ANNUAL REPORT 2011

CONNECTING THE WORLD WITH QUALITY SERVICES

中信國際電訊

CITIC TELECOM INTERNATIONAL

STOCK CODE: 1883

ABOUT US

CITIC Telecom International is one of Asia's leading telecoms service providers specialising in hub-based services. In addition to serving its key markets in China and Hong Kong, the Group is actively expanding its business to international telecoms operators. The Group has four main types of business, namely Voice Services, SMS Services, Mobile VAS and Data Services. Its independent hub connects over 596 telecoms operators in 71 countries or areas.

OUR VISION

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

OUR MISSION

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

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

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

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

CONTENTS

FINANCIAL STATEMENTS

VOICE

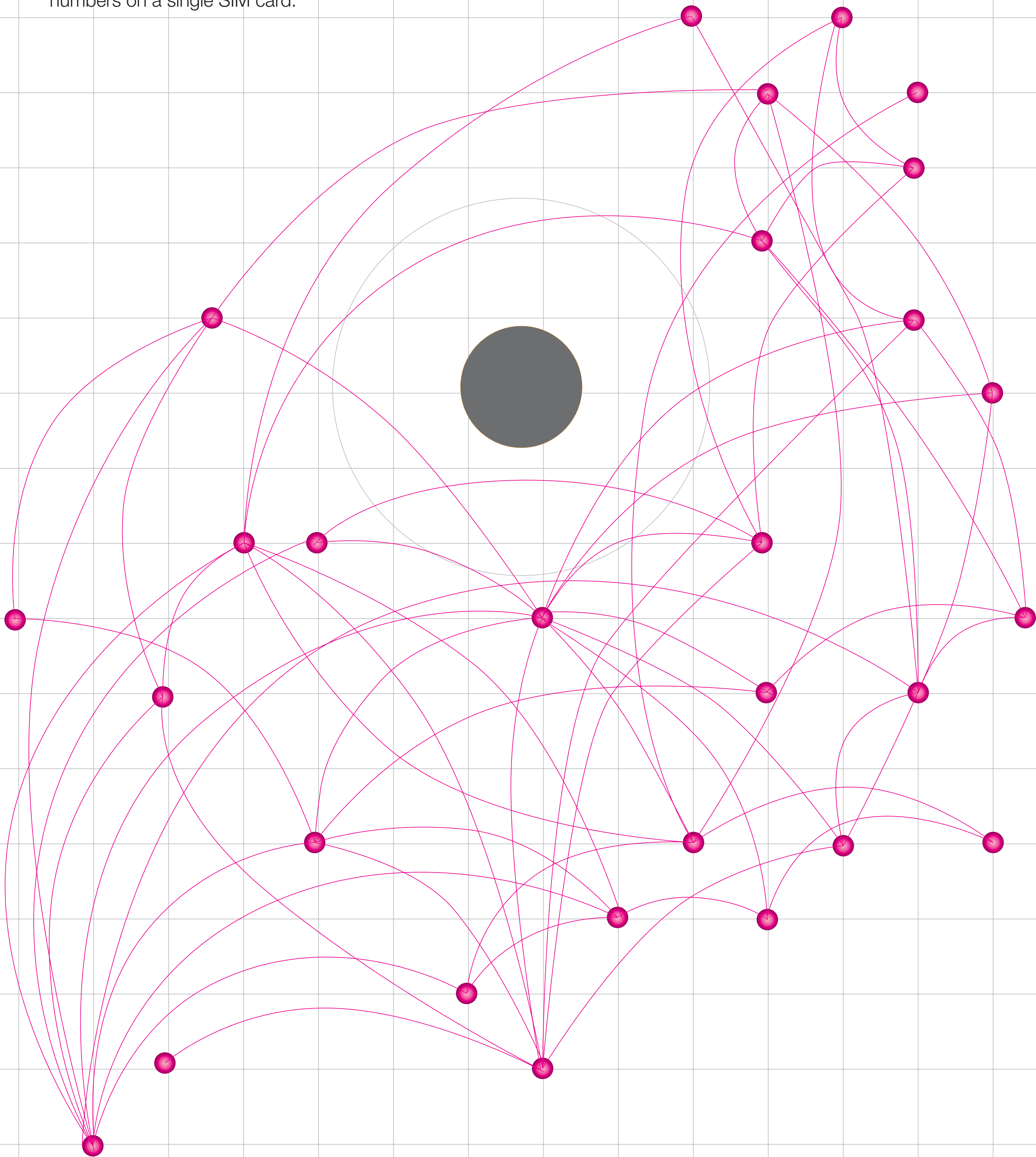
- Providing premium international voice hubbing services to fixed line and mobile operators across the globe.
- Providing circuit switch voice service solution to corporate customers under our regional POPs around the world.
- Handled over 9.10 billion minutes of voice traffic in 2011.
- Being the top 11 International Carriers, ranked by international minutes handled by CITIC Telecom International Holdings Limited in 2010, according to the latest research published by TeleGeography Research.

SMS

- Being one of the main international SMS carriers to China's mobile operators, carrying international SMS in and out of China to the rest of world.
- Being the dominant provider of Hong Kong inter-operator SMS hubbing services and handled over 742 million messages in 2011, which is a substantial portion in Hong Kong.
- Connecting international operators and support SMS exchanges between GSM, CDMA, PHS, WCDMA, CDMA 2000 and TD-SCDMA networks.
- Providing enterprises an effective communication way to send and receive SMS through our platform.

MOBILE VAS

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



DATA

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

MILESTONES 2011

JANUARY

- Extended the prepaid roaming services for the largest Chinese mobile operator to France, Malaysia, Japan, Singapore, the Philippines, Thailand, Indonesia, Vietnam, Egypt, Australia, Italy and South Korea

FEBRUARY

- Launched SIP Trunk service to Enterprise PBX customers
- Established a new direct connection with an African telecoms operator in Seychelles

MARCH

- Data Centre with Tier III+ infrastructure at CITIC Telecom Tower opened

APRIL

- Provided infotainment service for outbound roaming subscribers in China and Taiwan through Welcome SMS

MAY

- CITIC Telecom International CPC Limited ("CPC") won the World Vendor Awards (WVA) 2011 – Best Hosted Solution from the Total Telecom, demonstrates the company's success in offering customers high-quality, seamless ICT solutions
- Full direct SMS coverage for all WCDMA operators in Malaysia and Japan

JUNE

- CPC launched its 3rd flagship product, SmartCLOUD Cloud Computing Solution. The service is built on top of the company's carrier-grade data centres and complement with existing TrueCONNECT™ MPLS VPN and TrustCSI™ Information security services
- CPC won 3 awards:
  - 2010 Customer Relationship Excellence (CRE) Awards from the Asia Pacific Customer Service Consortium, for the fourth consecutive year
  - The 43rd Distinguished Salesperson Award (DSA) from Hong Kong Management Association, for the eighth consecutive year
  - CPC became the first telecoms and ICT services provider to win the 2011 Hong Kong Awards for Industries: Productivity and Quality Award from Hong Kong Productivity Council
- Won an award for "Partnership Excellence (Singapore)" by one of the world's largest dedicated conferencing service providers

JULY

- CPC won Enterprise Asia's Outstanding Entrepreneurship Award at the Asia Pacific Entrepreneurship Awards (APEA) 2011
- Completed the acquisition of China Enterprise Netcom Corporation Limited
- Broadened Mobile VAS offering (Single Card Multiple Number) within China for local retail customers

AUGUST

- Established direct connection with telecoms operators in Afghanistan
- Launched G2G Roaming service through our in-house developed Roaming Hub technology and our synergy with CTM as the sponsor network to enable global roaming service for an African mobile operator in Congo
- Acquired IVAS Brasil for VoIP services in Brazilian market

SEPTEMBER

- Launched Mobile Roaming Call Back service to a CDMA operator in Macau

OCTOBER

- CPC was honored 2 awards:
  - 2011 The Best SME Partners for the fifth consecutive year, organised by Hong Kong Economic Digest, for "The Best Cloud Computing Solutions"
  - 2011 – 3rd Quarter Editors' Choice – SmartCLOUD Cloud Computing Solution, by Sing Tao Daily – IT Square

NOVEMBER

- CPC was selected as one of the "Top 20 Regional Global ICT Companies 2011", organised by MIS Asia Strategic 100, for the third consecutive year
- CPC, TW won "2011 ideas Best Choice – Top 20 innovative companies: Security Products and Services", by CISC and iT Power
- Formed the co-operation with an enterprise services provider in Taiwan
- Launched ComNet Soft Clients (on both Apple IOS & Android) for retail market
- CITIC Telecom International won "2011 Best Product Innovations Award" from a China operator

DECEMBER

- CPC became one of the first VMware vCloud® Powered service providers in Greater China
- CITIC Telecom International introduced Global WiFi Access service in its enterprise services portfolio. The service complements CITIC Telecom International's best-in-class managed network, communications products, and managed security solutions

CORPORATE INFORMATION

HEADQUARTERS AND REGISTERED OFFICE

25th Floor, CITIC Telecom Tower
93 Kwai Fuk Road
Kwai Chung
New Territories
Hong Kong
Tel: 2377 8888
Fax: 2376 2063

WEBSITE

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

STOCK CODES

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

SHARE REGISTRARS

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

FINANCIAL CALENDAR

Closure of Register:	25 April 2012 to 27 April 2012 and 4 May 2012 to 9 May 2012
Annual General Meeting:	27 April 2012, 10:30 a.m. Ballroom, Level 3 JW Marriott Hotel Hong Kong Pacific Place, 88 Queensway Hong Kong
Final Dividend Payable:	16 May 2012

ANNUAL REPORT 2011

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

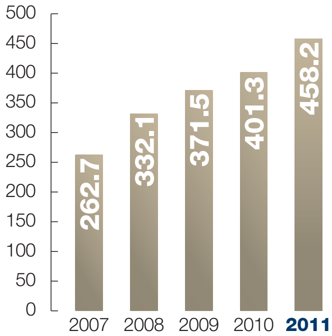
Shareholders may at any time change their choice of the language or means of receipt of the Annual Report by notice in writing to the Company's Share Registrars.

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

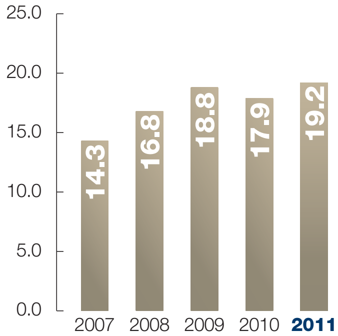
FINANCIAL HIGHLIGHTS

- Net profit increased by 14.2% to HK$458.2 million while turnover rose to HK$3,196.8 million.
- Basic and diluted earnings per share for the year 2011 increased to HK19.2 cents.
- Voice traffic handled over 9.10 billion minutes.
- 1.96 billion SMS carried.
- Turnover from Mobile VAS increased by 25.4% to HK$176.3 million.
- Turnover from Data Services increased by 21.4% to HK$734.2 million.
- Dividends per share for the year 2011 was HK9.6 cents, representing a dividend payout ratio of 50.0%.

Profit attributable to equity holders of the Company
HK$ Million



Basic earnings per share
HK Cents



in HK$ Million	2011	2010	
Turnover			
Voice Services	**1,939.1**	1,905.6	Increase 1.8%
SMS Services	**347.2**	315.7	Increase 10.0%
Mobile VAS	**176.3**	140.6	Increase 25.4%
Data Services	**734.2**	604.6	Increase 21.4%
	3,196.8	2,966.5	Increase 7.8%
Profit attributable to equity holders of the Company	**458.2**	401.3	Increase 14.2%
Total assets	**4,337.5**	4,081.7	Increase 6.3%
Total equity	**3,179.1**	2,943.8	Increase 8.0%
Cash and bank deposits	**257.0**	327.0	Decrease 21.4%
Earnings per share (HK cents)			
Basic	**19.2**	17.9	Increase 7.3%
Diluted	**19.2**	17.8	Increase 7.9%
Dividends per share (HK cents)			
Interim dividend	**2.4**	2.4	Same level as last year
Final dividend	**7.2**	7.1	Increase 1.4%
	9.6	9.5	Increase 1.1%

CHAIRMAN'S STATEMENT

I am pleased to present the annual results of CITIC Telecom International Holdings Limited (the "Group") for 2011.

The Group recorded stable growth in its operating results during 2011 as it proactively responded to challenges with strong market development efforts amidst a testing international economic environment and more intense competition in the telecommunications market. Total revenue of the Group for 2011 amounted to HK$3,196.8 million, a rise of 7.8% compared with the previous year. Net profit amounted to HK$458.2 million, a 14.2% increase from the previous year. Basic earnings per share increased by 7.3% to HK19.2 cents.

Despite intensified competition, our voice services business remained stable during 2011 with a modest 1.8% increase in revenue over the previous year. Both the China inbound and outbound voice businesses were affected by adverse market changes during the year. Thus the volume of China inbound traffic handled by the Group declined in comparison to the previous year. Confronted by this adverse market situation, the Group strived to develop new areas in its voice services by increasing its offering of higher-margin voice services, which partially offset the impact of adverse factors such as the continued decline in the voice services market.

Revenue generated from our SMS Services and Mobile Value-added Services ("VAS") increased by 10.0% and 25.4%, respectively, as compared to the previous year. Data businesses such as virtual private networks ("VPN") and Internet access services recorded rapid growth, rising by 21.4% as compared to the previous year, due to revenue contributions from China Enterprise Netcom Corporation Limited ("CEC-HK") following the completion of the acquisition of CEC-HK's entire issued share capital on 29 July 2011. Profit contributions to the Group from Companhia de Telecomunicacoes de Macau, S.A.R.L. ("CTM") also grew by 67.2% compared with the previous year.

While maintaining steady development in its businesses, the Group also committed diligent efforts to significant matters which would impact the Group's long term development with an aim of further improving its corporate governance and management tasks in all aspects. In 2011, our Directors made a solid contribution to the Group's corporate governance practices, ensuring that all decisions would be made in accordance with the Group's requirement for best corporate governance.

As a result, the procedures of the Group's Board of Directors have become more systematic, rigourous and democratic. We completed the acquisition of 65% interest in VidaCom Group USA, Inc. (which indirectly owns the entire interests in IVAS Brasil, S.A.), as well as certain shareholdings in E-Tone Network Corporation in Taiwan. The Group enhanced its business development advantage with the completion of its network operation centre and data centre. We also placed a strong emphasis on staff training, where employees' awareness and motivation for domestic as well as international market development were enhanced and their business and technical capabilities were improved through various forms of education and training. By leveraging its internal dynamics, the Group achieved notable results in terms of effective resource deployment, systematisation of billing and routing processes, establishment of financial information management system building, improvements to customer and commercial management, as well as capital cost control. Our work in the past year has provided a strong driving force to bolster the Group's general efficiencies.

