on freehold land are depreciated on a straight-line basis over their estimated useful life, being no more than 50 years after the date of completion.
- buildings situated on leasehold land are depreciated on a straight-line basis over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.
- telecommunications equipment are depreciated on a straight-line basis at 7 – 33% per annum.
- other assets are depreciated on a straight-line basis at 20 – 33% per annum.

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

#### (g) INTANGIBLE ASSETS (OTHER THAN GOODWILL)

Intangible assets that are acquired by the Group are stated in the consolidated balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(i)(ii)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

- |   |             |
|---|-------------|
| – Indefeasible rights of use (“IRU”) of telecommunications capacity | 10 years    |
| – Customer relationships  | 7 – 8 years |
| – Customer contracts  | 1 year      |
| – Trade names/trademarks  | 1 year      |

Both the period and method of amortisation are reviewed annually.



## 1 Significant accounting policies (Continued)

### (h) LEASED ASSETS

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

#### (i) *Classification of assets leased to the Group*

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, except for land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

#### (ii) *Operating lease charges*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

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

### (i) IMPAIRMENT OF ASSETS

#### (i) *Impairment of interest in an associate, and trade receivables, other receivables and deposits*

Interest in an associate and current and non-current trade receivables, other receivables and deposits that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1 Significant accounting policies (Continued)

### (i) IMPAIRMENT OF ASSETS (CONTINUED)

#### (i) *Impairment of interest in an associate, and trade receivables, other receivables and deposits (continued)*

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For interest in an associate recognised using the equity method (see note 1(d)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 1(i)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(i)(ii).
- For trade receivables, other receivables and deposits, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade receivables, other receivables and deposits, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

## 1 Significant accounting policies (Continued)

### (i) IMPAIRMENT OF ASSETS (CONTINUED)

#### (ii) *Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that property, plant and equipment, intangible assets, investments in subsidiaries, and goodwill may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

#### – Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

#### – Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

#### – Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

#### (iii) *Interim financial reporting and impairment*

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

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

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 1 Significant accounting policies (Continued)

#### (j) TRADE RECEIVABLES, OTHER RECEIVABLES AND DEPOSITS

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

#### (k) CASH AND CASH EQUIVALENTS

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

#### (l) TRADE AND OTHER PAYABLES

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

#### (m) INTEREST-BEARING BORROWINGS

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

#### (n) EMPLOYEE BENEFITS

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

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

##### (ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).



## 1 Significant accounting policies (Continued)

### (o) INCOME TAX

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

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

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

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

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1 Significant accounting policies (Continued)

### (o) INCOME TAX (CONTINUED)

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

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

### (p) FINANCIAL GUARANTEES ISSUED, PROVISIONS AND CONTINGENT LIABILITIES

#### (i) *Financial guarantees issued*

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group or the Company issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group’s policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(p)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

#### (ii) *Other provisions and contingent liabilities*

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

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

## 1 Significant accounting policies (Continued)

### (q) REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) *Provision of voice services and short message services*

Revenue derived from provision of voice services and short message services is recognised, net of discounts, when an arrangement exists, service is rendered, the amount is fixed or reliably determinable, and collectibility is probable.

(ii) *Provision of other telecommunications services*

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

(iii) *Rental income from operating leases*

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

(iv) *Interest income*

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

(v) *Barter transactions*

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

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

### (r) TRANSLATION OF FOREIGN CURRENCIES

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of foreign operations are translated into Hong Kong dollars ("HKD" or "\$") at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into HKD at the closing foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1 Significant accounting policies (Continued)

### (s) BORROWING COSTS

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

### (t) RELATED PARTIES

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

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

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

### (u) SEGMENT REPORTING

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

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

### (v) DEFERRED REVENUE

Deferred revenue represents the service fees received in advance for the provision of telecommunications services, which is amortised over the remaining service period based on the service pattern.

### (w) DEFERRED EXPENDITURE

Deferred expenditure represents the service fees prepaid for telecommunications services, which is amortised over the remaining service period based on the service pattern.



## 2 Changes in accounting policies

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

- HKFRS 3 (revised 2008), *Business combinations*
- Amendments to HKAS 27, *Consolidated and separate financial statements*

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

The above developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons:

- The impact of the majority of the revisions to HKFRS 3 and HKAS 27 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination) and there is no requirement to restate the amounts recorded in respect of previous such transactions.
- The impact of the amendments to HKFRS 3 (in respect of recognition of an acquiree's deferred tax assets) and HKAS 27 (in respect of allocation of losses to non-controlling interests (previously known as "minority interests") in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

Further details of these changes in accounting policy are as follows:

- As a result of the adoption of HKFRS 3 (revised 2008), any business combination acquired on or after 1 January 2010 will be recognised in accordance with the new requirements and detailed guidance contained in HKFRS 3 (revised 2008). These include the following changes in accounting policies:
  - Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.
  - If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.
  - Contingent consideration will be measured at fair value at the acquisition date. Subsequent changes in the measurement of that contingent consideration unrelated to facts and circumstances that existed at the acquisition date will be recognised in profit or loss, whereas previously these changes were recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.
  - If the acquiree has accumulated tax losses or other temporary deductible differences and these fail to meet the recognition criteria for deferred tax assets at the date of acquisition, then any subsequent recognition of these assets will be recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.
  - In addition to the Group's existing policy of measuring the non-controlling interests (previously known as the "minority interests") in the acquiree at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, in future the Group may elect, on a transaction by transaction basis, to measure the non-controlling interest at fair value.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 2 Changes in accounting policies (Continued)

In accordance with the transitional provisions in HKFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. The new policy in respect of recognition in the movement of deferred tax assets will also be applied prospectively to accumulated tax losses and other temporary deductible differences acquired in previous business combinations. No adjustments have been made to the carrying values of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

- As a result of the adoption of HKAS 27 (amended 2008), the following changes in policies will be applied as from 1 January 2010:
  - If the Group acquires an additional interest in a non-wholly owned subsidiary, the transaction will be accounted for as a transaction with equity holders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transaction. Similarly, if the Group disposes of part of its interest in a subsidiary but still retains control, this transaction will also be accounted for as a transaction with equity holders (the non-controlling interests) in their capacity as owners and therefore no profit or loss will be recognised as a result of such transaction. Previously the Group treated such transactions as step-up transactions and partial disposals, respectively.
  - If the Group loses control of a subsidiary, the transaction will be accounted for as a disposal of the entire interest in that subsidiary, with any remaining interest retained by the Group being recognised at fair value as if reacquired. In addition, as a result of the adoption of the amendment to HKFRS 5, if at the balance sheet date the Group has the intention to dispose of a controlling interest in a subsidiary, the entire interest in that subsidiary will be classified as held for sale (assuming that the held for sale criteria in HKFRS 5 are met) irrespective of the extent to which the Group will retain an interest. Previously such transactions were treated as partial disposals.

In accordance with the transitional provisions in HKAS 27, these new accounting policies will be applied prospectively to transactions in the current or future periods and therefore previous periods have not been restated.

- In order to be consistent with the above amendments to HKFRS 3 and HKAS 27, and as a result of amendments to HKAS 28, *Investments in associates*, the following policies will be applied as from 1 January 2010:
  - If the Group holds interests in the acquiree immediately prior to obtaining significant influence, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining significant influence. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.
  - If the Group loses significant influence, the transaction will be accounted for as a disposal of the entire interest in that investee, with any remaining interest being recognised at fair value as if re-acquired. Previously such transactions were treated as partial disposals.

Consistent with the transitional provisions in HKFRS 3 and HKAS 27, these new accounting policies will be applied prospectively to transactions in the current or future periods and therefore previous periods have not been restated.

Other changes in accounting policies which are relevant to the Group's financial statements are as follows:

- As a result of the amendments to HKAS 27, as from 1 January 2010 any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the non-controlling interests were under a binding obligation to make good the losses. In accordance with the transitional provisions in HKAS 27, this new accounting policy is being applied prospectively and therefore previous periods have not been restated.

### 3 Segment reporting

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

#### (a) SEGMENT RESULTS, ASSETS AND LIABILITIES

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

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

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

Revenue generated from the telecommunications segment includes the fees derived from the provision of voice services; provision of short message services; and provision of other telecommunications services. Revenue from the provision of these services to state-controlled entities in the People's Republic of China ("PRC") represents more than 10% of the Group's total revenue. The revenue received from these customers amounted to \$1,141,951,000 for the year ended 31 December 2010 (2009: \$1,145,438,000).

