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.

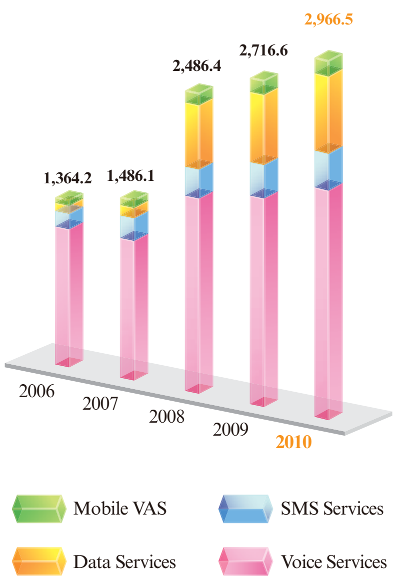
Pages 62 to 68 of the Annual Report contain the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Balance Sheet, Consolidated Statement of Changes in Equity, Statement of Changes in Equity and Consolidated Cash Flow Statement. Following these financial 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.

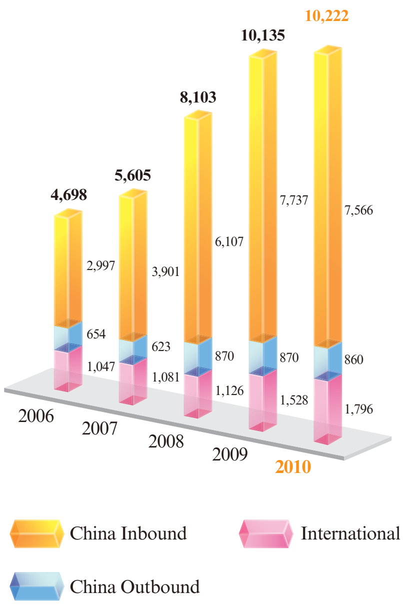
Basis of Accounting

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

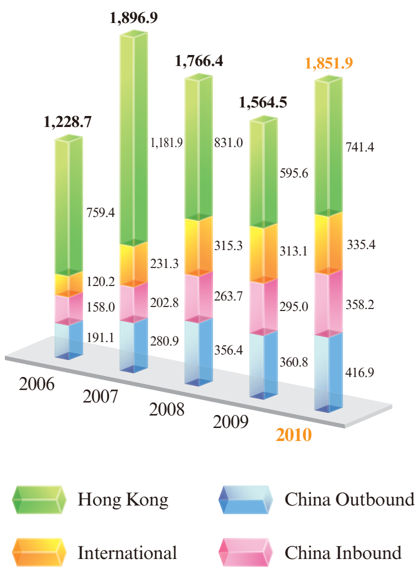
The Group's turnover for 2010 was HK$2,966.5 million, representing an increase of 9.2%, compared with HK$2,716.6 million for 2009.

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.

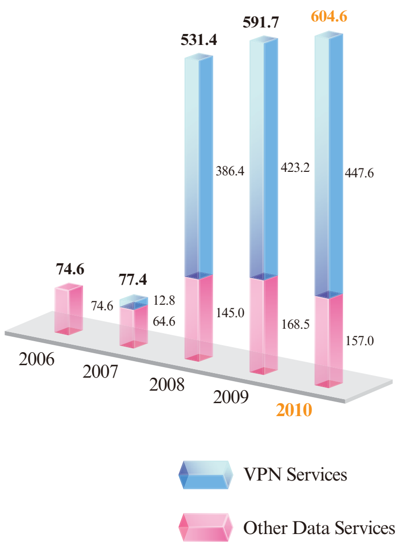
Number of SMS

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.

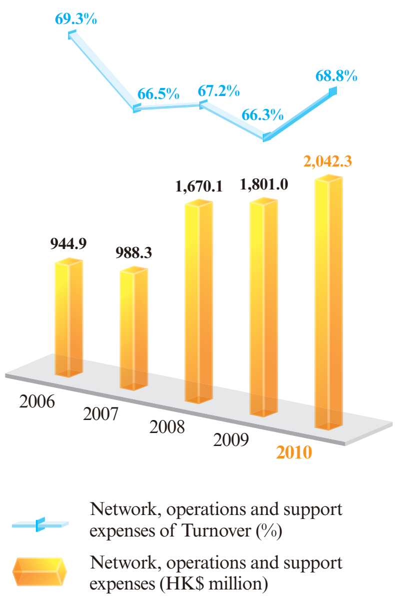
NET FOREIGN EXCHANGE LOSS

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.

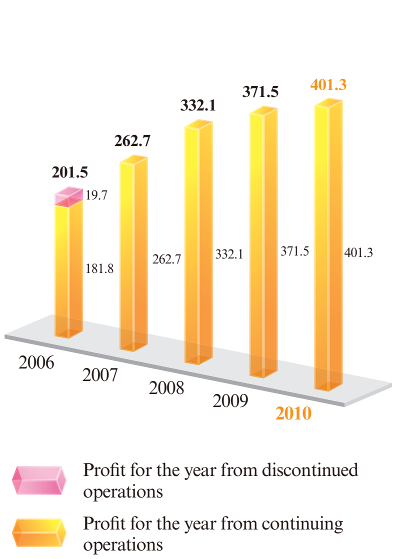
NETWORK, OPERATIONS AND SUPPORT EXPENSES

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.

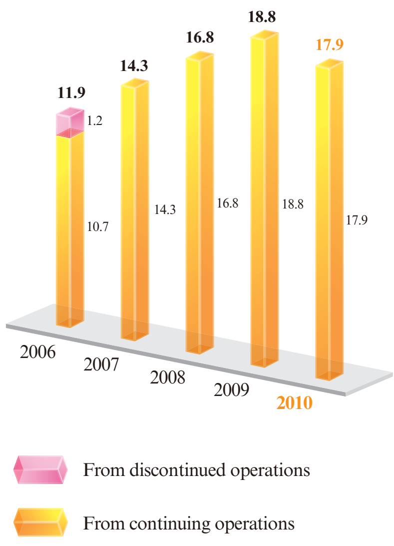
Network, operations and support expenses
HK$ Million



Profit attributable to equity holders of the Company
HK$ Million



Basic earnings per share
HK Cents



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.

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:

	Denomination					
HK$ million equivalent	**HK$**	**US$**	**EURO**	**RMB**	**Others**	**Total**
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.