The Board recommended a final dividend of HK7.2 cents per share for 2011. Together with the interim dividend of HK2.4 cents for 2011, the total dividends per share for 2011 amounted to HK9.6 cents, which was 1.1% higher compared with the previous year. The dividend payout ratio for the year is 50.0%.

I. REVIEW FOR 2011

PROACTIVE MEASURES ADOPTED TO ENHANCE THE OPERATING EFFICIENCIES OF OUR VOICE SERVICES

In 2011, the Group's voice services business was subject to the pressure and challenges of an ever-changing telecommunications market. To address such changes, a number of measures were adopted to secure the stable development in all aspects of our voice services business.

The Group enhanced its efforts in business research and market analysis by conducting sessions for these subjects on a regular basis in response to changes in telecoms operators and overseas markets. These sessions have rendered strong support to the management and the business departments through timely provision of accurate information. The Group conducted business with the provincial branch companies of the PRC telecoms operators based on its existing platforms and embarked on initiatives to support these operators in the development of single IMSI dual number service ("SIDN") in China's neighbouring countries and regions. We continued to explore high-quality overseas routing to reduce costs of international voice services. Initial results were achieved for the Group's IPX and other projects as marketing efforts in these areas paid off. To strengthen the market development work of the Group's overseas offices, we set up a new International Business Department to oversee their operations and focus efforts to develop new high-value voice services. The closer coordination between headquarters and overseas offices as well as among the offices themselves enabled continuous profit growth in voices services overseas and contributed to the stable development of the Group's overall voice services.

VIGOROUS NEW MARKET DEVELOPMENT EFFORTS YIELD RAPID GROWTH FOR MOBILE VAS, VPN AND DATA BUSINESSES AND STABLE GROWTH FOR SMS BUSINESS

Leveraging its established market leadership and premium service quality in the international Mobile VAS business, the Group endeavoured to participate in projects with the PRC telecoms operators and cooperation in that area with PRC telecoms operators has been enhanced as a result. The Group's successful bids for projects of these operators' provincial branches, such as the "Campus Card" project, were a strong driving force behind the rapid growth of its Mobile VAS business. For data businesses, CITIC Telecom International CPC Limited exerted major efforts in the new areas of cloud computing, information security and data centres following the completion of its initial business integration with China Enterprise Communications Ltd.. The Group's competitiveness in the international SMS business has been enhanced as it secured new customers in enterprise SMS and entered into a contract with a major telecommunications player in Southeast Asia to become its SMS international gateway to certain Asian countries. Advances have been made in the enterprise SMS business with multinational corporations. Through the marketing activities described above, we have broadened our market base and achieved rapid growth in our Mobile VAS, VPN and data businesses, while our SMS business also managed to achieve moderate growth.

ENDEAVOURS TO TAP NEW BUSINESS FRONTIERS UNDERPINNED BY DILIGENT PRODUCT AND BUSINESS INNOVATION INCLUDING CLOUD COMPUTING SERVICES

SmartCLOUD Cloud Computing Solution, the flagship product of CITIC Telecom International CPC Limited, was launched in July 2011 and aimed at providing Asia Pacific corporate users with innovative, flexible and efficient cloud computing services. SmartCLOUD was well received by the market and we were one of the first service providers in the Greater China region to obtain the VMware vCloud® Powered Certification. The cloud computing services of CITIC Telecom International CPC Limited were fully supported by various internationally renowned suppliers in cloud computing and virtualisation technologies. SmartCLOUD M@il, another cloud computing solution provided by CITIC Telecom International CPC Limited, offers email, calendar and other supplementary functions as well as seamless compatibility with various platforms and hardware enabling operation on any equipment at any time.

Highly focused on realising the potential for the development of its IPX business, the Group adopted various measures to meet market demand for IPX and cloud computing. With its IPX gateway in place, the Group started negotiations with CTM and other telecoms operators in IPX business cooperation with bundled voice, SMS and Mobile VAS services. The Group launched all-in-one roaming service products that featured integrated networks, technical platforms, operations and maintenance for voice, SMS and Mobile VAS and carried out market promotion of IPX technical services. Through product and business innovation, the Group endeavoured to explore new frontiers in its business development.

CORPORATE INTERNAL CONTROL STANDARDS ENHANCED THROUGH IMPROVED INTERNAL MANAGEMENT AND CONTROL PROCEDURES

In tandem with our rapid development and growing scale of operations in recent years, the business segments of our Group's departments and subsidiaries increasingly extended their scope of business and become more sophisticated. Our Group is facing heightened challenges and risks as our scale of operations and business expands. An imminent issue to be addressed would be the enhancement of our Group's management and control measures commensurate with our rapid business growth. Towards this end, the Group set up the Internal Control Department and formulated the "Working Rules for Internal Control and Examination" and commenced a range of internal control initiatives implementing rules and regulations to provide a strong assurance of the Group's internal control ability.

Departments concerned and overseas offices of the Group were organised to roll out work on a massive scale for the establishment of the enterprise resource planning (ERP) system and notable results were achieved. Our ERP system, officially commissioned in April 2011, has enhanced the internal control standards of the Group.

QUALITY OF SERVICES TO CUSTOMERS FURTHER UPGRADED IN TANDEM WITH IMPROVED NETWORK QUALITY MANAGEMENT STANDARDS

The Group placed key emphasis on the quality of worldwide network communications. Quality management was further strengthened to meet the requirements of both the Group's business development and its customers. The Group's principal telecommunications platforms were optimised, upgraded and expanded in capacity on a continuing basis, while new exchange firewalls were built. Quality management for project works and job orders were also strengthened through the development of the customer service management system to deal with quality issues for customers in a proactive manner. A Quality Assurance and Testing Committee set up early last year conducted meetings on a regular basis to analyse work and routing quality, and review and resolve quality issues in a timely manner. The Group also proactively launched and revised overseas quality testing programmes on an ongoing basis, under which overseas offices were required to promptly return test results to the Hong Kong headquarters to identify and resolve existing quality problems before they were identified by customers. The measures adopted by the Group to enhance network management have further improved our standard of network quality management and provided a solid foundation for offering customers higher quality services.

STAFF COMPETENCY AND STANDARDS CONSISTENTLY IMPROVED BY BUILDING CORPORATE CULTURE AND ENHANCED TRAINING ON TEAM CALIBRE

The Group has enhanced internal business training and education, by organising specialised training and seminars on a regular basis followed by sessions where department heads and staff shared their knowledge and observations on market development as well as insights into business training. Meetings of the management teams from overseas offices at the Hong Kong headquarters enabled proactive and effective business development overseas and enhanced overseas offices' understanding of the Group's business and other developments. At these meetings, management teams shared information on their respective business development efforts and future plans as well as received training on the Group's ERP system. Through this learning and training, the ability of staff to handle and resolve issues has been improved.

II. OUTLOOK FOR 2012

In 2012, the world economy will remain subject to the adverse impact of the sovereign debt crisis in Europe. The Group will continue to face enormous pressure in the international telecommunications market with lingering uncertainties in the business environment.

Hence, building on the foundation we created in 2011, the Group will continue developing its businesses to achieve growth. At the same time, the Group will continue to be innovative in order to adapt to changes and new demands in the market, and to realise our goal to become an operations-oriented enterprise.

Over the past few years, a diversified approach has been adopted for the Group's telecommunications business with the strong support of CITIC Group Corporation and CITIC Pacific Limited. In addition to our traditional transit businesses of international voice services, SMS and Mobile VAS, we have also established a solid brand name in the market for our data business including VPN and Internet access services. The Group's equity interest in CTM has contributed to a stronger foundation for future development. Our more extensive overseas network has positioned us favourably for even further access to international markets. On the basis of these positive factors and our constant efforts in prudent development, we are striving for stable profit growth in 2012.

TO FURTHER ENHANCE PROFIT CONTRIBUTIONS THROUGH THE LOCAL MARKETING STRENGTHS OF OVERSEAS OFFICES

Stronger efforts will be committed to boosting business, technology and team building of overseas offices, as we strive to fully realise their potential in order to extend our international marketing reach and network coverage, aiming to achieve stable growth in our international business. Further to the acquisitions of a controlling stake in IVAS Brasil and shareholdings in an enterprise voice services company in Taiwan in 2011, we are looking to enhance post-acquisition management to bring the practices of these companies in financial, human resources and business matters in line with the headquarters. Profit contributions from these overseas offices are expected to further increase leveraging the benefit of their inherent marketing strengths.

TO ACTIVELY PENETRATE THE MARKETS OF DEVELOPING COUNTRIES AND BROADEN THE SCOPE OF BUSINESS COOPERATION WITH THIRD-WORLD NATIONS

Leveraging fully its worldwide marketing regime and telecommunications network, the Group will conduct timely analysis of customer demands and continue to tap emerging markets such as Africa, Central Asia, the Middle East and South America for business cooperation on new frontiers through the formulation of effective marketing initiatives. We will need to look into the international business development of the PRC telecoms operators in order to correctly position ourselves in the international market and identify new niches for cooperation with PRC operators under different market situations. On the back of our market strength in the telecommunications markets in developing countries, we look to commence mutually beneficial business ventures with operators in developing countries in a proactive and effective manner.

TO SUSTAIN BUSINESS DEVELOPMENT BY PROVIDING MORE COMPREHENSIVE SERVICES TO PRC TELECOMMUNICATIONS OPERATORS AND DOMESTIC ENTERPRISES

We are well-disposed to provide better services for the PRC telecoms operators and will strengthen our marketing efforts in the PRC telecommunications market. Efforts will be devoted to the research and development of new products based on the business requirements of the PRC telecoms operators which we closely track. Through constant improvement of our quality of service, our working relationships with the PRC telecoms operators will be enhanced. The Group will also work in close tandem with the nation's economic development to provide VPN and other telecommunications services to domestic enterprises engaged in overseas expansion.

TO STRENGTHEN THE APPLICATION AND RESEARCH AND DEVELOPMENT IN NEW TECHNOLOGIES AND BUSINESSES SUCH AS CLOUD COMPUTING

The Group will continue to invest in SmartCLOUD products with a view to introduce state-of-the-art technologies and specialised services and support, so that customers could fully benefit from cloud computing services with upgraded efficiencies and flexibility. At the same time, the Group would be able to further enlarge its market share in cloud computing.

We will engage in active research and development of new technologies and businesses that cater for our development, based on the requirements of telecoms operators and changes in the market. In particular, we will continue to enhance our efforts in the research and development of IPX, mobile roaming payments, and 3G and 4G technologies with a view to turning research outcomes into products. Special emphasis would be given to enhance the research and development of IPX applications so that we could provide customers with IPX services of top quality. We will also seek to advance the progress of our 3G-VT video phone transit business.

TO IMPROVE THE STANDARD OF THE GROUP'S NETWORK OPERATION BY ENHANCING DATA CENTRE AND NETWORK CAPABILITIES

We also intend to enhance the standard of our network operation through the construction of new data centres. We are focusing on the development of the data centre (servers) located at CITIC Telecom Tower in Hong Kong. Further to the completion of Phase I, we are ready to start construction of Phase II and actively plan for Phase III. We are undertaking efforts to ensure the quality of the construction work, the benefits of investments in networks and equipment and the proper relocation of cables and equipment. Through careful planning as well as sound and effective arrangement of investments in equipment and cable, the data centre would be well-positioned for healthy development.

Regarding internal management and development strategies for our Group, in 2012 we will continue to seek improvements in the management quality of staff at all levels by reviewing past experience and outcomes in internal management, so that we will be able to pursue scientific and standardised management at a more profound level. This should enable us to further consolidate and enhance the benefits of our existing businesses, foster the development of new products and businesses and engage in active international market development. In this way, our integrated competitive strengths will be continuously enhanced.

With the support of our shareholders and the concerted efforts of all employees, I am confident that our Group will continue to achieve steady progress in business development and deliver sound returns to our shareholders in 2012.

May I express sincere gratitude to all shareholders, business partners and parties who have shown their concern for the Group. I would also like to pay tribute to all employees of the Group for their dedication and hard work.

