



Chairman's Statement

I am pleased to present the annual results of CITIC 1616 Holdings Limited for 2009 and report stable growth in the Group's business for the year.

Total revenue of the Group for 2009 amounted to HK\$2,716.6 million, representing an increase of 9.3% as compared with the previous year. The Group recorded a net profit of HK\$371.5 million, an 11.9% increase from the previous year. Earnings per share rose 11.9% to HK18.8 cents.



Mr. Xin Yue Jiang
Chairman

CITIC 1616 Holdings Limited managed to report stable growth in operating profit in 2009, despite intense market competition and the slowdown in revenue growth for the telecommunications sector under the global financial tsunami. By setting up and promulgating our corporate culture across the Group, streamlining internal processes and investing in staff training and development, we managed to improve on our corporate governance as well as operational efficiency. We have placed particular emphasis on service and network quality and the Group was able to consistently improve its services and strengthen its business relationship with major telecoms operators in China and abroad. As a result of these efforts, the Group reported stable performance in our voice services, and relatively fast growth in SMS services, Mobile Value Added Services (VAS) as well as Virtual Private Network (VPN) services and other data businesses. While enjoying stable business growth, the Group spared no effort in raising its customer service standards, stepping up with our network development and quality management, enhancing risk management, as well as developing on our investor and media relations. The latter effort has resulted in the Group capturing the Investor Relations Gold Award 2009 presented by *The Asset Magazine*.

During 2009, the Group completed the acquisitions of China Motion Hong Kong's local optical fibre network and fixed line licence in Hong Kong, Macquarie Telecom Pte. Ltd. of Singapore and, from our parent company, CITIC Pacific Limited, seven floors of Broadway Centre to host our main data centre and office facilities. Such acquisitions would provide solid foundations for the long-term business development of the Group.

The Board recommended a final dividend of HK7.1 cents per share for 2009. Including the interim dividend of HK2.4 cents per share for 2009, the total dividends per share for 2009 amounted to HK9.5 cents, representing an increase of 13.1% as compared with the previous year. The dividend payout ratio for the year is 50.5%.

I. Review for 2009

STABLE GROWTH IN VOICE, SMS AND MOBILE VAS SUPPORTED BY STRONGER TIES WITH THE PRC AND INTERNATIONAL TELECOMS OPERATORS

Market competition was extremely intense in 2009 and the total volume of China outbound voice traffic shrank on a year-on-year basis as the international telecoms business was subdued under the global economic slow down. The Group responded steadfastly to the adverse market conditions through pro-active planning and enhanced business analyses, fully exploiting the business synergies among different businesses and exhausting every means to improve its services to telecoms operators and end customers. We stepped up with our marketing efforts in China's telecommunications market and sped up new product research and development in close tandem with the 3G business requirements of the PRC operators. The Group has established itself as a trusted provider of 3G-VT video phone transit services between a leading PRC telecoms operator and their counterparts in Hong Kong, Macau, Taiwan and other countries in Asia Pacific. Currently we are making preparations to conduct a worldwide transit testing on behalf of other PRC operators in relation to 3G-VT video phone which is expected to augment our competitive advantages for our 3G transit services. The quality of our hubbing services has been well recognised by the PRC operators, while internationally we are actively identifying new opportunities to further broaden our business scope.

Revenue generated by the Group from voice services amounted to HK\$1,726.9 million, representing a 7.0% increase as compared with the previous year. Voice traffic carried rose to 10.14 billion minutes, representing a 25.1% increase as compared with the previous year. China inbound and outbound voice traffic grew by 23.3% to reach 8.61 billion minutes.

The Group reported relatively fast growth in SMS services and rapid growth in Mobile VAS, as it continued to improve its service standards and increase its marketing efforts in those two businesses, while starting to provide C2C and C2G products to customers. Revenue generated from SMS services increased 15.7% to HK\$286.0 million as compared with the previous year. The volume of SMS carried was 1.56 billion messages, a decrease of 11.4% as compared with the previous year. The growth in SMS revenue despite the decline in traffic was mainly attributable to the reduction of SMS services offered at discounted prices to Hong Kong mobile operators, which resulted in higher average price per SMS. Revenue from our Mobile VAS business amounted to HK\$112.0 million, representing an increase of 18.5% as compared with the previous year.