#### (b) RECONCILIATION OF REPORTABLE SEGMENT PROFIT, ASSETS AND LIABILITIES

	2010 \$'000	2009 \$'000
<b>Profits</b>		
Reportable segment profits	370,450	449,162
Share of profit/(loss) of associates	88,957	(1,323)
Unallocated other revenue	3,493	5,455
Unallocated head office and corporate expenses	(17,143)	(6,335)
Consolidated profit before taxation	445,757	446,959
	2010 \$'000	2009 \$'000
<b>Assets</b>		
Reportable segment assets	2,497,975	2,453,310
Interest in an associate	1,489,382	—
Current tax recoverable	6,265	2,704
Deferred tax assets	22,172	14,284
Unallocated corporate assets	65,931	—
Consolidated total assets	4,081,725	2,470,298

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 3 Segment reporting (Continued)

#### (b) RECONCILIATION OF REPORTABLE SEGMENT PROFIT, ASSETS AND LIABILITIES (CONTINUED)

	2010 \$'000	2009 \$'000
<b>Liabilities</b>		
Reportable segment liabilities	970,374	674,114
Current tax payable	23,703	38,396
Deferred tax liabilities	38,424	38,289
Loan from an associate	96,350	—
Unallocated corporate liabilities	9,057	2,559
Consolidated total liabilities	1,137,908	753,358

### 4 Turnover

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

Turnover recognised during the year may be analysed as follows:

	2010 \$'000	2009 \$'000
Fees from the provision of voice services	1,905,617	1,726,885
Fees from the provision of short message services	315,713	285,982
Fees from the provision of other telecommunications services	745,139	703,692
	2,966,469	2,716,559

### 5 Other revenue

	2010 \$'000	2009 \$'000
Bank interest income	601	5,006
Other interest income	763	449
Total interest income	1,364	5,455
Rental income from operating leases	2,129	—
	3,493	5,455



## 6 Other net (loss)/gain

	2010 \$'000	2009 \$'000
Net loss on disposal of property, plant and equipment	(313)	(95)
Net foreign exchange (loss)/gain	(6,686)	608
	<b>(6,999)</b>	<b>513</b>

## 7 Profit before taxation

Profit before taxation is arrived at after charging:

	2010 \$'000	2009 \$'000
(a) Finance costs		
Interest on borrowings wholly repayable within 5 years	<b>214</b>	–
(b) Staff costs (including directors' remuneration (note 9))		
Contributions to defined contribution retirement plans	<b>8,729</b>	7,257
Equity-settled share-based payment expenses (note 28)	<b>14,578</b>	4,872
Salaries, wages and other benefits	<b>239,471</b>	208,337
	<b>262,778</b>	<b>220,466</b>
(c) Other items		
Network, operations and support expenses, including:	<b>2,042,320</b>	1,800,966
– carrier costs	<b>1,642,144</b>	1,426,027
– operating leases – leased circuits	<b>212,892</b>	182,958
– other telecommunications service costs	<b>187,284</b>	191,981
Depreciation	<b>105,186</b>	104,026
Amortisation	<b>8,447</b>	6,911
Impairment losses on trade debtors	<b>13,685</b>	754
Auditors' remuneration	<b>3,315</b>	3,391
Transaction costs for acquisition of subsidiaries	<b>10,468</b>	–
Operating lease charges in respect of land and buildings	<b>47,310</b>	48,943

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

## 8 Income tax

## (a) INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT REPRESENTS:

	2010 \$'000	2009 \$'000
<b>Current tax – Hong Kong Profits Tax</b>		
Provision for the year	46,858	59,726
Under/(over)-provision in respect of prior years	533	(23)
	47,391	59,703
<b>Current tax – Overseas</b>		
Provision for the year	4,097	4,666
(Over)/under-provision in respect of prior years	(190)	139
	3,907	4,805
<b>Deferred tax</b>		
Recognition of tax losses not recognised in prior years	(23,692)	–
Origination and reversal of temporary differences	16,863	10,924
	(6,829)	10,924
	44,469	75,432

The provision for Hong Kong Profits Tax for 2010 is calculated at 16.5% (2009: 16.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

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

	2010 \$'000	2009 \$'000
Profit before taxation	445,757	446,959
Notional tax on profit before taxation at 16.5% (2009: 16.5%)	73,550	73,748
Tax effect of different tax rate	(105)	398
Tax effect of non-taxable revenue and non-deductible expenses	(8,709)	(1,601)
Recognition of tax losses not recognised in prior years	(23,692)	–
Tax effect of unused tax losses not recognised	2,403	2,297
Under-provision in respect of prior years	343	116
Others	679	474
Actual tax expense	44,469	75,432

## 8 Income tax (Continued)

### (b) INCOME TAX IN THE BALANCE SHEETS REPRESENTS:

#### The Group

	2010 \$'000	2009 \$'000
<b>Hong Kong Profits Tax</b>		
Provision for the year	46,858	59,726
Provisional Profits Tax paid	(45,469)	(38,636)
	1,389	21,090
Balance payable relating to prior years	–	1,388
	1,389	22,478
<b>Overseas tax</b>		
Through acquisition of subsidiaries	–	(3,003)
Provision for the year	4,097	2,828
Profits tax paid	(1,355)	(59)
Balance payable relating to prior years	13,294	13,450
Exchange adjustments	13	(2)
	16,049	13,214
	17,438	35,692
Representing:		
– current tax recoverable	(6,265)	(2,704)
– current tax payable	23,703	38,396
	17,438	35,692

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

## 9 Directors' remuneration

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

2010							
	Directors' fees \$'000	Basic salaries, allowances and benefits in kind \$'000	Discretionary bonuses \$'000	Retirement scheme contributions \$'000	Sub-total \$'000	Share-based payments \$'000	Total \$'000
<b>Executive directors</b>							
Xin Yue Jiang	120	2,377	2,800	12	5,309	791	6,100
Yuen Kee Tong	120	3,160	2,520	144	5,944	703	6,647
Chan Tin Wai, David	120	2,139	2,253	12	4,524	615	5,139
<b>Non-executive directors</b>							
Kwok Man Leung	141	–	–	–	141	57	198
Fei Yiping	120	–	–	–	120	–	120
Liu Jifu	19	–	–	–	19	–	19
<b>Independent non-executive directors</b>							
Yang Xianzu	240	–	–	–	240	132	372
Liu Li Qing	240	–	–	–	240	132	372
Kwong Che Keung, Gordon	240	–	–	–	240	132	372
<b>Total</b>	<b>1,360</b>	<b>7,676</b>	<b>7,573</b>	<b>168</b>	<b>16,777</b>	<b>2,562</b>	<b>19,339</b>

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

The above remuneration is included in staff costs as presented in note 7(b).

A number of the Company's directors were granted share options of the Company and CITIC Pacific Limited, its intermediate holding company. Details of the share options plans are set out in note 28.

The discretionary bonuses of the Group were determined and approved by the Board with reference to the performance of the Group and the respective directors.



## 9 Directors' remuneration (Continued)

During the years ended 31 December 2010 and 2009, no emoluments were paid by the Company to any of the directors as an inducement to join or upon joining the Company or as compensation for loss of office and none of the directors has waived or agreed to waive any emoluments.

## 10 Individuals with highest emoluments

Of the five individuals with the highest emoluments, three (2009: three) are directors whose emoluments are disclosed in note 9. The aggregate of the emoluments in respect of the other two (2009: two) individuals are as follows:

	2010 \$'000	2009 \$'000
Salaries and other emoluments	3,741	3,607
Discretionary bonuses	3,214	3,080
Share-based payments	1,054	376
Retirement scheme contributions	257	244
	<b>8,266</b>	<b>7,307</b>

The emoluments of the two (2009: two) individuals with the highest emoluments are within the following bands:

	2010	2009
\$		
3,000,001 – 3,500,000	–	1
3,500,001 – 4,000,000	1	–
4,000,001 – 4,500,000	–	1
4,500,001 – 5,000,000	1	–

During the years ended 31 December 2010 and 2009, no emoluments were paid by the Company to any of the highest paid individuals as an inducement to join or upon joining the Company or as compensation for loss of office.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

## 11 Earnings per share

	2010 \$'000	2009 \$'000
Profit attributable to equity holders of the Company	<b>401,288</b>	371,527