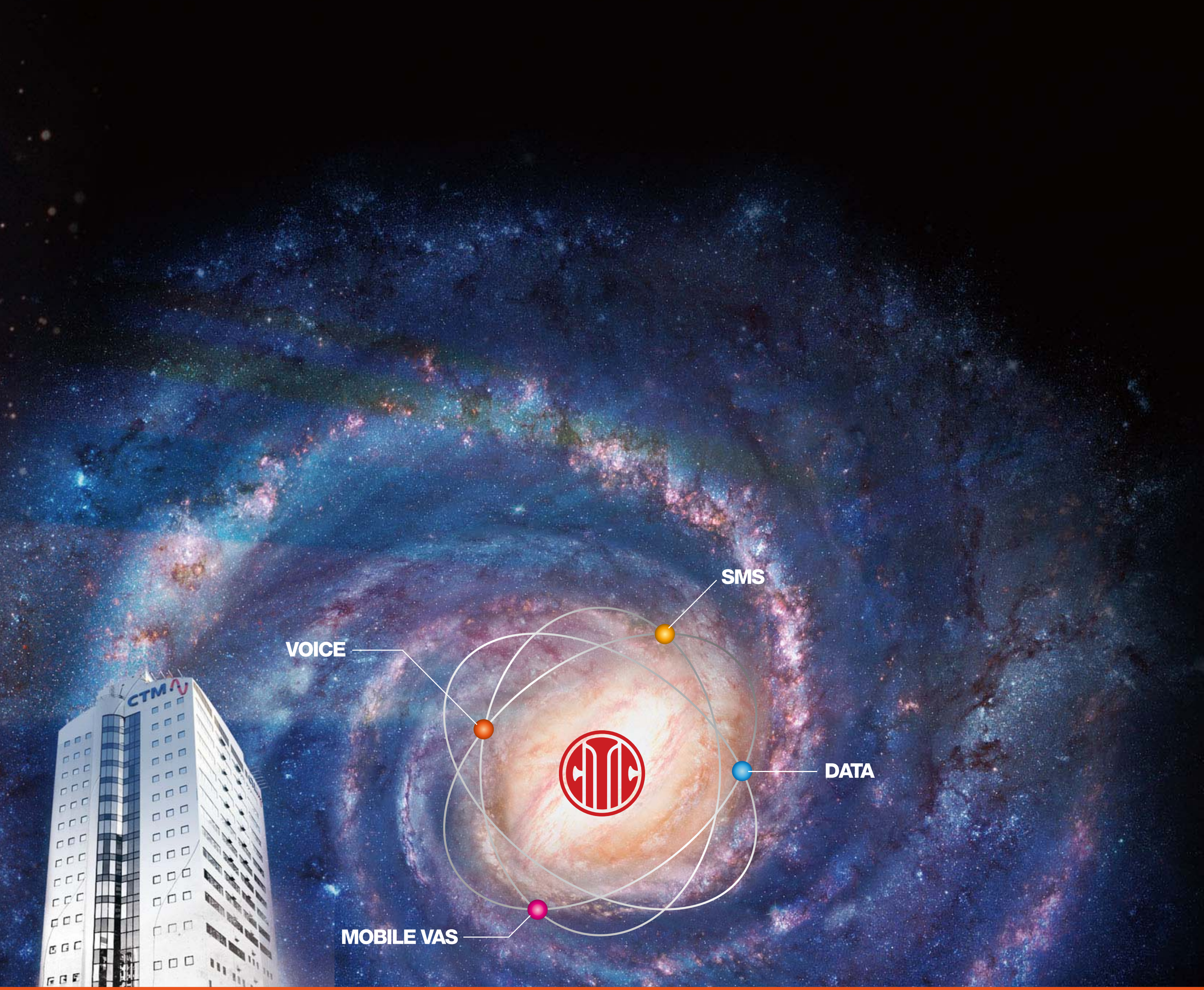
Xin Yue Jiang
Chairman

Hong Kong, 22 February 2012

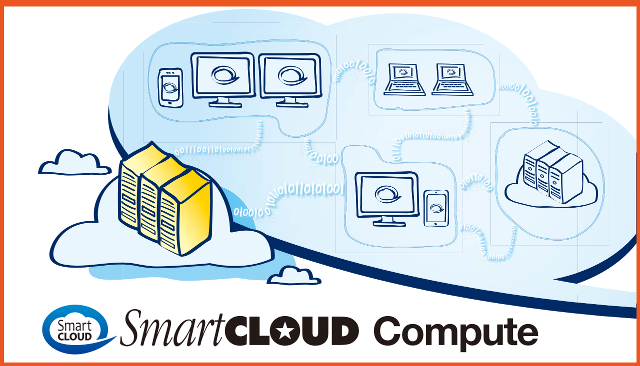
BUSINESS REVIEW

2011 was a challenging, yet rewarding year for CITIC Telecom International Holdings Limited ("CITIC Telecom International"). Despite of the global economic downturn, our core businesses remained solid. Our strong technical foundation and customer relationship ensured us a steady growth in our voice and SMS services. Mobile value-added services ("MVAS") and data services recorded good growth as a result of new customer development, existing customers' business expansion as well as the successful acquisition of China Enterprise Netcom Corporation Limited ("CEC-HK"), the managed service provider acquired in 2011.

Several meaningful investments were undertaken last year. They will speed up our development in overseas markets. With the acquisition of VidaCom, we have launched our VoIP operation in Brazil which will form the base for our business development in Latin America. To further strengthen our Greater China coverage, we commenced our enterprise services in Taiwan through investment in an established service provider. The opening of our Dubai office in United Arab Emirates has extended our coverage to Africa and the Middle East regions that will further strengthen our service capability to global customers.



The launching of SmartCLOUD Cloud Computing Solution in mid 2011, has promoted our enterprise service offerings to a more advanced level. It will not only better facilitate and satisfy our customers' needs, but also extend their usage of and reliance on our services and network. The achievements we made in 2011 have paved our way for new markets and new business opportunities ahead and we look forward to another fruitful year to the Group and to our shareholders.



BUSINESS REVIEW
VOICE SERVICES

VOICE SERVICES

The Group recorded a 1.8% increase in voice revenue to HK$1,939.1 million in 2011. There was a drop of 11.0% in total voice traffic volume mainly caused by lower China inbound traffic. Both China outbound and international traffic volume have increased by 6.2% and 1.8% respectively in 2011.

The challenges in the China market have continuously increased in 2011. During the year, the China outbound traffic of fixed line and its related IP traffic recorded a decrease of approximately 9.6% compared to 2010, according to the statistics published by the Ministry of Industry and Information Technology of the PRC.

During 2011, the three major telecoms operators in China have continuously lowered voice retail rates, while demanding a higher level of voice quality and service standards from their hubbing service providers. They have also sped up their efforts in expanding to international markets.

The Group has responded to the challenging market situation by providing better service quality as well as strengthening marketing efforts through closer collaboration with the telecoms operators in China. Towards this end, we have also enhanced our quality management practices and product innovation, complemented by increased investments in technology and human resources while optimising engineering and routing efficiency. These efforts are the key reason why the Group has sustained growth in China

outbound volume as well as garnered the "Best Product Innovations Award" from a telecoms operator in China during 2011.

In Taiwan, we have gained a strong foothold in the calling card business in the retail market. We successfully sold 280,000 units of Vietnam calling cards and captured a significant market share of the Vietnam calling cards in Taiwan in 2011. Riding on the strategic investments in an enterprise service provider in Taiwan, we now own a significant enterprise customer base and we expect to aggressively expand our retail and enterprise service portfolio in Taiwan during 2012.

Economic and financial recovery continued to be slow in North America during 2011. In August 2011, the Group acquired 65% of VidaCom Group USA, Inc. and its subsidiary IVAS Brasil Servicos de Telecomunicacoes Ltda.. These acquisitions, along with the new Brazilian Software Configuration Management (SCM) licence obtained, enabled us to offer international voice, Internet and data services to enterprises in the fast-growing Brazilian market.

Our Singapore office continues to expand its customer base to serve more than 830 multinational enterprises. We have further consolidated our role as a preferred communications partner of these enterprises with the new offering of enterprise mobile services in 2011.

In June 2011, our Singapore office was awarded for "Partnership Excellence (Singapore)" by one of the world's largest dedicated conferencing service providers, for its partnership excellence in servicing multi-national enterprises in Singapore.

Our Singapore prepaid calling card business grew despite intense competition in the market. The number of card activations grew to 170,000 units. To expand its service offering, the Group launched a mobile airtime transfer service called Asia Top-up in October 2011. This service caters for the growing demand of foreign workers purchasing mobile airtime for their friends and relatives back home.

In 2011 we have gained a substantial market position in Vietnam where we have successfully increased our outbound business by 34%. We are continuing to regionalise our organisation with additional resources located in strategic Asian countries. As a result, we expanded our traffic to a number of key destinations including Thailand and India by 28% and 37% respectively in 2011. We have successfully negotiated interconnection with one of the mobile operators in Afghanistan, a challenging but rewarding destination. We have also established interconnection with the incumbent operator of Malawi in Africa and we are going to develop further direct interconnections with a number of African countries.

SHORT MESSAGE SERVICES

SMS SERVICES

The Group continues to be one of the international SMS service market leaders in Asia Pacific, serving mobile operators with total customer base of more than one billion mobile subscribers. The SMS business has grown by 10.0% to HK$347.2 million in turnover as compared to HK$315.7 million in 2010.

At the same time, solid growth in volume and revenue of the China outbound and inbound SMS business was recorded. The Group handled 463.3 million and 402.7 million China outbound and inbound SMS, an increase of 11.1% and 12.4% respectively compared with 2010. The total revenue amounted to HK$347.2 million representing a year-on-year growth of 10.0%.

Person to Person ("P2P") business has maintained stable growth with the increase of SMS traffic volume from mobile operators in China and the international market. The Group has helped existing customers to grow their business through the introduction of new destinations worldwide with excellent service reliability and strong customer support. Customer satisfaction is further evidenced by key customers signing up volume commitment contracts with the Group.

The local SMS business continues to grow, with the Group maintaining its dominant position in the Inter-operator SMS ("IOSMS") market. The Group also enjoyed a healthy growth in the enterprise market, spurred by the launching of new SMS features, such as alphanumeric sender addresses.

As a community service, the Group has participated in the Trail Walker Project hosted by Communications Association of Hong Kong and the Hong Kong SAR Government. The Trail Walker Project facilitates emergency services to more accurately pinpoint hikers' locations in Hong Kong's country parks. The "50222 SMS Hiker Tracking Service" was launched in early 2012. The Group is the platform provider and all the related SMS messages are sent through our IOSMS service.

MOBILE VAS

MVAS

The MVAS business continued with its strong expansion even in a relatively mature market, with a growth in revenue of 25.4% in comparison with 2010. The Group has made good progress in expanding the MVAS business through new business developments, capturing new customers and expanding businesses with existing customers.

SINGLE IMSI MULTIPLE NUMBERS ("SIMN")

Revenue from SIMN has increased by 36.7% compared to 2010. The Group has upgraded the SIMN platform to successfully address the requirements of new markets, a breakthrough beyond just serving the international roaming market.

The Group, in support of a China telecoms operator, successfully launched a domestic version of the SIMN, providing a better communication means targeting students who study in a different province from their hometown. With the new service, they can be reached anytime either through their mobile number from their home town, or the mobile number from the location of the school.

Leveraging the same platform, the Group has also entered into agreements with a number of international mobile operators to launch an SIMN service customised for foreign workers in early 2012. The service has been favourably received by the targeted customers.

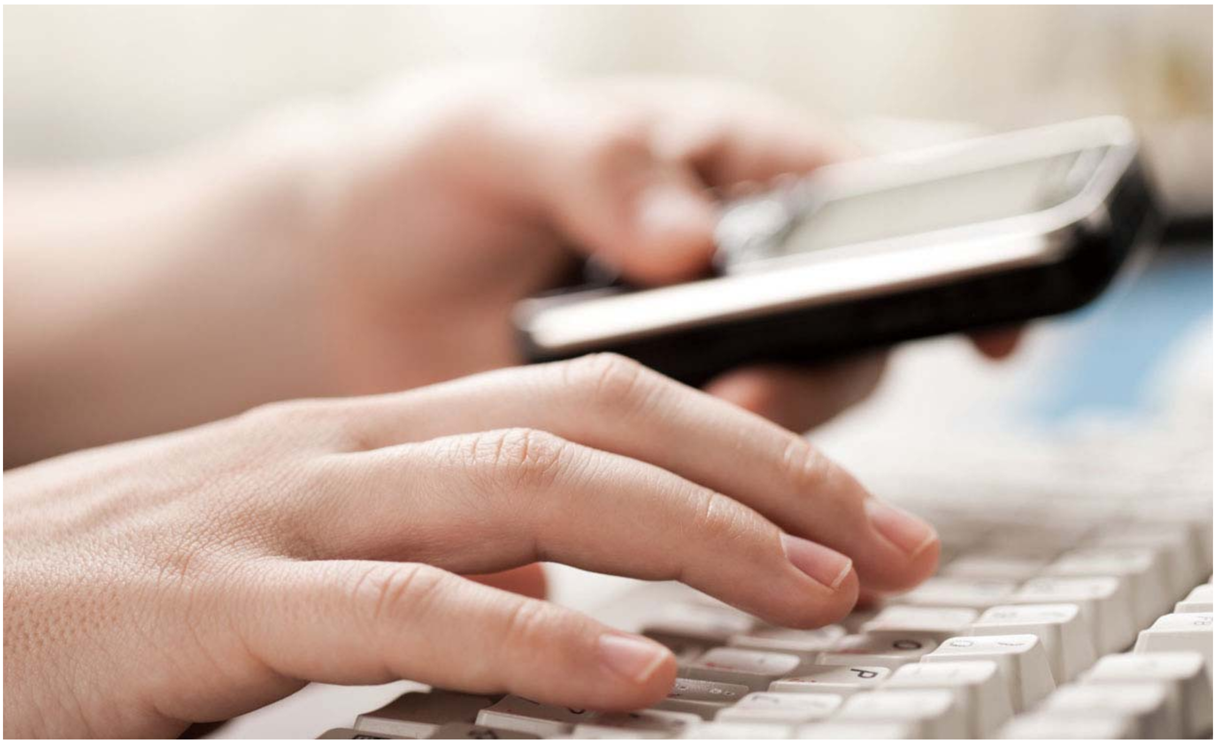
PREPAID ROAMING SERVICE ("PRS")

PRS turnover has increased by 12.8% compared to 2010. During the year under review, the Group has expanded its PRS footprint in capturing new international customers, including mobile operators in Australia, Egypt and France. The Group has also helped mobile operators in China to expand their prepaid roaming coverage to 12 additional countries in Asia and Europe.

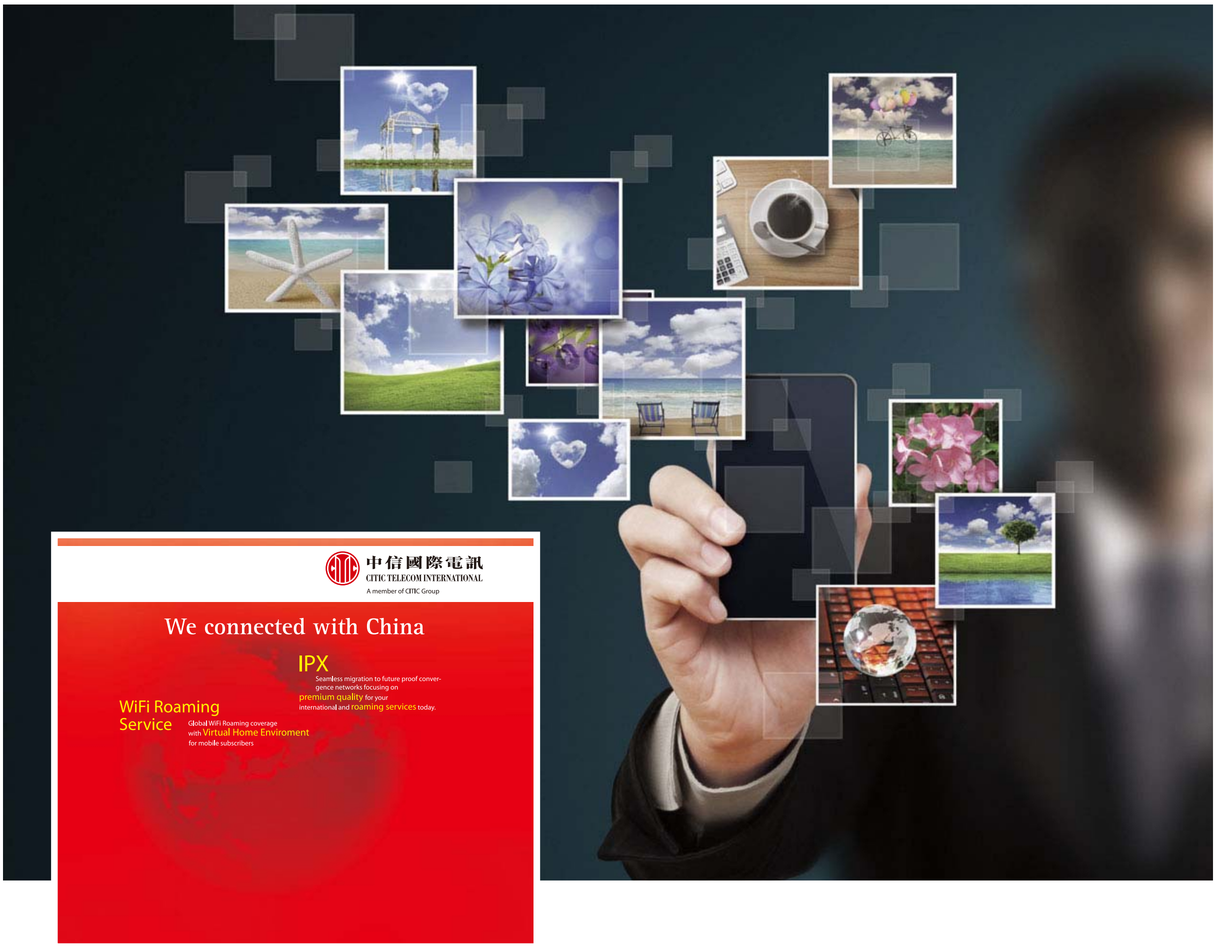
ROAMING SIGNALLING SERVICE ("SCCP")

SCCP revenue has increased by 32.1% compared to 2010. The strong growth was contributed by new customers as well as business growth with existing customers. The growth of business from the China telecoms operators was of particular significance.