DATA BUSINESS UNDERPINNED BY SUBSTANTIALLY IMPROVED OPERATING EFFICIENCY AND INCREASING INTERNATIONAL INFLUENCE

Against the adverse market situation of continuous slowdown in international customer business in the aftermath of the financial tsunami, CPCNet succeeded in retaining its customer base and maintaining its existing business by launching effective overseas marketing programmes, such as promotional incentives and customer retention packages. By constantly upgrading our services, as evidenced by the launch of new products such as Asia's first HD video-conferencing system, we were able to increase the number of new customers. Meanwhile, our operating efficiency was significantly enhanced as we exercised stringent control over operating costs and caution over new investments, as well as optimising the efficiency of our network capacity. The CPCNet data business has become an important source of profit for the Group, reporting a 39.1% growth in net profit as compared with the previous year.

Because of its outstanding performance in the market for managed data services and on the back of commendations from numerous customers, CPCNet's VPN service TrueCONNECT™ out-competed a number of major telecoms operators to claim the "Best Managed Service Award" at World Communication Awards 2009, a recognition that confirmed CPCNet's growing influence in the international managed data market.

STRENGTHENING ENGINEERING MANAGEMENT AND CUSTOMER SERVICES TO UPGRADE TRANSMISSION QUALITY AND CUSTOMER SERVICE STANDARD OF THE GROUP'S INTERNATIONAL NETWORKS

In line with the Group's strong emphasis on quality assurance, regular cross-functional meetings were convened throughout the year to deal with and resolve issues in quality management. With the implementation of a series of relevant operational guidelines, the quality standards of our network engineering has been greatly improved. Meanwhile, the Group's Global IP network is now commissioned following vigorous and yet prudent network capacity expansion and equipment upgrade in response to market requirements. The transmission capacity as well as quality of the Group's international network have been strengthened as a result.

STEPPING UP WITH INTERNATIONAL MARKET DEVELOPMENT TO BROADEN MARKET COVERAGE

The Group has broadened its market reach to US, Canada, Japan, Singapore, Taiwan, Vietnam and UK through a series of acquisitions and integrations. Initiatives were made to augment overseas group companies' understanding of the Group's services portfolio and technical capabilities, while coordination between the Group's various functions and overseas group companies was also strengthened. The effective integration of overseas group companies with the Group's businesses has resulted in stronger marketing competitiveness for the Group.

ENHANCING TEAM BUILDING AND CORPORATE CULTURE

Intensive efforts were being made to foster a corporate culture of excellence as the Group continued to grow in size, aiming to strengthen staff unity and commitment. Seminars on corporate culture were held for the management and operational staff. With the internal training in corporate values and business skills, complemented by relevant implementation programmes, the quality of teamwork within the Group has been substantially improved.

II. Prospects for 2010

The world economy is expected to undergo a slow process of recovery in 2010, as the impact of the global financial tsunami is not likely to be fully cured any time soon. Market conditions remain challenging as further downside in voice services rates is expected under the pressure of increasing market competition.

In view of the testing market conditions and new challenges, the Group will deploy full efforts to sustain stable development of all its businesses by gearing up internal management and exercising stringent cost controls. The Group will continue to persist with the priority of quality assurance and ensure that services provided to customers are of the highest standard. Meanwhile, we will step up with staff training to improve staff quality in general, which should in turn underpin healthy business development. The Group will also leverage opportunities presented by the Shanghai World Expo and the Guangzhou Asian Games to strengthen business cooperation with PRC operators and ensure the provision of high quality services.