Weighted average number of ordinary shares

	Number of shares	
	2010 '000	2009 '000
Issued ordinary shares at 1 January	<b>1,977,731</b>	1,977,731
Effect of shares issued for acquisition of an associate	<b>267,956</b>	—
Effect of share options exercised	<b>379</b>	—
Weighted average number of ordinary shares at 31 December	<b>2,246,066</b>	1,977,731
Effect of deemed issue of shares under the Company's share option plan	<b>2,645</b>	—
Weighted average number of ordinary shares (diluted) at 31 December	<b>2,248,711</b>	1,977,731
Basic earnings per share (HK cents)	<b>17.9</b>	18.8
Diluted earnings per share (HK cents)	<b>17.8</b>	18.8

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

## 12 Material related party transactions

### (a) TRANSACTIONS WITH AN INTERMEDIATE HOLDING COMPANY, CITIC PACIFIC LIMITED, AND ITS AFFILIATES AND THE AFFILIATES OF THE GROUP

#### (i) Recurring transactions

	Note	2010 \$'000	2009 \$'000
Telecommunications services and related income received/receivable from:			
– Companhia de Telecomunicacoes de Macau, S.A.R.L. (“CTM”)	(1)	15,970	10,650
– ComNet (USA) LLC	(2)	–	24,364
Telecommunications services and related expenses paid/payable to			
– CTM		6,389	3,590
– ComNet (USA) LLC		–	19,014
Professional fees paid/payable to CITIC Pacific Limited	(3)	2,900	2,500
Operating lease charges, building management fees, air conditioning charges and car parking spaces rental paid/payable to Goldon Investment Limited	(4)	24,410	25,611
Building management fees and air conditioning charges paid/payable to Broadway Centre Property Management Company Limited	(5)	2,268	–
Financial and operational support expenses paid/payable to a wholly-owned subsidiary of HKIX Hong Kong Ltd.	(6)	1,000	1,000

#### Notes:

- (1) CTM is an associate of the Group starting from May 2010 (previously was an associate of CITIC Pacific Limited).
- (2) ComNet (USA) LLC was previously an associate of the Group and became a wholly-owned subsidiary of the Group since May 2009.
- (3) Professional fees were paid or payable to CITIC Pacific Limited for the provision of internal audit and company secretarial services.
- (4) Goldon Investment Limited (an associate of CITIC Pacific Limited) leases certain properties in Hong Kong to the Group under an operating lease. The amounts represent the lease charges, building management fees, air conditioning charges and car parking spaces rental paid or payable to Goldon Investment Limited.
- (5) Broadway Centre Property Management Company Limited (a wholly-owned subsidiary of CITIC Pacific Limited) provides building management services to the Group. The amounts represent the building management fees and air conditioning charges paid or payable to Broadway Centre Property Management Company Limited.
- (6) Financial and operational support expenses paid or payable to a wholly-owned subsidiary of HKIX Hong Kong Ltd. (a non-controlling shareholder of a subsidiary of the Group, Asia Pacific Internet Exchange Limited).
- (7) The directors are of the opinion that the above transactions with related parties were conducted on normal commercial terms in the ordinary course of business and the terms are fair and reasonable so far as the shareholders of the Company are concerned. The professional fees/financial and operational support expenses paid by the Group were reimbursement of costs incurred by the related parties, the price which the Group received or paid for the relevant services were fair and reasonable with reference to market price, or in the case of the payment in respect of HKIX Hong Kong Ltd., was in accordance with terms of the shareholder agreement.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 12 Material related party transactions (Continued)

#### (a) TRANSACTIONS WITH AN INTERMEDIATE HOLDING COMPANY, CITIC PACIFIC LIMITED, AND ITS AFFILIATES AND THE AFFILIATES OF THE GROUP (CONTINUED)

##### (ii) Non-recurring transactions

	2010 \$'000	2009 \$'000
Acquisition of 20% equity interest in CTM from CITIC Pacific Limited	1,396,354	—
Mechanical ventilation and air-conditioning installation works provided by Dah Chong Hong (Engineering) Limited (a wholly-owned subsidiary of CITIC Pacific Limited)	4,642	—
Acquisition of properties from Neostar Investment Limited (a wholly-owned subsidiary of CITIC Pacific Limited)	—	150,000

##### (iii) Trade receivables, other receivables and deposits/(trade and other payables)

	2010 \$'000	2009 \$'000
Amount due from/(to) CTM included in		
– Trade receivables, other receivables and deposits	11,493	14,580
– Trade and other payables	(2,455)	(6,153)
	9,038	8,427

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

##### (iv) Loan from an associate

	2010 \$'000	2009 \$'000
Loan from CTM (note 22)	96,350	—

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

Other than those transactions with CITIC Pacific Limited and its affiliates and the affiliates of the Group as disclosed above, the Group conducts certain business activities with other state-controlled entities which include but are not limited to the following:

- Rendering and receiving services; and
- Financial services arrangements.

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



## 12 Material related party transactions (Continued)

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

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

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

	2010 \$'000	2009 \$'000
Interest income	264	4,505
Fees received/receivable from provision of telecommunications services	1,125,981	1,110,424
Fees paid/payable for network, operations and support services	(705,491)	(649,285)

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

	2010 \$'000	2009 \$'000
Bank deposits	26,290	251,282
Trade debtors	420,700	342,838
Trade creditors	(171,731)	(162,307)

### (c) KEY MANAGEMENT PERSONNEL REMUNERATION

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

	2010 \$'000	2009 \$'000
Short-term employee benefits	22,564	23,128
Share-based payments	3,163	1,128
Post-employment benefits	425	415
	26,152	24,671

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

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

## 13 Property, plant and equipment

## The Group

	Land and building held for own use (notes (a) and (b)) \$'000	Tele- communications equipment \$'000	Other assets (note (c)) \$'000	Construction in progress \$'000	Total \$'000
<b>Cost:</b>					
At 1 January 2009	–	720,768	75,148	63,181	859,097
Exchange adjustments	–	450	114	99	663
Additions					
– through acquisition of subsidiaries (notes 27(e)(i) and (ii))	–	21,842	1,261	–	23,103
– others	156,958	50,114	13,992	42,989	264,053
Disposals	–	(2,125)	(13)	(4,802)	(6,940)
Reclassification	–	47,399	1,624	(49,023)	–
At 31 December 2009	156,958	838,448	92,126	52,444	1,139,976
At 1 January 2010	156,958	838,448	92,126	52,444	1,139,976
Exchange adjustments	–	969	362	162	1,493
Additions	–	36,617	31,902	90,246	158,765
Disposals	–	(1,974)	(17,843)	–	(19,817)
Reclassification	–	45,464	1,841	(47,305)	–
At 31 December 2010	156,958	919,524	108,388	95,547	1,280,417
<b>Accumulated depreciation:</b>					
At 1 January 2009	–	446,254	49,738	–	495,992
Exchange adjustments	–	406	155	–	561
Charge for the year	–	94,079	9,947	–	104,026
Written back on disposals	–	(2,281)	(13)	–	(2,294)
At 31 December 2009	–	538,458	59,827	–	598,285
At 1 January 2010	–	538,458	59,827	–	598,285
Exchange adjustments	–	504	184	–	688
Charge for the year	4,186	90,532	10,468	–	105,186
Written back on disposals	–	(1,605)	(17,487)	–	(19,092)
At 31 December 2010	4,186	627,889	52,992	–	685,067
<b>Net book value:</b>					
At 31 December 2010	152,772	291,635	55,396	95,547	595,350
At 31 December 2009	156,958	299,990	32,299	52,444	541,691

## 13 Property, plant and equipment (Continued)

### The Company

	Other assets (note (c)) \$'000
<b>Cost:</b>	
At 1 January 2009 and 31 December 2009	38,663
At 1 January 2010	38,663
Additions	19,787
Disposals	(16,115)
At 31 December 2010	42,335
<b>Accumulated depreciation:</b>	
At 1 January 2009	37,184
Charge for the year	1,479
At 31 December 2009	38,663
At 1 January 2010	38,663
Charge for the year	667
Written back on disposals	(16,115)
At 31 December 2010	23,215
<b>Net book value:</b>	
At 31 December 2010	19,120
At 31 December 2009	—

#### Notes:

- (a) Land and building held for own use is held under a medium-term lease in Hong Kong.
- (b) The balance of land and building held for own use represents the net book value of the properties acquired from Neostar Investment Limited (a wholly-owned subsidiary of CITIC Pacific Limited) in December 2009. It is the Group's intention to hold them as owner-occupied properties. A portion of these properties is currently occupied by Dah Chong Hong Holdings Limited (a subsidiary of CITIC Pacific Limited) under operating leases, which will vacate the property in May 2011 in accordance with the lease agreement.