The Group has signed an agreement with a large CDMA mobile operator in Japan and has started rolling out the service. It has also assisted existing customers to grow their business through the introduction of new destinations worldwide. As an example, the Group has helped a mobile operator in the Philippines to add more than a hundred roaming signalling destinations. The continuous support from mobile operators in expanding their signalling business with the Group is an excellent testimonial to the consistently high quality of service provided by the Group.



MOBILE VAS



NEW BUSINESSES

The Group recognised the importance of continuing to develop new services and businesses to sustain long term growth. During the year, the Group has invested significantly in market research and product development to cater for the future needs of the telecommunications industry. Some of the new business initiatives include:

- *IPX Service*
  IPX is a hubbing service for the mobile operators and telecoms carriers to interconnect one or more IP services with their telecoms partners, including voice (IDD), data roaming, signalling and messaging services. IPX is also a key component in 4G (LTE) roaming. As a market leader in multiple roaming and international services, the Group is in a strong position to command a strong position in the IPX market.

- *WiFi Roaming*
  The number of smart phone users worldwide has increased rapidly during the past few years, and this trend has triggered the demands of accessing data anytime, anywhere. Since data roaming charges are still relatively expensive, there is a growing need of cost effective WiFi roaming as all smart phones are equipped with WiFi access capability. The Group is developing a WiFi roaming service for mobile operators to enable them to offer WiFi roaming services with extensive worldwide coverage to their subscribers.

- *Mobile Commerce*
  The growing trend of smart phone purchases stimulates more commercial activities through mobile phones, such as mobile payment (games, applications, etc), mobile betting and mobile banking. This means that mobile security is becoming more and more important to prevent fraudulent activities by using false mobile identities. The Group is developing a suite of mobile commerce services to enhance mobile security and payment between the mobile operators and merchants to ensure smooth and genuine transactions are made through the mobile phones.

DATA SERVICES

DATA SERVICES

Revenue from data services increased by 21.4% compared with 2010. The first floor of the Group's new CITIC Telecom Tower ("CTT") Data Centre was in service in May 2011. CTT Data Centre was built with high quality facilities meeting demands from enterprises and service providers. The data centre market continued to grow and the Group's data services regional expansions have a strong need for this service. To meet a strong customer pipeline, the second floor of CTT Data Centre is targeted to be launched in the third quarter of 2012.

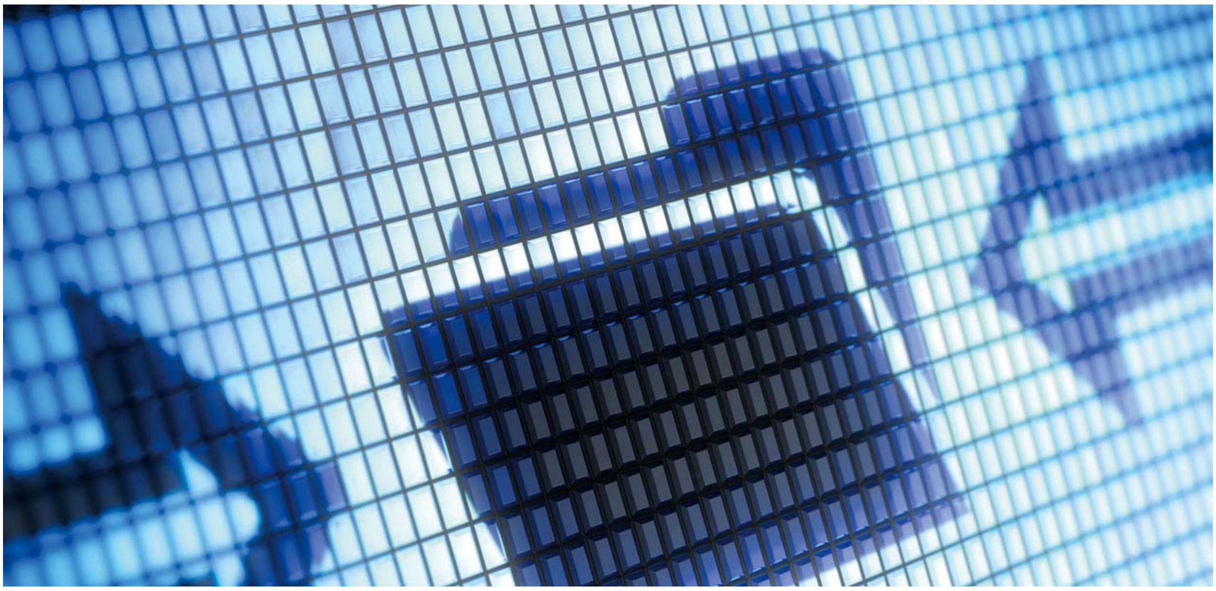
As one of the value-added telecommunications service providers, the Group is a preferred partner of multinational corporations and business enterprises as it offers an advanced Multiprotocol Label Switching ("MPLS") Virtual Private Networks ("VPN") networking solutions as well as a whole range of innovative communications products, security solutions, cloud computing solutions and managed ICT services.

We strive to deliver the highest level of quality and excellent products to customers, as well as to deploy leading-edge technology solutions to its customers with high market value-added potential. These include TrueCONNECT™ – an advanced MPLS VPN service which employs a state-of-the-art fully meshed network, TrustCSI™ – an integrated suite of information security solutions, and SmartCLOUD – diversified and highly effective Cloud Computing solutions which can complement a company's managed network and managed security solutions.

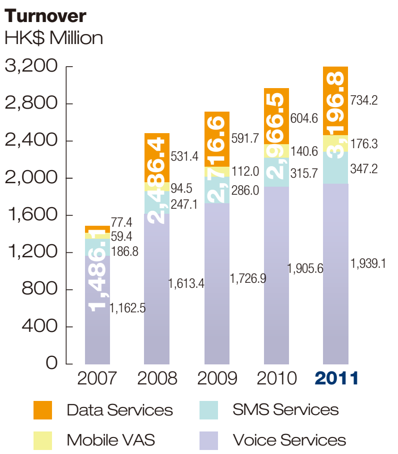
We launched our third flagship product series, SmartCLOUD Cloud Computing Solution, in mid 2011. SmartCLOUD brings together the Group's enterprise-grade data centre facilities as well as the comprehensive support from its Network Operations Centre ("NOC") and Security Operations Centre ("SOC"). With SmartCLOUD, enterprises can enjoy smarter, better and high performance Cloud Computing solutions with public Cloud, private Cloud, and hybrid Cloud capabilities. SmartCLOUD is a portfolio containing revolutionary uses of virtual infrastructure comprising two offerings: SmartCLOUD M@il – a set of e-mail, calendaring and collaboration tools; and SmartCLOUD Compute – a virtual server solution.

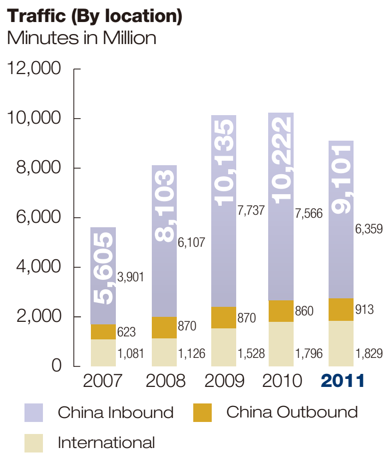
SmartCLOUD M@il is a full range suite of enterprise-grade collaboration tools. It offers powerful collaboration tools to easily connect everyone as well as store and synchronise emails, calendars, contacts, files and documents in the Cloud. It is seamlessly compatible with various platforms and hardware, including Windows, Mac and Linux OS, as well as the latest smart phones and mobile devices. Furthermore, it offers turnkey end-to-end mobile security including remote shutdown and data wipe, ensuring enterprises can improve their operational efficiency with comprehensive protection for their information.

SmartCLOUD Compute – the only Cloud Computing solution with true disaster recovery capability available in Hong Kong. It goes beyond ordinary virtual machines and delivers high-performance Cloud resources, giving enterprises full control of their resources. Companies of any size can boost business efficiency and scale of security without barriers due to instant access to virtual memory, storage, CPU, networks and physical ports. Higher efficiency and effectiveness can be achieved as enterprises can more flexibly allocate their resources based on their needs.



FINANCIAL REVIEW





INTRODUCTION

This Financial Review is designed to assist the reader in understanding the required statutory information by discussing the performance and financial position of the Group as a whole.

Pages 62 to 68 of the Annual Report contain the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Balance Sheet, Consolidated Statement of Changes in Equity, Statement of Changes in Equity and Consolidated Cash Flow Statement. Following these sections presenting financial information, on pages 69 to 131 of the Annual Report, are notes that further explain certain figures within these sections.

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

BASIS OF ACCOUNTING

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

REVIEW OF FINANCIAL PERFORMANCE

TURNOVER

The Group's turnover for 2011 was HK$3,196.8 million, an increase of 7.8% compared with HK$2,966.5 million for 2010.

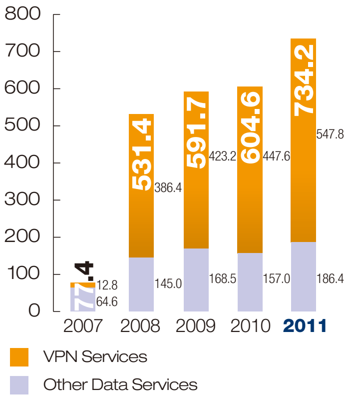
Voice Services turnover has grown by HK$33.5 million or 1.8% compared to 2010 to HK$1,939.1 million for 2011. The decline in the annual growth rate as compared to the growth rate for the first six months was due to the more evenly distributed revenue between the first and second halves of 2011, as opposed to 2010 where revenue from voice services for the first half of the year was 29.2% lower than that reported for the second half. During the year, the Group managed to handle total traffic of over 9.10 billion minutes, a decrease of 11.0% compared with last year. The decrease was mainly caused by a 16.0% drop in China inbound traffic to 6.36 billion minutes resulting from adverse economic condition. To compensate for the decrease, the Group had continued to increase its resources to the higher yield international routes. As a result, the Group's average rate per minute in 2011 has increased by 14.3%. For 2011, the Group carried 0.91 billion China outbound minutes, an increase of 6.2% compared with 2010. The Group's efforts to strengthen our cooperation with China telecoms operators and the Group's focus on enhancing quality of service continued to secure our leading position in the China market. The international traffic carried by the Group has been maintained at a similar level to that of 2010.

SMS Services sustained stable growth during 2011 with turnover increased by HK$31.5 million to HK$347.2 million, a 10.0% climb compared to 2010. During the year, the Group handled 1,961.8 million messages, an increase of 5.9% compared to 2010. China inbound and outbound traffic expanded by 12.4% and 11.1% respectively in 2011 mainly resulting from the Group's continued international network coverage expansion and enhanced quality management enabling us to secure additional China inbound traffic. For the international market, the Group recorded a 5.5% growth in traffic during 2011. The Group continued to advance its leading market position by enhancing quality of service and implementing an effective pricing strategy.

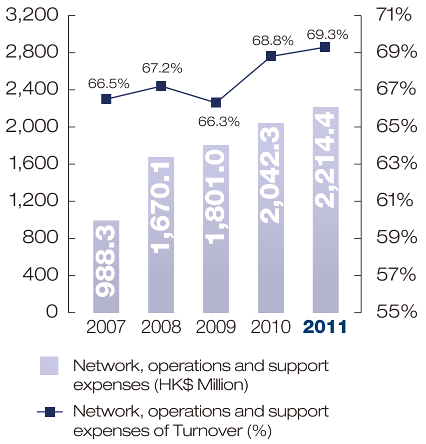
Mobile Value-added Services ("MVAS") registered strong growth in 2011 with turnover increasing 25.4% to HK$176.3 million over 2010. The Group's strategy to customise existing products to address changing market needs and our strategy to provide bundled services continued to be well-accepted by our customers.

Number of SMS
Messages in Million

Data services turnover
HK$ Million



Network, operations and support expenses
HK$ Million



The Group's Data Services comprise managed VPN services and other services such as resale of lease lines. During the year, turnover from data services increased by 21.4% to HK$734.2 million compared with HK$604.6 million for 2010. Revenue from VPN services rose by 22.4% to HK$547.8 million in 2011. The increase comprised revenue contribution of HK$77.9 million from China Enterprise Netcom Corporation Limited ("CEC-HK") after the completion of acquisition on 29 July 2011. If the impact of CEC-HK was excluded, the revenue from VPN services had increased by 5.0% to HK$469.9 million. Other data services also recorded satisfactory growth with turnover rising 18.7% over last year. The increase was mainly resulting from the completion of the first phase renovation of the new data centre at CITIC Telecom Tower.