TO ENHANCE INTERNATIONAL COMPETITIVENESS THROUGH ACTIVE OVERSEAS MARKET DEVELOPMENT

Overseas business development represents one of the major, long-term strategic objectives of the Group. While the Group is charged with the important role of connecting China with the rest of the world, its ability to fulfill this role with success and to progress and develop from strength and amid intense competition will largely depend on efforts to foster closer and more extensive business relations with telecoms operators around the world. We would fully leverage our existing networks in overseas markets and steadily expand to untapped regions, so that our international competitiveness may grow in tandem with broadening market coverage.

TO SUSTAIN STABLE GROWTH IN VOICE SERVICES

The Group will closely monitor business development requirements of leading telecoms operators of the PRC and in the international market, seeking to sustain stable development of its voice services by providing high-quality bundled services to the telecoms operators. We will engage in active international market development by bringing our overseas group companies into full play and our capability of provide a full portfolio of hubbing services should

prove an important advantage in the overseas market. At home, we will continue to provide active support to the PRC telecoms operators for their 3G development, improving our 3G video phone transit service between PRC telecoms operators and their overseas counterparts and extending this transit service to a larger group of overseas telecoms operators. The Group will continue to expand its overseas retail phone card business, striving for stable growth in the Americas, Japan, Singapore and Taiwan to provide a solid foundation for the stable development of the Group's voice business. New technologies for IP phones will be developed and we are positive on our IP-based services development banking on the support of our global MPLS VPN Network.

TO SUSTAIN RELATIVELY FAST GROWTH IN SMS AND MOBILE VAS

In SMS services, we will focus on corporate customers and personal communications portals, with special emphasis on the business requirements of corporate customers such as banks, airlines, schools and government organisations. In Mobile VAS, we will focus on market developments in the Americas, the Middle East and Africa and promote our Mobile VAS products to telecoms operators in these regions, providing the added attraction of complementary product services. We will expand the market coverage of our SMS and Mobile VAS by promoting our services to more overseas telecoms operators through the marketing network of our overseas group companies. We will also expedite the marketing of our C2C and C2G services to gain new ground.

TO SUSTAIN FAST GROWTH IN DATA BUSINESSES

CPCNet will continue to follow the marketing strategy adopted in 2009, with a special focus on meeting market requirements for innovative products and services. It will seek to retain customers and reduce the customer churn by all possible means, such as customer retention and contract renewal packages. Meanwhile, it will endeavour to attain new sales growth through effective marketing strategies and enriched product mix, as well as further development in the VPN business. Innovative value-added services will be launched and information security services will be promoted to provide total communications and security solutions, which will save costs for customers while broaden income sources for the Group.

TO COMMISSION OUR BROADWAY CENTRE IDC FOR ENHANCEMENT OF OUR MARKET COMPETITIVENESS

With the support of our parent company, CITIC Pacific Limited and our shareholders, the Group completed the acquisition of IDC and office space on seven levels of Broadway Centre in late 2009. Our aim is to build Broadway Centre into a branded telecoms hub and data centre. We plan to complete the renovation of the office floors, Network Operations Center ("NOC") and a significant part of the data centre facilities by the end of 2010. Relocation of offices and equipment will be done by stages. The Group is expected to record significant rental savings as well as expansion in data centre facilities to serve our customers.

The Group will diligently continue to carry out effective integration of its existing businesses. Meanwhile, it will also seek to expand in scale and further strengthen its market coverage and penetration for long-term growth as well as to create greater efficiency and realise synergies. The Group will pursue business development in a very prudent manner taking market conditions, the quality of the opportunities and Group's financial well being into account.

As the Group proceeds with its business development in accordance with stated strategies and plans, we have every confidence that it will overcome any obstacles ahead and continue to report stable growth in 2010 under the leadership of the Board and with the concerted efforts of the staff.

Last but not least, I would like to express sincere appreciation on behalf of the Board, for all the contributions and hard work of the Group's management and other staff, as well as for the steadfast support and trust shown by our customers and shareholders for the past year.

Xin Yue Jiang

Chairman

Hong Kong, 11 February 2010