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

	2010 \$'000	2009 \$'000
Within 1 year	375	2,560
After 1 year but within 5 years	—	375
	375	2,935

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

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 14 Intangible assets

#### The Group

	Customer relationships \$'000	Customer contracts \$'000	Trade names/ trademarks \$'000	IRU of tele- communications capacity \$'000	Total \$'000
<b>Cost:</b>					
At 1 January 2009	37,071	8,690	560	626	46,947
Exchange adjustments	451	—	—	—	451
Additions through acquisition of subsidiaries (notes 27(e)(i) and (ii))	22,270	—	4,600	—	26,870
At 31 December 2009	59,792	8,690	5,160	626	74,268
At 1 January 2010	59,792	8,690	5,160	626	74,268
Exchange adjustments	1,847	—	—	—	1,847
At 31 December 2010	61,639	8,690	5,160	626	76,115
<b>Accumulated amortisation:</b>					
At 1 January 2009	3,161	8,690	140	107	12,098
Exchange adjustments	27	—	—	—	27
Charge for the year	6,197	—	611	103	6,911
At 31 December 2009	9,385	8,690	751	210	19,036
At 1 January 2010	9,385	8,690	751	210	19,036
Exchange adjustments	270	—	—	—	270
Charge for the year	8,056	—	288	103	8,447
At 31 December 2010	17,711	8,690	1,039	313	27,753
<b>Net book value:</b>					
At 31 December 2010	43,928	—	4,121	313	48,362
At 31 December 2009	50,407	—	4,409	416	55,232



## 15 Goodwill

### The Group

	2010 \$'000	2009 \$'000
<b>Cost and carrying amount:</b>		
At 1 January	277,419	214,269
Exchange adjustments	4,046	989
Additions through acquisition of subsidiaries (notes 27(e)(i) and (ii))	–	62,161
At 31 December	281,465	277,419

### IMPAIRMENT TESTS FOR CASH-GENERATING UNITS CONTAINING GOODWILL

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to the country of operation and business segment as follows:

	2010 \$'000	2009 \$'000
Telecommunications services	281,465	277,419

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a three to five-year period.

Key assumptions used for value-in-use calculations:

	2010 %	2009 %
– Growth rate	5	5
– Discount rate	10	10

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

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 16 Interests in subsidiaries

#### The Company

	2010 \$'000	2009 \$'000
Unlisted shares, at cost	4,071	4,071
Amounts due from subsidiaries (note 19)	1,033,692	1,113,719
	1,037,763	1,117,790
Amounts due to subsidiaries (note 21)	(81,500)	(167,694)
	956,263	950,096

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

At 31 December 2010, the Company had direct or indirect interests in the following principal subsidiaries, all of which are private companies, particulars of which are set out below:

Name of company	Place of incorporation/ operation	Principal activity	Percentage of equity attributable to the Company		Issued and fully paid-up capital
			Direct	Indirect	
Asia Pacific Internet Exchange Limited	Hong Kong	Provision of financial and operational support to HKIX <sup>1</sup>	–	75%	HK\$100,000*
CITIC Telecom International (Concept) Limited (formerly CITIC Concept 1616 Limited)	Hong Kong	Provision of systems integration services	–	100%	HK\$2*
CITIC Consultancy 1616 Limited	Hong Kong	Provision of telecommunications consultancy services in Hong Kong	–	100%	HK\$2*
CITIC Telecom International (Data) Limited (formerly CITIC Data 1616 Limited)	Hong Kong	Provision of data and other telecommunications services in Hong Kong	–	100%	HK\$2*
CITIC Media 1616 Limited	Hong Kong	Provision of content services to licensed telecoms operators in Hong Kong	–	100%	HK\$1*
CITIC Telecom International Limited (formerly CITIC Telecom 1616 Limited)	Hong Kong	Provision of telecommunications services	100%	–	HK\$2*
CITIC Telecom (UK) Limited (formerly CITIC Telecom 1616 (UK) Limited)	United Kingdom	Provision of telecommunications services	–	100%	£2*

## 16 Interests in subsidiaries (Continued)

Name of company	Place of incorporation/ operation	Principal activity	Percentage of equity attributable to the Company		Issued and fully paid-up capital
			Direct	Indirect	
CITIC TeleSoft 1616 Limited	Hong Kong	Provision of systems integration and maintenance services	—	100%	HK\$2*
ComNet Communications (Singapore) Pte. Ltd.	Republic of Singapore	Provision of telecommunications services	—	100%	SG\$19,233,002*
ComNet Investment Limited	Hong Kong	Property investment	—	100%	HK\$2*
ComNet (Japan) K.K.	Japan	Provision of telecommunications services	—	100%	JPY10,000,000*
ComNet Telecom (Singapore) Pte. Ltd.	Republic of Singapore	Provision of telecommunications services	—	100%	SG\$100,000*
ComNet Telecom (Canada) Ltd.	Canada	Provision of telecommunications services	—	100%	CAD100** and 1 common share without par value <sup>Δ</sup>
ComNet Telecom International Limited	Hong Kong	Provision of telecommunications services	—	100%	HK\$2*
ComNet Telecom (HK) Limited	Hong Kong	Provision of telecommunications services	—	100%	HK\$2*
ComNet (USA) LLC	United States of America	Provision of telecommunications services	—	100%	N/A***
CITIC Telecom International CPC Limited (formerly CPCNet Hong Kong Limited)	Hong Kong	Provision of telecommunications services	—	100%	HK\$394,866,986*
CPCNet Japan Limited	Japan	Provision of telecommunications services	—	100%	JPY10,000,000*
CITIC Telecom International CPC (Singapore) Pte. Ltd. (formerly CPCNet Singapore Private Limited)	Republic of Singapore	Provision of telecommunications services	—	100%	SG\$2,000,000*
CITIC 1616 Holdings Limited (formerly Data Communication Services Limited)	Hong Kong	Equipment holding	100%	—	HK\$1,000* and HK\$38,000,000 <sup>#</sup>
Nebular Telecom Japan K.K.	Japan	Provision of telecommunications services	—	100%	JPY10,000,000*

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 16 Interests in subsidiaries (Continued)

Notes:

\* Represented ordinary shares.

<sup>1</sup> Hong Kong Internet Exchange (“HKIX”) is an exchange point providing mainly interconnection amongst internet access providers in Hong Kong.

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

\*\* Class A preference shares – the rights of which are set out in the Articles of ComNet Telecom (Canada) Ltd.

\*\*\* Capital contribution for ComNet (USA) LLC amounted to United State dollar (“USD”) 10,000.

# Non-voting deferred shares – the rights, privileges and restrictions of which are set out in the Articles of Association of CITIC 1616 Holdings Limited.

### 17 Interest in an associate

	The Group		The Company	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Unlisted shares, at cost	–	–	1,400,268	–
Share of net assets	671,132	–	–	–
Goodwill	818,250	–	–	–
	<b>1,489,382</b>	–	<b>1,400,268</b>	–

On 5 May 2010, the Group acquired a 20% equity interest in CTM from its intermediate holding company, CITIC Pacific Limited, for a consideration of \$1,396,354,000 (excluding transaction costs). The consideration was satisfied by \$406,138,000 in cash and \$990,216,000 by the issue of the Company's shares. The fair values assigned to the Group's share of CTM's identifiable assets and liabilities were determined to be \$582,018,000 as of the date of acquisition.

Set out below are the particulars of the associate:

Name of associate	Place of incorporation/ operation	Issued and fully paid-up capital	Proportion of ownership interest		Principal activity
			Group's effective interest	Held by the Company	
Companhia de Telecomunicacoes de Macau, S.A.R.L.	Macau	150,000 shares of MOP1,000 each	20%	20%	Provision of telecommunications services



## 17 Interest in an associate (Continued)

Summary of financial information on the associate at 31 December 2010:

	At 31 December 2010			For the period from 5 May 2010 (Date of acquisition of CTM) to 31 December 2010	
	Assets \$'000	Liabilities \$'000	Equity \$'000	Revenue \$'000	Profit \$'000
100 per cent	4,277,892	922,235	3,355,657	1,827,016	444,786
Group's effective interest	855,579	184,447	671,132	365,403	88,957

Share of loss of an associate for the year ended 31 December 2009 represented the Group's 49% share of loss of ComNet (USA) LLC, which became a subsidiary of the Group in May 2009.