OTHER REVENUE

The Group's other revenue for 2011 amounted to HK$1.5 million, a decrease of HK$2.0 million compared to 2010. The decrease was mainly due to decrease in rental income from HK$2.1 million last year to HK$0.6 million. With the commencement of the second phase of our data centre renovation at CITIC Telecom Tower, all tenancy agreements had been terminated in the fourth quarter of 2011.

NET FOREIGN EXCHANGE GAIN/(LOSS)

Net foreign exchange gain/(loss) arose mainly from the normal trading business, funding arrangements and overseas operations of the Group. The Group's major trading currencies were the United States dollar, the Hong Kong dollar and the Euro. The Group has not entered into any foreign currency hedging arrangement during the year.

NETWORK, OPERATIONS AND SUPPORT EXPENSES

Network, operations and support expenses amounted to HK$2,214.4 million in 2011, an increase of 8.4% over 2010, which was in line with the revenue growth of 2011.

The continued expansion of our Global MPLS network had further enhanced the Group's network coverage and service quality, thereby enabling the Group's acquisition of higher value international traffic. The percentage of network, operations and support expenses of turnover was 69.3% for 2011, which was similar to that of last year.

STAFF COSTS

Staff costs for the year ended 31 December 2011 amounted to HK$300.2 million, a rise of 14.2% compared with HK$262.8 million for 2010. The increase was due to salary adjustment in 2011, an increase in performance incentives which are in line with the business performance and a larger headcount for business expansion.

OTHER OPERATING EXPENSES

Other operating expenses for the year ended 31 December 2011 amounted to HK$181.4 million, a decrease of 3.1% as compared with HK$187.2 million for 2010. The drop was mainly due to the decrease in professional charges incurred for business acquisitions.

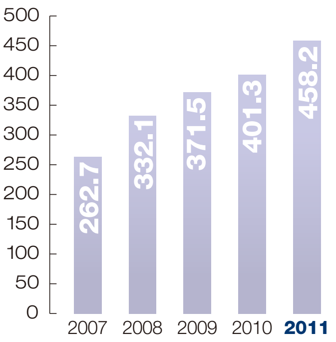
SHARE OF PROFIT OF AN ASSOCIATE

During the year, the Group's 20% share of profit of an associate, Companhia de Telecomunicacoes de Macau, S.A.R.L. ("CTM") amounted to HK$148.8 million. For 2010, the share of profit of CTM from 5 May 2010 to 31 December 2010 amounted to HK$89.0 million.

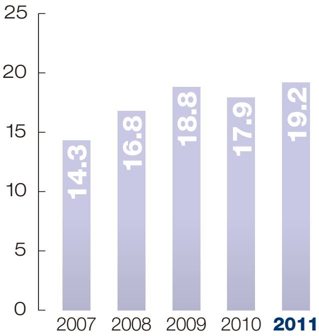
INCOME TAX

The Group's income tax expense for the year ended 31 December 2011 amounted to HK$65.4 million, a rise of 47.0% over last year. The effective tax rate excluding profit contribution from CTM was 17.4% (2010: 12.5%). The increase in effective tax rate was due to the one-off deferred tax effect in 2010 resulting from recognition of prior years' tax losses.

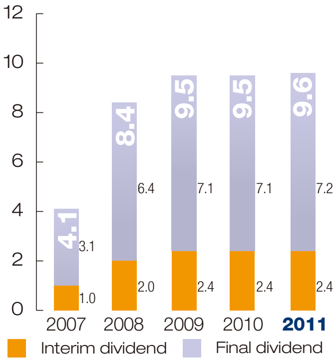
Profit attributable to equity holders of the Company
HK$ Million



Basic earnings per share
HK Cents



Dividends per share
HK Cents



PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The Group recorded a net profit of HK$458.2 million for the year ended 31 December 2011, an increase of 14.2% over 2010. The increase was mainly due to the first time inclusion of the full year profit contribution from CTM. If the share of profit of CTM was excluded, the profit after tax would be of similar level of 2010.

EARNINGS PER SHARE ("EPS")

Basic EPS and diluted EPS were both HK19.2 cents for the year ended 31 December 2011, an increase of 7.3% and 7.9% respectively over last year. The increase was mainly due to the first time inclusion of the full year profit contribution from CTM.

DIVIDENDS PER SHARE

A final dividend of HK7.2 cents per share has been proposed for 2011. As a result, the total dividends per share is HK9.6 cents for the year.

CAPITAL EXPENDITURE

Capital expenditure during 2011 was HK$186.5 million, an increase of 17.4% compared to 2010. During the year, the Group incurred HK$40.6 million for the fitting out of new data centre at CITIC Telecom Tower and HK$31.9 million one-off asset transfer in relation to the acquisition of CEC-HK. If the impact of these was excluded, capital expenditure for 2011 amounted to HK$114.0 million, an increase of 23.0% over 2010.

ACQUISITION OF SUBSIDIARIES/JOINTLY CONTROLLED ENTITY

In order to strengthen the Group's market position and further expand its business, the Group has made several acquisitions during the year. The major acquisitions are as follows:

a) *Acquisition of CEC-HK*
On 29 July 2011, the Group acquired the entire equity interest of CEC-HK for a consideration of HK$114.1 million. CEC-HK is engaged in the provision of telecommunications leasing and technology services.

b) *Acquisition of 85% equity interest in Cheer Harvest Holdings Limited ("Cheer Harvest")*
On 30 November 2011, the Group acquired 85% equity interest in Cheer Harvest for a consideration of HK$41.1 million. As the Group and the other shareholder of Cheer Harvest share joint control over the economic activities of the entity, the equity interest in Cheer Harvest is treated as a jointly controlled entity of the Group. Cheer Harvest is engaged in the provision of telecommunications services.

TREASURY POLICY AND RISK MANAGEMENT

GENERAL

Managing financial risks to which the Group is exposed is one of the primary responsibilities of the Group's Treasury function. Financing and cash management activities are centralised to maintain a high degree of financial control and enhance risk management. The surplus funds were held as bank deposits.

EXCHANGE RATE RISK

A substantial portion of the Group's turnover and cost of sales are denominated in United States dollar, to which the Hong Kong dollar is pegged. In addition, the Group's financial assets, financial liabilities and transactions are mainly denominated either in Hong Kong dollar or United States dollar. Management considers that the Group's exposure to foreign currency risk is not material and will continue to monitor closely all possible exchange rate risks and implement the necessary hedging arrangement to mitigate any significant foreign exchange risk.

CREDIT RISK

Credit evaluations are performed on all customers with a credit level over a certain amount. Trade receivables are due within 7 to 180 days from the date of billing. The Group will assign an officer who will be responsible to agree on a settlement plan with those debtors with balances due exceeding one year to reduce the outstanding balance within a reasonable period.

The Group has a certain concentration of risk in respect of trade receivables due from the Group's five largest customers who accounted for approximately 54% and 43% of the Group's total trade receivables at 31 December 2011 and 2010 respectively. The credit risk exposure of trade receivables has been and will continue to be monitored by the Group on an ongoing basis and the impairment loss on doubtful debts has been within management's expectations.

GROUP LIQUIDITY AND CAPITAL RESOURCES

The Group manages its exposure to liquidity risk by reviewing the cash resources required to meet its business objectives.

During the year, the Group's cash and cash equivalents decreased by HK$72.2 million to HK$253.3 million at 31 December 2011 as compared to HK$325.5 million at 31 December 2010. The decrease was mainly due to HK$122.6 million and HK$299.1 million spent on investing and financing activities respectively, which was offset by HK$349.5 million generated from operating activities during the year.

The investment was mainly used for the capital expenditure of HK$221.4 million and the acquisition of a jointly controlled entity of HK$42.8 million, partially offset by the final dividend received from CTM for 2010 amounting to HK$157.6 million.

For financing activities during the year, the Group paid dividends of HK$226.7 million, repaid a loan of HK$96.9 million to CTM, settled a bank loan of HK$30.0 million and repaid a loan due to a previous shareholder of CEC-HK of HK$70.8 million. In the meantime, the Group received HK$124.1 million from CTM for a short-term loan during the year.

CURRENCY PORTFOLIO

The original denomination of the Group's cash and bank deposits by currencies at 31 December 2011 is summarised as follows:

HK$ Million equivalent	HK$	Denomination US$	Others	Total
Cash and bank deposits	83.1	129.8	44.1	257.0
Percentage of total amount	32.3%	50.5%	17.2%	100.0%

The Group maintained currencies other than Hong Kong dollars and United States dollars at the balance sheet date to meet the business needs in different regions.

BORROWINGS

At 31 December 2011, the Group had a HK$123.3 million short-term loan from an associate. The loan bears interest at the prevailing market rate. It is unsecured and repayable on 30 March 2012.

NET CASH

At 31 December 2011, the Group maintained a net cash position of HK$133.7 million.

BANKING FACILITIES

At 31 December 2011, the Group had banking facilities approximately HK$136.7 million. About HK$6.7 million of these facilities was required to be secured by pledged deposits.

Of the total banking facilities, approximately HK$12.9 million was utilised as guarantees for the Group's purchases from telecoms operators, performance to customers, and rental deposits.

SECURITIES AND GUARANTEES

At 31 December 2011, the Group pledged approximately HK$3.7 million of deposits to secure its banking facilities. The Group had not created any other security over its assets and had not provided any corporate guarantee.

CAPITAL COMMITMENTS

At 31 December 2011, the Group had outstanding capital commitments of HK$110.2 million, mainly for the acquisition of network equipment which had yet to be delivered to the Group and the fitting-out cost of the new data centre, of which HK$43.8 million were outstanding contractual capital commitments and HK$66.4 million were capital commitments authorised but for which contracts had yet to be entered into.

OTHER COMMITMENTS

Details of the Group's other commitments at 31 December 2011 are stated under Note 24(c) to the consolidated financial statements.

FORWARD LOOKING STATEMENTS

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

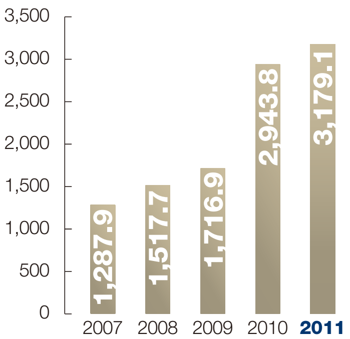
Forward looking statements involve inherent risks and uncertainties. Readers should be cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward looking statement.

FIVE YEAR SUMMARY

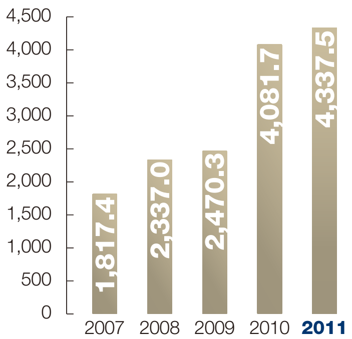
	At 31 December				
	2007 HK$'000	2008 HK$'000	2009 HK$'000	2010 HK$'000	**2011 HK$'000**
ASSETS AND LIABILITIES					
Property, plant and equipment	326,489	363,105	541,691	595,350	**668,521**
Intangible assets	28,717	34,849	55,232	48,362	**89,888**
Goodwill	9,455	214,269	277,419	281,465	**363,549**
Interest in an associate	–	5,163	–	1,489,382	**1,472,414**
Interest in a jointly controlled entity	–	–	–	–	**43,176**
Non-current other receivables and deposits	34,772	29,716	21,481	171,370	**109,347**
Deferred tax assets	42,096	29,907	14,284	22,172	**19,902**
Net current assets	881,446	876,901	845,122	476,722	**569,159**
Non-current other payables	–	–	–	(102,582)	**(95,192)**
Deferred tax liabilities	(35,125)	(36,200)	(38,289)	(38,424)	**(61,638)**
NET ASSETS	1,287,850	1,517,710	1,716,940	2,943,817	**3,179,126**
CAPITAL AND RESERVES					
Share capital	197,807	197,773	197,773	238,520	**238,599**
Reserves	1,090,043	1,319,937	1,519,167	2,705,297	**2,940,527**
TOTAL EQUITY	1,287,850	1,517,710	1,716,940	2,943,817	**3,179,126**

	For the years ended 31 December				
	2007 HK$'000	2008 HK$'000	2009 HK$'000	2010 HK$'000	**2011 HK$'000**
RESULTS					
Turnover	1,486,071	2,486,362	2,716,559	2,966,469	**3,196,753**
Profit before taxation	306,377	397,875	446,959	445,757	**523,683**
Income tax	(43,678)	(65,747)	(75,432)	(44,469)	**(65,437)**
Profit attributable to equity holders of the Company	262,699	332,128	371,527	401,288	**458,246**
Basic earnings per share (HK cents)	14.3	16.8	18.8	17.9	**19.2**
Diluted earnings per share (HK cents)	14.3	16.8	18.8	17.8	**19.2**
Dividends per share					
Interim dividend (HK cents)	1.0	2.0	2.4	2.4	**2.4**
Final dividend (HK cents)	3.1	6.4	7.1	7.1	**7.2**
	4.1	8.4	9.5	9.5	**9.6**

Total Equity
HK$ Million



Total Assets
HK$ Million



HUMAN RESOURCES

PEOPLE

As at the end of December 2011, the Group employed a total of 554 employees (2010: 517) for its headquarters in Hong Kong and its principal subsidiaries. Employees in overseas and mainland China totalled 109.

REMUNERATION POLICY

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

RETIREMENT BENEFITS

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

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

REMUNERATION COMMITTEE

Remuneration of the executive directors and senior management is monitored by the Remuneration Committee. A majority of the committee members including the committee chairman are independent non-executive directors. They exercise powers of the Board to determine and review the remuneration packages of executive directors and senior management so as to align their remuneration with shareholders' interests.

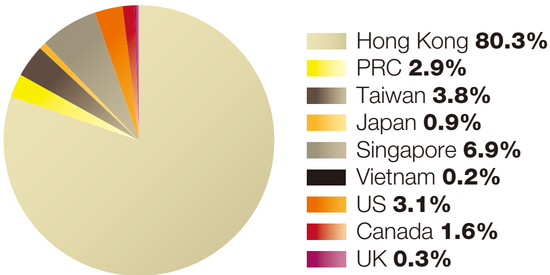
WORKPLACE

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

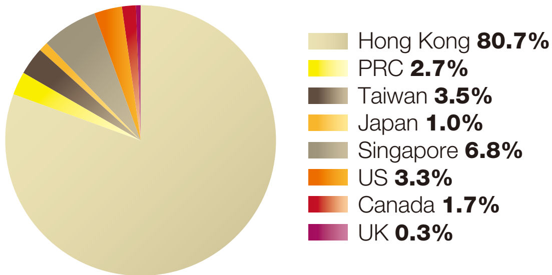
STAFF TRAINING AND DEVELOPMENT

The Group continues its effort in staff training and development to support the needs of its business and staff. The Group also encourages and facilitates knowledge sharing and skill transfer between staff in Hong Kong and other regions to strengthen business integration. We also support and encourage self-initiated personal development of our employees by providing training subsidies for external training courses to enhance their skills and abilities. In 2011, the Group provided training to employees for 1,869 times.

