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.

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 polices 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 investess' 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.

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.

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.

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.

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.

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	2009
	$'000	$'000
Profits		
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	2009
	$'000	$'000
Assets		
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

3 Segment reporting (Continued)

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

	2010 $'000	2009 $'000
Liabilities		
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
	(6,999)	513

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	**214**	–
(b) Staff costs (including directors' remuneration (note 9))		
Contributions to defined contribution retirement plans	**8,729**	7,257
Equity-settled share-based payment expenses (note 28)	**14,578**	4,872
Salaries, wages and other benefits	**239,471**	208,337
	262,778	220,466
(c) Other items		
Network, operations and support expenses, including:	**2,042,320**	1,800,966
– carrier costs	**1,642,144**	1,426,027
– operating leases – leased circuits	**212,892**	182,958
– other telecommunications service costs	**187,284**	191,981
Depreciation	**105,186**	104,026
Amortisation	**8,447**	6,911
Impairment losses on trade debtors	**13,685**	754
Auditors' remuneration	**3,315**	3,391
Transaction costs for acquisition of subsidiaries	**10,468**	–
Operating lease charges in respect of land and buildings	**47,310**	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
Current tax – Hong Kong Profits Tax		
Provision for the year	**46,858**	59,726
Under/(over)-provision in respect of prior years	**533**	(23)
	47,391	59,703
Current tax – Overseas		
Provision for the year	**4,097**	4,666
(Over)/under-provision in respect of prior years	**(190)**	139
	3,907	4,805
Deferred tax		
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
Hong Kong Profits Tax		
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
Overseas tax		
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
Executive directors							
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**
Non-executive directors							
Kwok Man Leung	**141**	**–**	**–**	**–**	**141**	**57**	**198**
Fei Yiping	**120**	**–**	**–**	**–**	**120**	**–**	**120**
Liu Jifu	**19**	**–**	**–**	**–**	**19**	**–**	**19**
Independent non-executive directors							
Yang Xianzu	**240**	**–**	**–**	**–**	**240**	**132**	**372**
Liu Li Qing	**240**	**–**	**–**	**–**	**240**	**132**	**372**
Kwong Che Keung, Gordon	**240**	**–**	**–**	**–**	**240**	**132**	**372**
Total	**1,360**	**7,676**	**7,573**	**168**	**16,777**	**2,562**	**19,339**

	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
Executive directors							
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
Non-executive directors							
Kwok Man Leung	146	–	–	–	146	47	193
Chan Chui Sheung, Stella	120	–	–	–	120	47	167
Independent non-executive directors							
Yang Xianzu	240	–	–	–	240	47	287
Liu Li Qing	240	–	–	–	240	47	287
Kwong Che Keung, Gordon	240	–	–	–	240	47	287
Total	1,372	8,579	7,476	171	17,598	987	18,585

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
	8,266	7,307

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	**401,288**	371,527

Weighted average number of ordinary shares

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

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)).

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
Cost:					
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
Accumulated depreciation:					
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
Net book value:					
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
Cost:	
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
Accumulated depreciation:	
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
Net book value:	
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.

14 Intangible assets

The Group

	Customer relationships $'000	Customer contracts $'000	Trade names/ trademarks $'000	IRU of tele-communications capacity $'000	Total $'000
Cost:					
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
Accumulated amortisation:					
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
Net book value:					
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
Cost and carrying amount:		
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.

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(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[1]	–	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 $^{\Delta}$
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#
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.

[1] 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**	–	**–**	–
	1,489,382	–	**1,400,268**	–

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: Group's effective interest	Proportion of ownership interest: Held by the Company	Principal activity
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	Liabilities	Equity	Revenue	Profit
	$'000	$'000	$'000	$'000	$'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	Depreciation allowances in excess of the related depreciation	Tax losses	Total
	$'000	$'000	$'000	$'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

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
Represented by:		
Deferred tax assets	**(22,172)**	(14,284)
Deferred tax liabilities	**38,424**	38,289
	16,252	24,005

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
Represented by:				
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).

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

21 Trade and other payables

	The Group 2010 $'000	The Group 2009 $'000	The Company 2010 $'000	The Company 2009 $'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
Represented by:				
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 2010 $'000	The Group 2009 $'000	The Company 2010 $'000	The Company 2009 $'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 $'000	2009 $'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

	Note	**2010** **No. of shares**	**Amount** **$'000**	2009 No. of shares	Amount $'000
Authorised:					
Ordinary shares of $0.10 each		**5,000,000,000**	**500,000**	5,000,000,000	500,000
Issued and fully paid:					
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).

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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

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
	56,390	5,648

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.

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)**

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 USD $'000	2009 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.

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
Satisfied by:			
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
Satisfied by:			
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.

(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
Options granted to directors:				
– 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
Options granted to employees:				
– 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	**$2.44**	**50,575,000**	$3.26	15,165,000
Granted during the year	**–**	**–**	$2.10	35,825,000
Exercised during the year	**$2.10**	**(1,644,500)**	–	–
Cancelled during the year	**–**	**–**	$2.10	(115,000)
Lapsed during the year	**$2.10**	**(1,672,500)**	$3.26	(300,000)
Outstanding at the end of the year	**$2.46**	**47,258,000**	$2.44	50,575,000
Exercisable at the end of the year	**$2.67**	**30,245,500**	$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.

(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, *Related party disclosures*	1 January 2011
Amendments to HKAS 12, *Income taxes*	1 January 2012
HKFRS 9, *Financial instruments*	1 January 2013
Improvements to HKFRSs 2010	1 July 2010 or 1 January 2011