## 18 Deferred taxation

### (a) DEFERRED TAX ASSETS AND LIABILITIES RECOGNISED:

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

#### The Group

	Intangible assets arising from business combination \$'000	Depreciation allowances in excess of the related depreciation \$'000	Tax losses \$'000	Total \$'000
At 1 January 2009	5,664	46,127	(45,498)	6,293
Exchange adjustments	72	8	—	80
Through acquisition of subsidiaries (notes 27(e)(i) and (ii))	6,708	—	—	6,708
(Credited)/charged to profit or loss	(1,261)	(787)	12,972	10,924
At 31 December 2009	11,183	45,348	(32,526)	24,005
At 1 January 2010	11,183	45,348	(32,526)	24,005
Exchange adjustments	268	—	(1,192)	(924)
Recognition of tax losses not recognised in prior years	—	—	(23,692)	(23,692)
(Credited)/charged to profit or loss	(1,591)	638	17,816	16,863
At 31 December 2010	9,860	45,986	(39,594)	16,252

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

## 18 Deferred taxation (Continued)

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

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

	2010 \$'000	2009 \$'000
<b>Represented by:</b>		
Deferred tax assets	(22,172)	(14,284)
Deferred tax liabilities	38,424	38,289
	<b>16,252</b>	<b>24,005</b>

## The Company

	Depreciation in excess of the related depreciation allowances \$'000	Tax losses \$'000	Total \$'000
At 1 January 2009	(324)	(3,016)	(3,340)
(Credited)/charged to profit or loss	(199)	1,234	1,035
At 31 December 2009	(523)	(1,782)	(2,305)
At 1 January 2010	(523)	(1,782)	(2,305)
Charged to profit or loss	63	410	473
At 31 December 2010	(460)	(1,372)	(1,832)

## (b) DEFERRED TAX ASSETS NOT RECOGNISED

At 31 December 2010, the Group has not recognised deferred tax assets in respect of unused tax losses of \$130,072,000 (2009: \$140,694,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. \$86,766,000 (2009: \$100,304,000) of the tax losses do not expire under the current tax legislation, and \$43,306,000 (2009: \$40,390,000) of the tax losses will expire after 1 to 20 years.

## 19 Trade receivables, other receivables and deposits

	The Group		The Company	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Trade debtors	988,516	817,848	–	–
Less: allowance for doubtful debts	(19,690)	(25,203)	–	–
	968,826	792,645	–	–
Other receivables and deposits	342,877	100,133	6,498	9,022
Amounts due from subsidiaries (note 16)	–	–	1,033,692	1,113,719
	1,311,703	892,778	1,040,190	1,122,741
<b>Represented by:</b>				
Non-current portion	171,370	21,481	–	–
Current portion	1,140,333	871,297	1,040,190	1,122,741
	1,311,703	892,778	1,040,190	1,122,741

All of the current trade receivables, other receivables and deposits are expected to be recovered or recognised as expense within one year except for utility and rental deposits at 31 December 2010 of the Group and the Company amounted to \$24,335,000 (2009: \$22,107,000) and \$4,433,000 (2009: \$4,249,000) respectively which will not be recovered within one year.

At 31 December 2010, included in the other receivables and deposits were the following:

- (i) net deferred expenditure of \$12,870,000 (2009: \$19,695,000) for the exchange of dissimilar assets. Under an agreement with an independent third party, the Group agreed to provide outsourcing services for the period from 2002 to 2010 in exchange for the right to use the capacity of three STM-1 channels for the period from 2002 to 2018;
  - (ii) deferred expenditure of \$97,843,000 (2009: \$Nil) for the prepayment of certain telecommunications services. Such costs are deferred and amortised on a straight-line basis over the underlying service period of 15 years; and
  - (iii) a deposit for acquisition of subsidiaries of \$65,931,000 (2009: \$Nil), please refer to note 24(c) for details of the transaction.
- (a) Included in trade receivables, other receivables and deposits are trade debtors (before allowance for doubtful debts) with the following ageing analysis at the balance sheet date:

	The Group		The Company	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Within 1 year	817,549	675,631	–	–
Over 1 year	170,967	142,217	–	–
	988,516	817,848	–	–

Trade debtors are due within 7 to 180 days from the date of billing. Further details on the Group's credit policy are set out in note 26(a).

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 19 Trade receivables, other receivables and deposits (Continued)

#### (b) IMPAIRMENT OF TRADE DEBTORS

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

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

	The Group		The Company	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
At 1 January	25,203	35,481	—	—
Exchange adjustments	375	31	—	—
Through acquisition of subsidiaries	—	9,795	—	—
Impairment loss recognised	13,685	754	—	—
Impairment loss written back	(3,021)	(6,712)	—	—
Uncollectible amounts written off	(16,552)	(14,146)	—	—
At 31 December	19,690	25,203	—	—

At 31 December 2010, the Group's trade debtors of \$52,891,000 (2009: \$69,737,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of \$19,690,000 (2009: \$25,203,000) were recognised by the Group. The Group does not hold any collateral over these balances.

#### (c) TRADE DEBTORS THAT ARE NOT IMPAIRED

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

	The Group		The Company	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Within 1 year	782,419	628,217	—	—
Over 1 year	153,206	119,894	—	—
	935,625	748,111	—	—

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

## 20 Cash and cash equivalents

### (a) CASH AND CASH EQUIVALENTS COMPRISE:

	The Group		The Company	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Cash at bank and in hand	220,844	185,725	20,314	20,499
Deposits with banks	106,182	500,465	70,209	434,782
Cash and bank deposits	327,026	686,190	90,523	455,281
Less: pledged deposits*	(1,527)	(1,793)		
Cash and cash equivalents	325,499	684,397		

Included in cash and bank deposits were \$25,442,000 (2009: \$25,000,000) placed in a financial institution in the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

\* At 31 December 2010 and 2009, certain bank deposits were pledged to secure general banking facilities provided to the Group.

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

	The Group	
	2010	2009
	\$'000	\$'000
Profit before taxation	445,757	446,959
Adjustments for:		
Depreciation and amortisation	113,633	110,937
Loss on disposal of property, plant and equipment	313	95
Share of (profit)/loss of associates	(88,957)	1,323
Finance costs	214	—
Interest income	(1,364)	(5,455)
Equity-settled share-based payment expenses	14,578	4,872
Foreign exchange loss/(gain)	5,658	(4,602)
Transaction costs for acquisition of subsidiaries	10,468	—
	500,300	554,129
Changes in working capital:		
(Increase)/decrease in trade receivables, other receivables and deposits	(352,875)	70,054
Increase/(decrease) in trade and other payables	269,635	(156,974)
Decrease in amount due from an associate	—	73
Decrease in amount due to an associate	—	(3,237)
Cash generated from operations	417,060	464,045



## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 21 Trade and other payables

	The Group		The Company	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Trade creditors	693,385	531,778	–	–
Other payables and accruals	286,046	144,895	34,298	22,351
Amounts due to subsidiaries (note 16)	–	–	81,500	167,694
	979,431	676,673	115,798	190,045
<b>Represented by:</b>				
Non-current portion	102,582	–	–	–
Current portion	876,849	676,673	115,798	190,045
	979,431	676,673	115,798	190,045

At 31 December 2010, other payables included deferred revenue of \$109,960,000 (2009: \$Nil) for an advance receivable from a customer for certain telecommunications services. Such advance has been deferred and amortised on a straight-line basis over the underlying service period of 15 years.

All current trade and other payables are expected to be settled within one year.

Included in trade and other payables are trade creditors with the following ageing analysis at the balance sheet date:

	The Group		The Company	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Within 1 year	475,514	385,045	–	–
Over 1 year	217,871	146,733	–	–
	693,385	531,778	–	–

### 22 Loan from an associate

The loan from an associate bears interest at the prevailing market rate, and is unsecured and repayable on 31 March 2011.