2011



2010



Our subsidiary was awarded the "Manpower Developer" in the ERB Manpower Developer Award Scheme launched by Employees Retraining Board in recognition of its outstanding accomplishments in manpower training and development.

EMPLOYEE RELATIONS

The Group organised a variety of employee activities including the CITIC Telecom International Group basketball competition, football games, hikings and picnics. The Group also provides different channels for employee communications. These actions help to enhance mutual communications among different levels of employees and increase their sense of belonging to the Group.

CORPORATE SOCIAL RESPONSIBILITY

CORPORATE SOCIAL RESPONSIBILITY

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

AWARDS AND RECOGNITION

The Group was awarded by the Hong Kong Council of Social Service as "Caring Company" this year for our dedication to promote corporate social responsibility through caring for the community, employees and the environment.

Our subsidiary was awarded "Prime Awards for Corporate Social Responsibility 2011" by MetroBOX in recognition of our commitment to community services.

STAFF VOLUNTEERISM

Our volunteer services team visited "Ronald McDonald House" located in Shatin assisting them in cleaning up of the hostel. "Ronald McDonald House" was the first organisation in Asia providing temporary housing for kids receiving treatment and their families during their stay in hospitals. We also made sponsorships for "Ronald McDonald House Charities" Raffle Ticket Sale 2011.

NURTURING YOUTH

The Group has participated in different programs to nurture the youth.

The Group sponsored the "Business Innovation Awards" organised by the School of Professional Education and Executive Development of the Hong Kong Polytechnic University. This competition provided a platform to unleash the business creativity of students.

Our subsidiary worked with The Hong Kong Federation of Youth Groups on "Workplace Visit" and "Job Shadowing Program". Both events give students a better understanding on office environment and assist them in their future career planning.

In "Workplace Visit", a group of 20 Form 4 students were led by teachers and social workers to visit our office and data centre of the Group. HR department explained to students our products and services, company's background, the level of competency required for entry level positions and career prospects.

In "Job Shadowing Program", 18 senior secondary students were arranged to have a one-on-one shadowing with our staff. The students were given the opportunity to observe and practice daily operations in an office environment.

COMMUNITY SUPPORT

50222 Hiker SMS Tracking Service

The Group continues to support community work in the technology sector. The Group together with mobile operators in Hong Kong have provided full support to the 50222 Hiker SMS Tracking Service. This is a user friendly and potentially life-saving SMS-based tool available to all users of Hong Kong's country parks as a free service to report their tracks, thereby facilitating the Government's emergency services to more accurately pinpoint their locations in the event of a rescue attempt.

Internet services

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

DONATIONS

The Group made donations respectively to "Ronald McDonald House Charities" and "Dana-Farber Cancer Institute" this year.

A fund raising event was held by our subsidiary to express our support for people in Japan who have been affected by the devastating earthquake and tsunami in March 2011. With the whole hearted support from our staff, the money raised has been sent to the World Vision emergency relief fund for buying the much needed blankets and emergency food and supplies for the victims.

ENVIRONMENTAL PROTECTION

Our subsidiary joined the Green Power Hike "Information and Communications Technology Cup (ICT Cup)" 25km Hong Kong Trail Challenge organised by Green Power.

The fund has been raised for supporting environmental education in the community and schools.

Our Singapore office continued to be awarded the Eco-Office Certificate by the Singapore Environment Council in 2011 in recognition of their environmental friendly practices and effective carbon emission reduction within the workplace in constantly improving the company's environmental performance.

CHILDREN'S LIBRARY

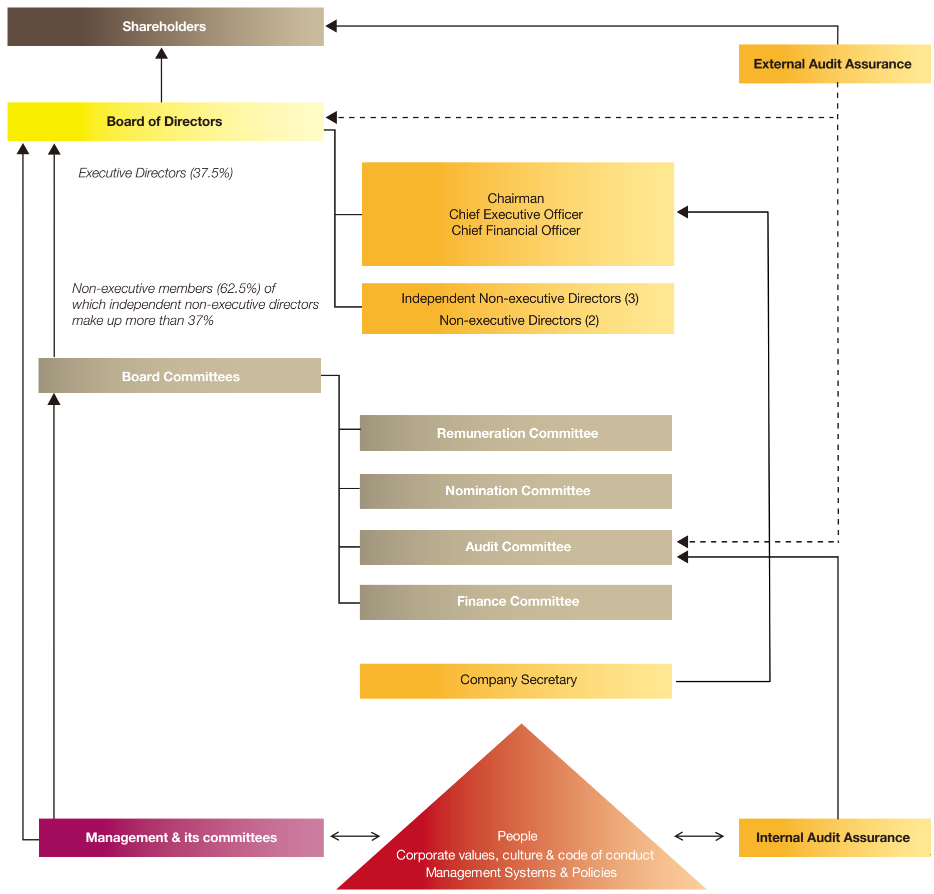
The Group's overseas office in Singapore continues to work with Evercare Welfare Centre to encourage reading for children in the community. National Library Book Exchange was organised in this year and the books exchanged for the event were donated to the children's library co-organised by our Singapore subsidiary and Evercare Welfare Centre.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standards of corporate governance. The board of directors believes that good corporate governance practices are important to promote investor confidence and protect the interest of our shareholders. At CITIC Telecom International, we attach importance to our people, our code of conduct, and our corporate policies and standards, which together form the basis of our corporate governance practices. We respect the laws, rules and regulations of each country and area in which we operate, and we strive to ensure for our people a healthy and safe working environment which is our paramount concern. We endeavour to contribute to the sustainable development of the Company, with particular focus on our accountability to shareholders and stakeholders. This report describes how the Company has applied its corporate governance practices to its everyday activities. The Company has fully complied throughout the year 2011 with all the code provisions of the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in force prior to 1 April 2012. Looking ahead, we will keep our corporate governance practices under continuous review to ensure their consistent application and will continue to improve our practices having regard to the latest developments including any new amendments to the Code.

CORPORATE GOVERNANCE STRUCTURE



BOARD OF DIRECTORS

OVERALL ACCOUNTABILITY

The members of the board of directors are individually and collectively accountable to the shareholders for the success and sustainable development of the Company. The board provides direction and approval in relation to matters concerning the Company's business strategies, policies and plans whilst the day-to-day business operations are delegated to the executive management. The board is accountable to the shareholders and in discharging its corporate accountability, each and every director of the Company is required to pursue excellence in the interests of the shareholders and fulfil his fiduciary duties by applying the required levels of skill, care and diligence to a standard in accordance with the statutory requirements.

BOARD COMPOSITION

The board currently comprises three executive and five non-executive directors of whom three are independent as defined under the Listing Rules. Independent non-executive directors are more than one-third and non-executive directors are more than half of the board. The Company has received from each independent non-executive director a confirmation of his independence pursuant to the independence guidelines set out in Rule 3.13 of the Listing Rules and considers that all independent non-executive directors are independent. Brief biographical particulars of the directors are set out on pages 44 to 45.

Under Article 104(A) of the New Articles of Association of the Company, every director, including the non-executive directors, shall be subject to retirement by rotation at least once every three years. One-third of the directors, or if their number is not a multiple of three, then the nearest number to one-third, must retire from office at each annual general meeting and their re-election is subject to a vote of shareholders. Retiring directors are eligible for re-election at the annual general meeting at which they retire. Separate resolutions are proposed for the election of each director.

NOMINATION OF DIRECTORS

Prior to the establishment of the nomination committee in February 2012, the board of directors determined the nomination and appointment of new directors having regard to the relevant skills and experience of the proposed new directors. During 2011, no new director had been selected or recommended for directorship. The Company has on 22 February 2012 established a nomination committee, further details of which are set out below.

BOARD RESPONSIBILITIES AND DELEGATION

The board collectively determines the overall strategies of the Company, monitors performance and the related risks and controls in pursuit of the strategic objectives of the Company. Day-to-day management of the Company is delegated to the executive director or officer in charge of each division and function who reports back to the board. All board members have separate and independent access to the senior management, and are provided with full and timely information about the conduct of the business and development of the Company, including reports and recommendations on significant matters. Should separate independent professional advice be considered necessary by the directors, independent professional services would be made available to the directors upon request.

The board has delegated some of its functions to the respective committees, the details of which are set out below. Matters specifically reserved for the board include approval of financial statements, dividend policy, significant changes in accounting policies, material contracts, selection of directors, changes to appointments such as company secretary and external auditor, remuneration policy for directors and senior management, terms of reference of board committees, as well as major corporate policies such as code of conduct and whistle-blowing policy.

To implement the strategies and plans approved by the board, executive directors and senior management meet on a regular basis to review the performance of the Group and make financial and operational decisions. In addition, a Risk Management Committee, comprising the executive directors and senior management, meets regularly to discuss the risk management of the Group. A Capex Review Board is also set up in which the chief executive officer and the chief financial officer of the Company review the capital investments proposed by the management to ensure that the proposed investments are in the best interests of the Group both commercially and strategically.

The Company has arranged Directors & Officers Liability and Company Reimbursement Insurance for its directors and officers.

Details of the responsibilities, membership, attendance and activities during the year of each board committee are set out on pages 37 to 39.

BOARD MEETINGS AND ATTENDANCE

The board meets regularly to review financial and operating performance of the Company and to discuss future strategy. Four board meetings were held in 2011. At the board meetings, the board reviewed significant matters including the Company's annual and half-year financial statements, annual budget, proposals for final and interim dividends, annual report and half-year report. At least 14 days' notice of all regular board meetings is given to all directors and all directors are given the opportunity to include matters for discussion in the agenda. The agenda and board papers for each meeting are sent to all directors at least 3 days in advance of every regular board meeting. All minutes of the board meetings are kept by the company secretary and are available to all directors for inspection.

The attendance record of each director at board meetings in 2011 is set out below:

Directors	Attendance/ Number of Meetings
Executive Directors	
Mr. Xin Yue Jiang – *Chairman*	4/4
Mr. Yuen Kee Tong – *chief executive officer*	4/4
Dr. David Chan Tin Wai – *chief financial officer*	4/4
Non-executive Directors	
Mr. Liu Jifu	4/4
Mr. Fei Yiping	3/4
Independent Non-executive Directors	
Mr. Yang Xianzu	4/4
Mr. Liu Li Qing	4/4
Mr. Gordon Kwong Che Keung	4/4

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Xin Yue Jiang serves as the chairman of the Company and Mr. Yuen Kee Tong as the chief executive officer of the Company. They have separate defined responsibilities whereby the chairman is primarily responsible for leadership and effective functioning of the board, ensuring key issues are promptly addressed by the board, as well as providing strategic direction of the Company. The chief executive officer is responsible for the day-to-day management of the Company's business and the effective implementation of corporate strategy and policies. Their respective roles and responsibilities are set out in writing, which have been approved and adopted by the board.

BOARD COMMITTEES

The board has appointed a number of committees to discharge the board functions. Sufficient resources are provided to enable the board committees to undertake their specific roles. The respective role, responsibilities and activities of each board committee are set out below:

REMUNERATION COMMITTEE

The principal role of the remuneration committee is to determine and review the remuneration packages of individual executive directors and senior management, including salaries, bonuses, benefits in kind, share options and other plans. The remuneration committee reviews and approves the management's remuneration proposals with reference to the board's corporate goals and objectives and considers salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group, so as to align management incentives with shareholders' interests.

The committee currently comprises three independent non-executive directors and a non-executive director. The chairman of the committee is Mr. Yang Xianzu, an independent non-executive director. The company secretary of the Company serves as the secretary of the committee. Minutes for the meetings are sent to the committee members within a reasonable time after the meetings. The full terms of reference are available on the Company's website (www.citictel.com) and the Stock Exchange's website.

The composition of the remuneration committee during the year as well as the meeting attendance are as follows:

Membership and Attendance

Members	Attendance/ Number of Meetings
Independent Non-executive Directors	
Mr. Yang Xianzu – *Chairman*	1/1
Mr. Liu Li Qing	1/1
Mr. Gordon Kwong Che Keung	1/1
Non-executive Director	
Mr. Liu Jifu	1/1

In 2011, the remuneration committee has reviewed the remuneration policies and approved the salaries and bonuses of the executive directors and senior management and also the granting of options under the Company's share option plan. No director took part in any discussion about his own remuneration. A resolution in writing was passed and a meeting was held in 2011. The remuneration committee has communicated with the chairman of the Company about proposals relating to the remuneration packages of other executive directors and senior management.

Details of the Company's remuneration policies are set out in the Human Resources section on pages 30 to 31, and directors' emoluments and retirement benefits are disclosed on pages 89 to 90 and page 131. Share options granted under the share option plan are disclosed on pages 51 to 55.

