



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.

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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.



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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.



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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.

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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.