### 23 Capital, reserves and dividends

#### (a) DIVIDENDS

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

	2010	2009
	\$'000	\$'000
Interim dividend declared and paid of 2.4 cents per share (2009: 2.4 cents per share)	57,205	47,466
Final dividend proposed after the balance sheet date of 7.1 cents per share (2009: 7.1 cents per share)	169,349	140,419
	226,554	187,885

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

## 23 Capital, reserves and dividends (Continued)

### (a) DIVIDENDS (CONTINUED)

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

	2010 \$'000	2009 \$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 7.1 cents per share (2009: 6.4 cents per share)	140,419	126,574

### (b) SHARE CAPITAL

		2010		2009	
	Note	No. of shares	Amount \$'000	No. of shares	Amount \$'000
<i>Authorised:</i>					
Ordinary shares of \$0.10 each		5,000,000,000	500,000	5,000,000,000	500,000
<i>Issued and fully paid:</i>					
At 1 January	(i)	1,977,731,283	197,773	1,977,731,283	197,773
Shares issued for acquisition of an associate	(ii)	405,826,087	40,583	—	—
Shares issued under share option plan	(iii)	1,644,500	164	—	—
At 31 December	(i)	2,385,201,870	238,520	1,977,731,283	197,773

#### Notes:

- (i) Holders of ordinary shares are entitled to receive dividends as declared from time to time and every member shall have one vote per share on a poll at general meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.
- (ii) Pursuant to an agreement dated 11 February 2010, the Company agreed to acquire a 20% equity interest in CTM and as part of the consideration, the Company allotted 405,826,087 shares of the Company to the vendor. At the completion date on 5 May 2010, the fair value of the Company's shares was \$2.44 per share. The difference between the fair value (after deduction of share issue expenses) and the par value of the issued shares of \$949,603,000 was included in share premium.
- (iii) During the year ended 31 December 2010, 1,644,500 ordinary shares (2009: Nil) were issued at a weighted average price of \$2.1 per ordinary share to share option holders who had exercised their options. These shares so issued rank pari passu with the then existing ordinary shares in issue.

### (c) SHARE PREMIUM AND CAPITAL REDEMPTION RESERVE

The application of the share premium account and the capital redemption reserve is governed by Sections 48B and 49H respectively of the Hong Kong Companies Ordinance.

Capital redemption reserve represents the nominal value of the shares repurchased which was paid out of the distributable reserves of the Company.

### (d) CAPITAL RESERVE

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

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 23 Capital, reserves and dividends (Continued)

#### (e) EXCHANGE RESERVE

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

#### (f) DISTRIBUTABILITY OF RESERVES

At 31 December 2010, the aggregate amount of reserves available for distribution to equity holders of the Company was \$531,740,000 (2009: \$494,003,000). After the balance sheet date, the directors proposed a final dividend of 7.1 cents per ordinary share (2009: 7.1 cents per share), amounting to \$169,349,000 (2009: \$140,419,000). This dividend has not been recognised as a liability at the balance sheet date.

#### (g) PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company includes a loss of \$17,573,000 for the year ended 31 December 2010 (2009: \$729,000) which has been dealt with in the financial statements of the Company.

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

	2010 \$'000	2009 \$'000
Amount of consolidated loss attributable to equity holders dealt with in the Company's financial statements	(17,573)	(729)
Interim dividends from subsidiaries attributable to the profits of the year approved during the year	252,837	318,150
Company's profit for the year	235,264	317,421

#### (h) CAPITAL MANAGEMENT

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

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

The capital structure of the Group consists of its total equity attributable to equity holders of the Company, comprising share capital and reserves as disclosed in the consolidated financial statements. At 31 December 2010 and 2009, the Group did not have any long term external borrowings.

Neither the Company nor any of its subsidiaries are subject to any externally imposed capital requirements.

## 24 Commitments

### (a) CAPITAL COMMITMENTS

Capital commitments of the Group outstanding at the balance sheet date not provided for in the financial statements were as follows:

#### The Group

	2010 \$'000	2009 \$'000
Contracted for	48,802	28,706
Authorised but not contracted for	45,606	9,766

The Company had no capital commitments at 31 December 2010 and 2009.

### (b) COMMITMENTS UNDER OPERATING LEASES

- (i) The total future minimum lease payments under non-cancellable operating leases relating to land and buildings and other assets are payable as follows:

#### Land and buildings

##### The Group

	2010 \$'000	2009 \$'000
Within 1 year	40,759	39,760
After 1 year but within 5 years	38,614	34,925
	79,373	74,685

##### The Company

	2010 \$'000	2009 \$'000
Within 1 year	13,445	20,584
After 1 year but within 5 years	11,764	25,209
	25,209	45,793

#### Leased circuits

##### The Group

	2010 \$'000	2009 \$'000
Within 1 year	32,597	34,711
After 1 year but within 5 years	45,901	34,691
	78,498	69,402

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 24 Commitments (Continued)

#### (b) COMMITMENTS UNDER OPERATING LEASES (CONTINUED)

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

##### The Group

	2010 \$'000	2009 \$'000
Within 1 year	24,012	5,637
After 1 year but within 5 years	32,378	11
	<b>56,390</b>	<b>5,648</b>

The leases typically run for an initial period of 1 to 5 years, with an option to renew the lease when all terms are renegotiated. None of these leases includes contingent rentals.

#### (c) 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”, formerly CPCNet Hong Kong Limited), 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 \$277,273,000 comprising:

- (i) Renminbi (“RMB”) 93,286,000 (approximately \$110,432,000) payable to CE-SCM by instalments;
- (ii) RMB80,818,000 (approximately \$95,672,000) payable to CITIC Group at completion, out of which RMB61,987,000 (approximately \$73,380,000) 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) \$400,000 as consideration for the entire equity interest in CEC-HK; and
- (iv) the assumption of debts in amount of USD9,073,000 (approximately \$70,769,000) 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 31 December 2010, the Group has, pursuant to the Framework Agreement, paid approximately \$65,531,000 to CE-SCM and \$400,000 to CEC-HK Holding. The remaining sum of approximately \$211,342,000, being the unpaid portion of the aggregate consideration (including the advance payment), shall be payable at completion after the Framework Agreement becoming unconditional.



## 25 Financial guarantee issued and other contingent liabilities

### (a) FINANCIAL GUARANTEE ISSUED

At 31 December 2010, the Company has issued a single guarantee in respect of a borrowing made to a wholly-owned subsidiary of the Company by CTM, an associate of the Company. At 31 December 2010, the directors do not consider it probable that a claim will be made against the Company under this guarantee. The maximum liability of the Company at the balance sheet date is the outstanding balance of the borrowing of \$96,350,000.

### (b) OTHER CONTINGENT LIABILITIES

At 31 December 2010, included in other receivables was a cash balance of USD1,221,000 (equivalent to HK\$9,524,000) seized and held under foreign government custody pending a law enforcement investigation against a customer of the Group. On 1 October 2010, one of the Company's overseas subsidiaries was informed by its bank that funds held in one of its local accounts, which were allegedly associated with one of its customer under investigation, were seized by a local government agency under warrant. As the said subsidiary has only used the bank account to collect service fee for telecommunications services provided to this customer, management believes that it has grounds to refute such seizure and has sought legal assistance in this regard. Lawyers engaged in the matter also take that view that there is a good chance of recovering the full amount should it be proved with adequate evidence that the seized funds were from legitimate business activities. At the date of these financial statements, such investigation is still on ongoing, it is too early to assess the ultimate outcome of the investigation. Accordingly, no provision has been made against the balance at 31 December 2010.

## 26 Financial risk management and fair values

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

### (a) CREDIT RISK

The Group's credit risk is primarily attributable to trade debtors. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade debtors, credit evaluations are performed on all customers requiring credit over a certain amount. These evaluation focus on the customer's past history of making payments when due and current ability to pay, and taking into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. These receivables are due within 7 to 180 days from the date of billing. Debtors with balances due over one year, the Group will assign an officer who will be responsible to agree on a settlement plan with those debtors to reduce the outstanding balance within a reasonable period.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers.

A significant portion of the Group's telecommunications services are provided to customers in the PRC. At 31 December 2010, the balance due from these PRC customers amounted to \$362,530,000 (2009: \$279,733,000). The credit risk exposure to these PRC customers and the remaining trade debtors balance have been monitored by the Group on an ongoing basis and the impairment loss on doubtful debts have been within management's expectations.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 26 Financial risk management and fair values (Continued)

#### (a) CREDIT RISK (CONTINUED)

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

	2010 %	2009 %
Due from the Group's largest customer	16	10
Due from the Group's five largest customers	43	44

#### (b) LIQUIDITY RISK

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

The contractual maturities at the balance sheet date of the Group's and the Company's financial liabilities which are required to be repaid within one year or on demand amounted to \$996,902,000 (2009: \$715,069,000) and \$115,798,000 (2009: \$190,045,000) respectively.

#### (c) INTEREST RATE RISK

The Group is exposed to cashflow interest rate risks arose from the Group's holding of cash and bank deposits and the loan from an associate, both of which are interest-bearing at floating rates. The management monitors interest rate exposures and will consider hedging significant interest rate risk should the need arise. The Group's interest rate profile as monitored by management is set out in (i) below.