AUDIT COMMITTEE

The audit committee reviews financial information of the Company, monitors the effectiveness of the external audit process and oversees the appointment, remuneration and terms of engagement of the Company's external auditor, as well as their independence. The audit committee is also responsible for reviewing the financial reporting process and the systems of internal controls and risk management, including the internal audit function as well as arrangements for concerns raised by the staff as to financial reporting and other relevant matters ("whistle-blowing"). On 22 February 2012, the board delegated certain corporate governance functions to the audit committee, including, the review and monitoring of (a) the training and continuous professional development of directors and senior management; (b) the Company's policies and practices on compliance with legal and regulatory requirements; (c) the code of conduct of the Company; and (d) the Company's compliance with the Code and disclosure in the Corporate Governance Report. The revised full terms of reference setting out the committee's authority and its main role and responsibilities are available on the Company's website (www.citictel.com) and the Stock Exchange's website. Proposed amendments to the terms of reference are submitted to the board for approval.

The audit committee consists of three independent non-executive directors having the relevant professional qualifications and expertise. The company secretary acts as secretary to the committee. Sufficient resources are made available to the committee when independent legal or professional advice is required.

The audit committee meets at least twice a year. The chief financial officer and the external and internal auditors attend the meetings, take part in the discussions and answer questions from the committee members. By invitation of the audit committee, other directors and senior executives may also attend the meetings. The audit committee chairman and other committee members also meet in separate private session with the external auditor once a year.

The audit committee held two meetings in 2011 with full attendance by the committee members in person or by telephone. An agenda and accompanying committee papers were sent to the committee members at least 3 days prior to each meeting. The company secretary prepared full minutes of the audit committee meetings with details of discussions and decisions reached. The draft minutes were sent to all committee members for comment within a reasonable time after each meeting.

The composition of the audit committee membership during the year as well as the meeting attendance are as follows:

Membership and Attendance

Members	Attendance/ Number of Meetings
Independent Non-executive Directors	
Mr. Gordon Kwong Che Keung – *Chairman*	2/2
Mr. Yang Xianzu	2/2
Mr. Liu Li Qing	2/2

During 2011, the audit committee has considered the external auditor's projected audit fees; discussed with the external auditor their independence and the nature and scope of the audit; reviewed the interim and annual financial statements, particularly judgmental areas, before submission to the board; reviewed the internal control system and the internal audit plan, findings and management's response; reviewed the Group's adherence to the code provisions in the Code. The audit committee recommended the board to adopt the interim and annual reports for 2011.

NOMINATION COMMITTEE

The board established a nomination committee on 22 February 2012. The full terms of reference are available on the Company's website (www.citictel.com) and the Stock Exchange's website.

The nomination committee is authorised by the board to determine the policy for the nomination of directors, to set out the nomination procedures and the process and criteria adopted to select and recommend candidates for directorship.

The nomination committee comprises five members, a majority of whom are independent non-executive directors and is chaired by the chairman of the board. The members are:

Executive Director
Mr. Xin Yue Jiang – *Chairman*

Non-executive Director
Mr. Liu Jifu

Independent Non-executive Directors
Mr. Yang Xianzu
Mr. Liu Li Qing
Mr. Gordon Kwong Che Keung

As the nomination committee was just formed in February 2012, no meetings have yet been held.

FINANCE COMMITTEE

The board established a finance committee on 1 April 2008. The finance committee is authorised by the board to establish or renew financial and credit facilities and undertake financial and credit transactions such as loans, deposits, commercial paper, bills of exchange and foreign exchange, etc.

The finance committee comprises the three executive directors. In 2011, four resolutions in writing were passed by the finance committee, mainly to approve matters such as the opening of bank account and application for internet banking services.

ACCOUNTABILITY AND AUDIT

FINANCIAL REPORTING

The board of directors recognises the importance of integrity of financial information and acknowledges its responsibility for preparing half-year and annual accounts that give a true and fair view of the Group's affairs and of its results and cash flows in accordance with Hong Kong Financial Reporting Standards and the Hong Kong Companies Ordinance. In presenting the financial information, as well as price-sensitive announcements and other financial disclosures as required by regulation, the board endeavours to present in a timely manner to shareholders and other stakeholders a balanced and understandable assessment of the Company's performance, position and prospects. Accordingly, appropriate accounting policies are selected and applied consistently, and judgments and estimates made by the management for financial reporting purpose are prudent and reasonable. Prior to adoption of the accounts and the related accounting policies, the relevant financial information is discussed between the external auditor and the management, and then submitted to the audit committee for review.

The board considers that the adoption of new or amended accounting standards that became effective during the year has not had a significant impact on the accounts, details of which are disclosed in Note 1(c) on page 70.

The responsibilities of the external auditor with respect to the accounts for the year ended 31 December 2011 are set out in the Independent Auditor's Report on page 61.

EXTERNAL AUDITORS AND THEIR REMUNERATION

The external audit provides an objective assessment of the financial information presented by the management, and is considered one of the essential elements to ensure effective corporate governance. Since 2005, KPMG has been engaged as the Company's external auditor. Their independence and audit process are reviewed and monitored by the audit committee which considers the scope of the audit work, audit fees, non-audit services as well as their appointment and retention.

During the year, the fees charged by KPMG for the audit of the Company and its subsidiaries amounted to approximately HK$2.9 million. In addition, approximately HK$1.5 million was charged for non-audit services. The non-audit services mainly consist of completion audit for acquisition, taxation services and interim review.

INTERNAL CONTROLS

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

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

During the year, the audit committee has reviewed the adequacy and effectiveness of the Group's internal controls, including financial, operational and compliance controls and risk management. It has also considered the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting functions and their training programme and budget.

The management regularly assessed the risks and the internal controls with reference to the five components of the COSO (The Committee of Sponsoring Organisation of the Treadway Commission) internal control framework. The result of the review has been summarised and reported to the audit committee and the board.

In addition, the Group Internal Audit Department ("Internal Audit Department") of CITIC Pacific Limited ("CITIC Pacific", the controlling shareholder of the Company) conducts regular and independent reviews of the effectiveness of the Group's internal control system. The audit committee reviews the findings and opinion of the Internal Audit Department on the effectiveness of the Group's internal control system and reports to the board on such reviews.

INTERNAL AUDIT

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

BUSINESS ETHICS

Code of conduct

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

Whistle-blowing policy

The Company considers the whistle-blowing channels as a useful means of identifying possible misconduct or fraud risks of a particular operation or function by encouraging employees to raise concerns in good faith. The Company has adopted a whistle-blowing policy setting out principles and procedures for guiding the directors and employees of the Company in reporting cases of fraud, corruption or misconduct in a fair and proper manner.

According to the whistle-blowing policy, concerns can be raised in writing, to any of the (i) Corporate Management, (ii) Chairman of the Board Audit Committee, (iii) Head of Human Resources & Administration Department, (iv) Head of Finance Department. All allegations received shall be registered and will be evaluated to determine its credibility, materiality and verifiability. To this end, the allegation will be evaluated to determine whether there is a legitimate basis to warrant an investigation. Representatives from the above departments will be nominated to form a review committee which will directly report to the Chairman. Those have conflict of interest will not be included in the committee. Where allegations or concerns are related to senior management, the whistle-blower shall report directly to the Chairman or the chief executive officer (those who have conflict of interest shall be excluded).

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules. All directors confirmed that they have complied with the required standard set out in the Model Code throughout 2011. The interests held by individual directors in the Company's securities at 31 December 2011 are set out in the Directors' Report on pages 56 to 57.

COMMUNICATION WITH SHAREHOLDERS

The Company considers effective communication with shareholders is essential to enable them to have a clear assessment of the enterprise performance as well as accountability of the board of directors. Major means of communication with shareholders of the Company are as follows:

INFORMATION DISCLOSURE AT CORPORATE WEBSITE

The Company endeavours to disclose all material information about the Group to all interested parties as widely and as timely as possible. The Company maintains a corporate website at www.citictel.com where important information about the Group's activities and corporate matters such as annual reports and half-year reports to shareholders, announcements, business development and operations, corporate governance practices and other information is available for review by shareholders and other stakeholders.

When announcements are made through the Stock Exchange, the same information will be made available on the Company's website (www.citictel.com).

During 2011, the Company has issued announcements which can be viewed on the Company's website.

GENERAL MEETINGS WITH SHAREHOLDERS

The Company's annual general meeting provides a useful platform for direct communication between the board and shareholders. Separate resolutions are proposed on each substantially separate issue at the general meetings.

VOTING BY POLL

Resolutions put to vote at the general meetings of the Company (other than on procedural and administrative matters) are taken by poll. Procedures regarding the conduct of the poll are explained to the shareholders at the commencement of each general meeting, and questions from shareholders regarding the voting procedures are answered. The poll results are posted on the websites of the Stock Exchange and the Company respectively on the same day as the poll.

INVESTOR RELATIONS

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

SHAREHOLDER RIGHTS

Set out below is a summary of certain rights of the shareholders of the Company as required to be disclosed pursuant to the mandatory disclosure requirement under Paragraph O of the Code which is effective from 1 April 2012:

Convening of extraordinary general meeting on requisition by shareholders

In accordance with section 113 of the Companies Ordinance (Chapter 32 of the laws of Hong Kong), shareholder(s) holding at the date of the deposit of the requisition not less than one-twentieth of such of the paid-up capital of the Company which as at the date of the deposit carries the right of voting at general meetings of the Company, may require the directors of the Company to convene an extraordinary general meeting ("EGM"). The written requisition must state the objects of the meeting and must be signed by the shareholder(s) concerned and deposited at the registered office of the Company at 25th Floor, CITIC Telecom Tower, 93 Kwai Fuk Road, Kwai Chung, New Territories, Hong Kong for the attention of the Company Secretary. The requisition may consist of several documents in like form, each signed by one or more of the shareholders concerned.

If the directors of the Company do not within 21 days from the date of the deposit of the requisition proceed duly to convene an EGM for a day not more than 28 days after the date on which the notice convening the EGM is given, the shareholder(s) concerned, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene an EGM, provided that the EGM so convened shall not be held after the expiration of 3 months from the said date.

The EGM convened by shareholders shall be convened in the same manner, as nearly as possible, as that in which general meetings are to be convened by the directors of the Company.

Procedures for directing shareholders' enquiries to the board

Shareholders may at any time send their enquiries and concerns to the board of directors of the Company in writing through the Company Secretary whose contact details are as follows:

The Company Secretary
CITIC Telecom International Holdings Limited
25th Floor, CITIC Telecom Tower, 93 Kwai Fuk Road, Kwai Chung, New Territories, Hong Kong
Email: contact@citictel.com
Tel No.: +852 2377 8888
Fax No.: +852 2918 4838

The Company Secretary shall forward the shareholders' enquiries and concerns to the board of directors and/or relevant board committees of the Company, where appropriate, to answer the shareholders' questions.

Procedures for putting forward proposals at general meetings by shareholders
Shareholders are requested to follow section 115A of the Companies Ordinance (Chapter 32 of the laws of Hong Kong) for including a resolution at an annual general meeting of the Company ("AGM"). The requirements and procedures are set out below:

(i) Any number of shareholders representing not less than one-fortieth of the total voting rights of all shareholders having at the date of the requisition a right to vote at an AGM to which the requisition relates, or not less than 50 shareholders holding shares in the Company on which there has been paid up an average sum, per shareholder, of not less than HK$2,000, may submit a requisition in writing to put forward a resolution which may properly be moved and is intended to be moved at an AGM.

(ii) The Company shall not be bound by the Companies Ordinance to give notice of the proposed resolution or to circulate a statement of not more than 1,000 words with respect to the matter referred to in the proposed resolution to shareholders of the Company entitled to receive notice of an AGM unless (a) a copy of the requisition signed by the shareholders concerned (or 2 or more copies which between them contain the signatures of all the shareholders concerned) is deposited at the registered office of the Company at 25th Floor, CITIC Telecom Tower, 93 Kwai Fuk Road, Kwai Chung, New Territories, Hong Kong for the attention of the Company Secretary not less than 6 weeks before an AGM in the case of a requisition requiring notice of a resolution and not less than 1 week before an AGM in the case of any other requisition; and (b) the concerned shareholders have deposited with the requisition a sum reasonably sufficient to meet the Company's expenses in giving effect thereto.

(iii) However if, after a copy of a requisition requiring notice of a resolution has been deposited at the registered office of the Company, an AGM is called for a date 6 weeks or less after the copy has been deposited, the copy though not deposited within the time required as referred to in the above shall be deemed to have been properly deposited.

Subject to shareholders' approval in the AGM to be held on 27 April 2012, Article 108 of the Company's New Articles of Association will be amended so that no person (other than a retiring director) shall, unless recommended by the board for election, be eligible for election to the office of director at any general meeting, unless a shareholder shall have given a notice in writing of the intention to propose that person for election as a director and also a notice in writing by that person of his willingness to be elected shall have been given to the Company in the period commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than 7 days prior to the date of such meeting, provided that the minimum length of such notice period shall be at least 7 days. The written notice must state that person's biographical details as required by Rule 13.51(2) of the Listing Rules of the Stock Exchange.

NON-COMPETITION UNDERTAKING

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

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

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

EXECUTIVE DIRECTORS

#^ **Mr. Xin Yue Jiang**, aged 63, has been appointed as the chairman of the Company from 19 March 2009. He joined the Company in January 2008 as executive director and vice chairman of the Board. Mr. Xin graduated from China Naval Aeronautic Engineering Institute and Central University of Finance and Economics and obtained a Master degree in Economics and Management from the Graduate School of Chinese Academy of Social Sciences. After serving a substantial period of time in the government of The People's Republic of China (the "PRC") in which Mr. Xin was involved in the administration of science, technology information and economics, Mr. Xin joined in succession various major conglomerates as senior management, researcher or chief engineer. When Mr. Xin was with China Netcom (Hong Kong) Operations Limited, he held the position of senior vice president and senior consultant. Mr. Xin had also participated in the planning, implementation and management of many different important state projects. Mr. Xin thus possesses extensive knowledge and experience in science and technology information, business operation and management, and capital market operation. Since 1985, Mr. Xin has joined many different overseas studies and visits, and gained many valuable experiences in promoting co-operation with overseas enterprises, technology exchange, product research and development, and product marketing. Mr. Xin has long been interested in the study and research of corporate governance and corporate culture, in particular the characteristics of Western economy and the corporate governance practices adopted by overseas enterprises, and has made significant achievement in that regard.