##### (i) Interest rate profile

The following table details the interest rate profile of the Group's and the Company's interest-earning financial assets and loan from an associate at the balance sheet date:

	The Group				The Company			
	2010		2009		2010		2009	
	Effective interest rate	One year or less	Effective interest rate	One year or less	Effective interest rate	One year or less	Effective interest rate	One year or less
	%	\$'000	%	\$'000	%	\$'000	%	\$'000
Cash and bank deposits	0.06	327,026	0.19	686,190	0.16	90,523	0.27	455,281
Loan from an associate	0.67	(96,350)	—	—	—	—	—	—
Net cash		230,676		686,190		90,523		455,281

## 26 Financial risk management and fair values (Continued)

### (c) INTEREST RATE RISK (CONTINUED)

#### (ii) Sensitivity analysis

At 31 December 2010, it is estimated that interest rates will not decrease and a general increase of 60 basis points in interest rates, with all other variables held constant, would have increased the Group's profit for the year and retained profits by approximately \$1,384,000. At 31 December 2009, it was estimated that interest rates would not decrease and a general increase of 100 basis points in interest rates, with all other variables held constant, would increase the Group's profit for the year and retained profits by approximately \$6,862,000. Other components of consolidated equity would not be affected (2009: \$Nil) by the changes in interest rates.

The sensitivity analysis above indicates the Group's exposure to cash flow interest rate risk arising from cash and bank deposits held by the Group and loan from an associate at the balance sheet date. The impact on the Group's profit for the year (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest income or expense of such a change in interest rates. The analysis is performed on the same basis for 2009.

### (d) CURRENCY RISK

#### (i) The Group's functional and reporting currency is the HKD

The major operating companies of the Group have certain transactions in USD and the telecommunications services provided by these companies to these customers in the PRC represent a significant portion of their turnover. The operating currency of these PRC customers is mainly RMB. RMB is not freely convertible into foreign currencies.

The Group's other assets, liabilities and transactions are mainly denominated either in HKD or USD. It is assumed that the pegged rate between HKD and the USD would be materially unaffected by any changes in movement in value of the USD against other currencies.

#### (ii) Exposure to currency risk

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

#### The Group

	Exposure to foreign currencies (expressed in HKD)			
	2010			
	USD \$'000	RMB \$'000	Euros \$'000	MOP \$'000
Trade receivables, other receivables and deposits	960,513	54,229	10,375	246
Cash and bank deposits	138,966	38,891	8,365	—
Trade and other payables	(676,944)	(73)	(22,812)	(226)
Loan from an associate	—	—	—	(96,350)
	422,535	93,047	(4,072)	(96,330)

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

## 26 Financial risk management and fair values (Continued)

## (d) CURRENCY RISK (CONTINUED)

## (ii) Exposure to currency risk (Continued)

## The Group (Continued)

	Exposure to foreign currencies (expressed in HKD)			
	2009			
	USD \$'000	RMB \$'000	Euros \$'000	MOP \$'000
Trade receivables, other receivables and deposits	982,717	17	6,508	—
Cash and bank deposits	511,041	29	16,975	—
Trade and other payables	(622,885)	(176)	(16,926)	—
	870,873	(130)	6,557	—

## The Company

	Exposure to foreign currencies (expressed in HKD)	
	2010	2009
	USD \$'000	USD \$'000
Cash and bank deposits	74,329	399,071

## (iii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit for the year and retained profits in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date. In this respect, it is assumed that the pegged rate between the HKD and the USD would be materially unaffected by any changes in movement in value of the USD against other currencies. Other components of consolidated equity would not be affected (2009: \$Nil) by the changes in the foreign exchange rates.

## The Group

	2010		2009	
	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit for the year and retained profits \$'000	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit for the year and retained profits \$'000
RMB	4%	3,721	5%	(5)
Euros	(3%)	61	5%	414
MOP	1%	(804)	—	—

## 26 Financial risk management and fair values (Continued)

### (d) CURRENCY RISK (CONTINUED)

#### (iii) Sensitivity analysis (Continued)

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

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currency of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2009.

### (e) FAIR VALUES

No disclosure of fair value is required as all of the Group's financial assets and liabilities are carried at amounts not materially different from their fair values at 31 December 2010 and 2009.

## 27 Acquisition of subsidiaries

- (a) In May 2009, the Group acquired the remaining 51% equity interest in ComNet (USA) LLC ("CN USA") at a consideration of \$26,009,000. CN USA is engaged in providing wholesale and retail international direct dialing (IDD) services.
- (b) In July 2009, the Company entered into an agreement with Macquarie Telecom Group Limited to acquire the entire equity interest and shareholder's loan of Macquarie Telecom Group Limited's wholly-owned subsidiary, ComNet Communications (Singapore) Pte. Ltd. ("CN Singapore"). The total consideration paid for the acquisition amounted to \$62,526,000. CN Singapore is engaged in the provision of telecommunications services to corporate customers in Singapore.
- (c) The Group has completed another acquisition during the year ended 31 December 2009. Since it is relatively immaterial to both the Group's financial position and results, details of this acquisition are not separately disclosed.
- (d) The acquired companies in respect of (a), (b) and (c) above contributed an aggregate revenue of \$134,116,000 and aggregate net gain of \$4,081,000 to the Group's profit for the period from the date of acquisition to 31 December 2009. The effect on revenue and profit of the acquired entities as if the acquisition had occurred at the beginning of the year ended 31 December 2009 to the Group were \$215,937,000 and \$3,261,000 respectively.

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



## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

## 27 Acquisition of subsidiaries (Continued)

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

(i) Acquisition of CN USA:

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

## 27 Acquisition of subsidiaries (Continued)

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

(ii) Acquisition of other companies:

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 28 Equity share-based transactions

#### (a) SHARE OPTION PLAN OF AN INTERMEDIATE HOLDING COMPANY

CITIC Pacific Limited, an intermediate holding company of the Company, adopted the CITIC Pacific Share Incentive Plan 2000 (“the Plan”) on 31 May 2000 under which the board of directors of CITIC Pacific Limited may invite any director, executive or employee of CITIC Pacific Limited or any of its subsidiaries to subscribe for options over CITIC Pacific Limited’s shares. The Plan ended on 30 May 2010 and the options granted are exercisable till the end of exercise period.

The following options were granted under the Plan:

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

Messrs Liu Jifu, Kwok Man Leung and Fei Yiping, directors of the Company during the year, had options subsisting as at 31 December 2010. The options that remained to be exercised by the directors of the Company represented less than 1% of the issued share capital of CITIC Pacific Limited as at 31 December 2010. No employment benefit cost or obligation is recognised in the Group’s consolidated financial statements in respect of the above-mentioned share options for the years ended 31 December 2009 and 2010.

#### (b) SHARE OPTION PLAN OF THE COMPANY

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

Since the adoption of the CITIC Telecom International Plan, the Company has granted two lots of share options on 23 May 2007 and 17 September 2009 respectively. On 23 May 2007, options to subscribe for a total of 18,720,000 shares (“the First Lot”) were granted to employees, directors and non-executive directors of the Company and its subsidiaries under the CITIC Telecom International Plan. Each option gives the holder the right to subscribe for one ordinary share of \$0.10 each of the Company. These share options vested on 23 May 2007 and then will be exercisable until 22 May 2012. The exercise price is \$3.26 per share, being the closing price of the Company’s ordinary shares on the date of grant of the First Lot.

## 28 Equity share-based transactions (Continued)

### (b) SHARE OPTION PLAN OF THE COMPANY (CONTINUED)

On 17 September 2009, options to subscribe for a total of 35,825,000 shares (“the Second Lot”) were granted to employees, directors and non-executive directors of the Company and its subsidiaries under the CITIC Telecom International Plan. Each option gives the holder the right to subscribe for one ordinary share of \$0.10 each of the Company. The first 50% of the Second Lot is exercisable from 17 September 2010 to 16 September 2015 and the remaining 50% of the Second Lot is exercisable from 17 September 2011 to 16 September 2016. The exercise price is \$2.10 per share, being the closing price of the Company’s ordinary shares on the date of grant of the Second Lot.

Details of the fair value of the share options and assumptions are set out in note 28(b)(iii).

- (i) The terms and conditions of the options granted under the CITIC Telecom International Plan are as follows, whereby all options are settled by physical delivery of shares:

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

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 28 Equity share-based transactions (Continued)

#### (b) SHARE OPTION PLAN OF THE COMPANY (CONTINUED)

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

	2010		2009	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	<b>\$2.44</b>	<b>50,575,000</b>	\$3.26	15,165,000
Granted during the year	—	—	\$2.10	35,825,000
Exercised during the year	<b>\$2.10</b>	<b>(1,644,500)</b>	—	—
Cancelled during the year	—	—	\$2.10	(115,000)
Lapsed during the year	<b>\$2.10</b>	<b>(1,672,500)</b>	\$3.26	(300,000)
Outstanding at the end of the year	<b>\$2.46</b>	<b>47,258,000</b>	\$2.44	50,575,000
Exercisable at the end of the year	<b>\$2.67</b>	<b>30,245,500</b>	\$3.26	14,865,000

During the year ended 31 December 2010, options for 1,644,500 shares (2009: Nil) were exercised, no options (2009: 115,000) has been cancelled and options for 1,672,500 (2009: 300,000) shares have lapsed. The value of vested options lapsed during the year ended 31 December 2010 was \$97,000 (2009: \$207,000) and was released directly to retained earnings.

During the year ended 31 December 2010, no options were granted under the CITIC Telecom International Plan. The options outstanding at 31 December 2010 had a weighted average exercise price of \$2.46 (2009: \$2.44) and a remaining weighted average contractual life of 3.77 (2009: 4.23) years.

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

(a) The average fair value of an option on one CITIC Telecom International share measured as at the date of grant of 17 September 2009 was \$0.733 based on the following assumptions using the binomial lattice model:

- Taking into account the probability of early exercise behaviour, the average expected term of the grant was determined to be 4.3 years;
- Expected volatility of CITIC Telecom International's share price at 50% per annum (based on historical movements of the Company's and its comparators' share prices);
- Expected annual dividend yield of 2.5%;
- Rate of eligible grantees leaving service assumed at 10% per annum;
- Early exercise assumption for option holders to exercise their options when the share price is at least 175% of the exercise price; and
- Risk-free interest rate of 1.55% per annum (based on linearly interpolated yields of the Hong Kong Exchange Fund Notes as at the grant date).

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

The total expense recognised in the consolidated income statement for the year ended 31 December 2010 in respect of the grant of the aforesaid 35,825,000 options is \$14,578,000 (2009: \$4,872,000)

(b) All the options forfeited before expiry of the CITIC Telecom International Plan will be treated as lapsed options which will not be added back to the number of shares available to be issued under the CITIC Telecom International Plan.



## 29 Retirement benefits scheme

The Group operates a Mandatory Provident Fund Scheme (the “MPF Scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees in Hong Kong under the jurisdiction of the Hong Kong Employment Ordinance. The assets of the MPF Scheme are held separately from those of the employer and administered by an independent trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the Scheme at 5% of the employees’ relevant income, subject to a cap of monthly relevant income of \$20,000 (the “Cap”). The amounts in excess of the Cap are contributed to the MPF Scheme by both employers and employees as voluntary contributions. Mandatory contributions to the MPF Scheme are vested to the employees immediately. Any unvested balance from voluntary contributions is refunded to the Group.

Employees employed by the Group outside Hong Kong are covered by the appropriate local defined contribution schemes pursuant to the local labour rules and regulations.

## 30 Accounting estimates and judgements

### KEY SOURCES OF ESTIMATION UNCERTAINTY

The methods, estimates and judgements the directors used in applying the Group’s accounting policies have a significant impact on the Group’s financial position and operating results. Some of the accounting policies require the Group to apply estimates and judgements, on matters that are inherently uncertain. The critical accounting judgements in applying the Group’s accounting policies are described below:

#### (a) Depreciation and amortisation

Property, plant and equipment and intangible assets are depreciated and amortised on a straight-line basis over the estimated useful lives. The Group reviews annually the useful life of an asset and its residual value, if any. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimation.

#### (b) Impairments

Notes 15 and 19(a) contain information about the assumptions and risk factors relating to the impairment of goodwill and trade debtors. Other key sources of estimation uncertainty are as follows:

In considering the impairment losses that may be required for certain assets of the Group, the recoverable amount of the asset needs to be determined. The recoverable amount is the greater of its fair value less cost to sell and value in use. It is difficult to precisely estimate fair value because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to items such as level of turnover and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as turnover and operating costs.

Impairment losses for doubtful debts are assessed and provided based on the directors’ regular review of ageing analysis and evaluation of collectibility. A considerable level of judgement is exercised by the directors when assessing the credit worthiness and past collection history of each individual customer.

An increase or decrease in the above impairment losses would affect the net profit in future years.

#### (c) Recognition of deferred tax assets

Deferred tax assets in respect of tax losses carried forward are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted at the balance sheet date. In determining the carrying amounts of deferred tax assets, expected taxable profits are estimated which involves a number of assumptions relating to the operating environment of the Group and requires significant level of judgement exercised by the directors. Any change in such assumptions and judgement would affect the carrying amounts of deferred tax assets to be recognised and hence the net profit in future years.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 30 Accounting estimates and judgements (Continued)

#### KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

##### (d) *Business acquisition*

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

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

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

### 31 Immediate parent and ultimate controlling party

At 31 December 2010, the directors consider the immediate parent and the ultimate controlling party of the Group to be Ease Action Investments Corp., which is incorporated in the British Virgin Islands, and CITIC Group, which is a state-owned enterprise in the PRC, respectively. The ultimate controlling party produces financial statements available for public use.

### 32 Non-adjusting post balance sheet events

After the balance sheet date the directors proposed a final dividend. Further details are disclosed in note 23(a).

### 33 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2010

Up to the date of issue of the financial statements, the HKICPA has issued a number of amendments, and interpretations and one new standard which are not yet effective for the year ended 31 December 2010 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's or the Company's results of operations and financial position.

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

	Effective for accounting periods beginning on or after
Revised HKAS 24, <i>Related party disclosures</i>	1 January 2011
Amendments to HKAS 12, <i>Income taxes</i>	1 January 2012
HKFRS 9, <i>Financial instruments</i>	1 January 2013
Improvements to HKFRSs 2010	1 July 2010 or 1 January 2011

## SIMN

Single IMSI Multiple Number service, a Mobile VAS which allows mobile operators' subscribers to hold multiple overseas mobile phone numbers on their existing SIM cards, providing frequent travellers and mobile roamers the choice of saving roaming charges in SIMN-enabled regions

## SCCP

Signalling Connection Control Part of SS7 signalling protocol that provides connectionless and connection-oriented network services and global title translation (GTT) capabilities above MTP Level 3

## USSD

A Mobile VAS which enables a mobile customer to reverse a roaming originating call to a roaming terminating call by initiating a call, and then wait for a call back to his mobile phone instead of making a call directly, thereby benefiting from the general service charge difference between roaming originating calls and roaming terminating calls

## PRS

A pre-paid Mobile VAS which enables mobile customers to send or receive SMS and/or to receive calls or to call other countries using their mobile phones while overseas

## CORPORATE INFORMATION

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### Website

www.citictel.com contains a description of CITIC Telecom International's business, copies of the reports to shareholders, announcements, press releases and other information.

### Stock Codes

The Stock Exchange of Hong Kong:	01883
Bloomberg:	1883 HK
Reuters:	1883.HK

### Share Registrars

Shareholders should contact our Registrars, Tricor Investor Services Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong on 2980 1333, or by fax: 2810 8185, on matters such as transfer of shares, change of name or address, or loss of share certificates.

### Financial Calendar

Closure of Register:	15 April 2011 to 21 April 2011
Annual General Meeting:	21 April 2011, 10:30 a.m. Island Ballroom, Level 5, Island Shangri-La Hotel Two Pacific Place, Supreme Court Road Hong Kong
Final Dividend Payable:	28 April 2011

### Annual Report 2010

The Annual Report is printed in English and Chinese language and is available on our website at [www.citictel.com](http://www.citictel.com). Shareholders may choose to receive the Annual Report in printed form in either the English or Chinese language or both or by electronic means. Shareholders who have chosen to receive the Annual Report using electronic means and who for any reason have difficulty in receiving or gaining access to the Annual Report will, promptly upon request to the Company's Share Registrars, be sent a printed copy free of charge.

Shareholders may at any time change their choice of the language or means of receipt of the Annual Report by notice in writing to the Company's Share Registrars.

Non-shareholders are requested to write to the Company Secretary, CITIC Telecom International Holdings Limited, 25th Floor, CITIC Telecom Tower, 93 Kwai Fuk Road, Kwai Chung, New Territories, Hong Kong, or by fax: 2376 2063 or by email: [contact@citictel.com](mailto:contact@citictel.com).







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