^ **Mr. Yuen Kee Tong, J.P.**, aged 63, is the chief executive officer of the Company. Mr. Yuen is a member of the Association of Chartered Certified Accountants of the United Kingdom and also a member of the Hong Kong Institute of Certified Public Accountants. He joined CITIC Pacific Limited ("CITIC Pacific"), the controlling shareholder of the Company, in 2001 as the deputy managing director. Mr. Yuen resigned from the Board of CITIC Pacific on 8 January 2007 and assumed the position of director and chief executive officer of the Company on the same day. Mr. Yuen has more than 20 years extensive experience in all aspects of telecoms industry. Mr. Yuen was the deputy chief executive of Hong Kong Telecommunications Limited and later, Pacific Century CyberWorks Limited. Mr. Yuen served many public bodies and advisory committees.

^ **Dr. Chan Tin Wai, David**, aged 47, is the chief financial officer of the Company and he joined the Company in June 2006. Dr. Chan obtained a LLB (Hons) degree and a Master degree of Law from the University of London in the United Kingdom, a Master degree of Accounting from Curtin University in Australia and a Doctor degree of Business Administration from the University of Newcastle in Australia. He is a member of the Institute of Chartered Accountants in England and Wales and also a fellow member of the Association of Chartered Certified Accountants, the Institute of Chartered Secretaries and Administrators, the Hong Kong Institute of Certified Public Accountants, the Taxation Institute of Hong Kong and the Hong Kong Institute of Chartered Secretaries. Dr. Chan worked in CITIC Pacific during the period from 1994 to 2000. He had worked in several multi-national and Hong Kong blue chip companies and has over 20 years of experience in overseeing corporate finance, merger and acquisition activities, accounting, company secretarial, administration, human resources and legal matters. Before joining the Company, he was the general manager – Finance of Sino Land Company Limited.

NON-EXECUTIVE DIRECTORS

Δ# **Mr. Liu Jifu**, aged 68, has been a director of the Company since November 2010. Mr. Liu is an executive director of CITIC Pacific, a director of CITIC Hong Kong (Holdings) Limited ("CITIC HK") and CITIC International Financial Holdings Limited. He was with the Financial and Economics Research Institute in the Chinese Academy of Social Sciences, an executive director of China Everbright Group Limited, and the chairman of China Everbright Travel Inc and China PINGHE Import & Export Co., Ltd.

Mr. Fei Yiping, aged 48, has been a director of the Company since January 2010. Mr. Fei is the group financial controller of CITIC Pacific, a director and the chief financial officer of CITIC HK, a non-executive director of Dah Chong Hong Holdings Limited, a fellow subsidiary of the Company, and a director of CITIC Guoan Co., Ltd.. Mr. Fei is a graduate from University of Science and Technology Beijing and received a Master in Business Administration from the University of Edinburgh in the United Kingdom. Mr. Fei has over 12 years experience in accounting and financial management before joining the Company. He has been with CITIC Group Corporation ("CG", formerly known as CITIC Group), the ultimate holding company of the Company, since 1991. Between 2001 and 2008, Mr. Fei first acted as treasurer and director of CitiSteel USA, Inc. and then as vice president of CITIC USA Holdings, Inc. and chief representative of CG in New York. When he returned to China in 2008, he became deputy director-general of the Finance Department of CG.

INDEPENDENT NON-EXECUTIVE DIRECTORS

*Δ# **Mr. Yang Xianzu**, aged 72, joined the Company as an independent non-executive director in March 2007. Mr. Yang, a senior engineer, graduated in 1965 from the Department of Telephone and Telegraph at the Wuhan College of Posts and Telecommunications. From 1990 to early 1999, Mr. Yang served as Vice Minister of the Ministry of Posts and Telecommunications and later as Vice Minister of the Ministry of Information Industry. In 1999, Mr. Yang was appointed chairman of the Board of Directors and president of Unicom Group. During the period from 2000 to August 2003, Mr. Yang was the chairman of the Board of Directors and chief executive officer of China Unicom Limited, now known as China Unicom (Hong Kong) Limited. Mr. Yang is currently a member of Head of Strategic Development Consultation Committee of China Unicom, an independent non-executive director of Dongfeng Motor Group Company Limited, China Wireless Technologies Limited and Net263 Ltd. (listed on the Shenzhen Stock Exchange in the PRC). Mr. Yang previously served as an external director of Baosteel Group Corporation and China Electronics Corporation.

*Δ# **Mr. Liu Li Qing**, aged 71, joined the Company as an independent non-executive director in March 2007. Mr. Liu, a senior economist, graduated from Management Engineering in Beijing University of Posts and Telecommunications in 1963. Mr. Liu served as a Vice Minister of Ministry of Posts and Telecommunications during the period from 1996 to 1998 and the Head of State Postal Bureau from March 1998 to April 2003. Mr. Liu is currently the chairman of Sino-French Life Insurance Co., Ltd. and the chairman of China Association of Communications Enterprises.

*Δ# **Mr. Kwong Che Keung, Gordon**, aged 62, joined the Company as an independent non-executive director in March 2007. Mr. Kwong is an independent non-executive director of a number of companies listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange"), including NWS Holdings Limited, OP Financial Investments Limited, China Chengtong Development Group Limited, Global Digital Creations Holdings Limited, Quam Limited, China Power International Development Limited, Henderson Land Development Company Limited, Henderson Investment Limited, Agile Property Holdings Limited, China COSCO Holdings Company Limited and Chow Tai Fook Jewellery Group Limited. Mr. Kwong is also an independent supervisor of Beijing Capital International Airport Company Limited (listed on the Stock Exchange). Mr. Kwong has a Bachelor of Social Science degree from the University of Hong Kong and is a fellow member of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants. From 1984 to 1998, he was a partner of Price Waterhouse and was a council member of the Stock Exchange from 1992 to 1997.

* Member of the Audit Committee
Δ Member of the Remuneration Committee
Member of the Nomination Committee
^ Member of the Finance Committee

SENIOR MANAGEMENT

Mr. Cheung Yuet Pun, aged 39, is the chief technology officer of the Company. He joined the Company in February 2002 and was responsible in areas such as product marketing, development and management within the organisation. Mr. Cheung obtained a Bachelor of Science degree of Electrical Engineering from Queen's University at Kingston, Canada in 1995 and also completed the Master of Science (MSc) in Financial Analysis and the Executive Diploma in Management at the Hong Kong University of Science and Technology in 2010 and 2006 respectively. From his professional certification aspect, he was granted the Professional Engineer Licence of Ontario, Canada in 1999. Mr. Cheung previously held various positions within Nortel Networks Corporation during 1996 to 2002, responsible for software design, technical support, and sales and marketing. To date, Mr. Cheung has about 16 years of operational experience in the telecoms industry.

Since 2010, he has been the President, Regulation Issues Group of Communications Association of Hong Kong (CAHK). He has also been appointed as the incu-Apps admission panel member for Hong Kong Science and Technology Park Corporation (HKSTPC) to foster technology and innovation advancement in Hong Kong. He is also participating in the Steering Committee of i3 Forum, which comprised more than 40 telecommunications operators representing a combined retail base in excess of one billion customers in over 80 countries. Previously, he was a committee member of the Cyberport IncuTrain Centre Vetting Committee.

Mr. Ho Wai Chung, Stephen, aged 53, is the chief executive officer ("CEO") of CITIC Telecom International CPC Limited ("CPC"). He joined CITIC Pacific Communications Limited, a wholly-owned subsidiary of CITIC Pacific, as executive vice president in April 2001 and was appointed CEO of CPC in 2002. He was transferred to the Group in 2007 when CPC was acquired by the Group. Mr. Ho holds an Honor Bachelor Degree in Electrical Engineering specialising in digital communications from McGill University of Canada. Prior to joining the CITIC Pacific Group, Mr. Ho held senior positions at Cable and Wireless Systems Limited, Hong Kong Telecom CSL Limited, Hong Kong Telecommunications Limited ("Hong Kong Telecom") and iAdvantage Limited. Mr. Ho carries with him more than 20 years of extensive industry experience. He was the project director for numerous important telecommunications projects on public transportation in both Hong Kong and Taiwan. His experience spans marketing and sales of telecommunications products and services, logistics and strategic purchasing management, operations and technical management for the Hong Kong Telecom engineering support unit at the Hong Kong Kai Tak International Airport and other Hong Kong Government facilities. Mr. Ho also led Hong Kong Telecom's regional market development in mainland China, Taiwan, Singapore, Korea and Japan in the early 90s. He is a founder of two Internet Data Centres between 1999 and 2001.

Mr. Ho has been named to several leadership awards, including "The CEO of the Year 2007" by Asia Pacific Customer Service Consortium. He is an Executive Committee Member of the Communications Association of Hong Kong (CAHK) and is now serving the post of president, Internet Service & Content Provider Group (2006–Present). He also serves as the vice chairman on the Board of Governors of the US Pacific Telecommunications Council (PTC) and as vice chairman of the Council's Finance and Audit Committee for 2012.

DIRECTORS' REPORT

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2011.

PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of the principal subsidiaries are set out in note 15 to the financial statements.

DIVIDENDS

The directors declared an interim dividend of HK2.4 cents (2010: HK2.4 cents) per share in respect of the year ended 31 December 2011 which was paid on 9 September 2011. The directors recommended, subject to the approval of the shareholders at the forthcoming annual general meeting of the Company to be held on 27 April 2012 ("the Annual General Meeting"), the payment of a final dividend of HK7.2 cents (2010: HK7.1 cents) per share in respect of the year ended 31 December 2011 payable on 16 May 2012 to shareholders on the Register of Members at the close of business on 9 May 2012.

MAJOR CUSTOMERS AND SUPPLIERS

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

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	16.1%	
Five largest customers in aggregate	40.3%	
The largest supplier		14.3%
Five largest suppliers in aggregate		37.9%

By virtue of the exclusive service agreement as described in the section of "Continuing Connected Transactions", China Enterprise Communications Ltd. is one of the aforesaid five largest suppliers. Other than this, at no time during the year have the directors of the Company, their associates or any shareholder of the Company (which to the knowledge of the directors of the Company own more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2011 and the state of the Company's and the Group's affairs as at the date are set out in the financial statements on pages 62 to 131.

TRANSFER TO RESERVES

Profits attributable to equity holders of the Company, before dividends, of HK$458,246,000 (2010: HK$401,288,000) have been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to approximately HK$56,000 (2010: HK$251,000).

PROPERTY, PLANT AND EQUIPMENT

During the year, there were additions of property, plant and equipment amounted to HK$190,349,000 of which HK$3,826,000 was through acquisition of subsidiaries. Details of these additions and other movements in property, plant and equipment are set out in note 12 to the financial statements.

DIRECTORS

The directors of the Company who held office during the year ended 31 December 2011 and up to the date of this report were:

Mr. Xin Yue Jiang
Mr. Yuen Kee Tong
Dr. David Chan Tin Wai
Mr. Liu Jifu
Mr. Fei Yiping
Mr. Yang Xianzu
Mr. Liu Li Qing
Mr. Gordon Kwong Che Keung

Pursuant to Article 104(A) of the New Articles of Association of the Company, Messrs. David Chan Tin Wai, Fei Yiping and Yang Xianzu shall retire by rotation in the forthcoming Annual General Meeting and all, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

As at 31 December 2011, there were no service contracts which were not determinable by the employer within one year without payment of compensation (other than statutory compensation) between any company in the Group and any director of the Company proposed for re-election at the forthcoming Annual General Meeting.

DIRECTORS' INTERESTS IN CONTRACTS

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

COMPETING INTERESTS

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

Mr. Fei Yiping, a non-executive director of the Company, is a director of CITIC Guoan Co., Ltd. ("CITIC Guoan"). CITIC Guoan's primary business is its 41.42% interest in CITIC Guoan Information Industry Co. Ltd. ("Guoan Information"), a company listed on the Shenzhen Stock Exchange. Guoan Information's major activities include investment and construction of cable television networks, provision of value-added telecommunications services in communications services sector, network system integration, software development, development of salt lake resources, development and manufacture of new materials, as well as development and management of properties.

CONTINUING CONNECTED TRANSACTIONS

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

1. On 4 November 2009, the Company entered into a lease agreement ("the Lease Agreement") with Goldon Investment Limited ("Goldon"), pursuant to which the Company leased from Goldon the premises located at 8th Floor, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong for a term of three years commencing from 16 November 2009. The monthly rental is approximately HK$1,120,000 (exclusive of government rent, rates and service charge). The service charge is approximately HK$119,000 per month, plus any additional air-conditioning charges for supply after normal office hours (including chilled water charges) which are based on actual usage. Under the Lease Agreement, the Company may rent car parking spaces in CITIC Tower from Goldon as required from time to time at the same rates payable by independent third parties to Goldon. The aggregate monthly rentals, service charges and monthly rentals for the car parking spaces in CITIC Tower under the Lease Agreement for each of the 12-month period ending 15 November 2012 will not exceed HK$26,000,000. As CITIC Pacific Limited ("CITIC Pacific"), the controlling shareholder of the Company, has a 40% interest in Goldon, Goldon is an associate of CITIC Pacific, and therefore a connected person of the Company.

   For the year ended 31 December 2011, the aggregate amount paid by the Company in respect of the Lease Agreement was approximately HK$16,057,000.

2. On 30 December 2009, ComNet Investment Limited ("ComNet Investment") entered into a management services agreement (as supplemented by a supplemental deed dated 28 November 2010 in respect of the change of the building name from Broadway Centre to CITIC Telecom Tower) ("the First Management Services Agreement") with Broadway Centre Property Management Company Limited ("Broadway"), pursuant to which Broadway will provide property management services, chilled water supply and air-conditioning supply in respect of the property comprising portions of ground, 1st, 2nd and 3rd floors, the whole of 5th, 16th, 17th, 18th, 23rd, 25th and 26th floors, portion of the roof and ancillary areas of CITIC Telecom Tower, 93 Kwai Fuk Road, Kwai Chung, New Territories, Hong Kong ("the Property") to ComNet Investment for a period of two years commencing from 30 December 2009. Pursuant to a deed of novation dated 31 October 2011 entered into between ComNet Investment, Hang Luen Chong Property Management Company, Limited ("Hang Luen Chong") and Broadway, Hang Luen Chong replaced Broadway to be the property manager of the Property with effect from 1 November 2011. Broadway and Hang Luen Chong are wholly-owned subsidiaries of CITIC Pacific, and therefore are connected persons of the Company.

   ComNet Investment and Hang Luen Chong have entered into a management services agreement ("the Renewed Management Services Agreement") on 6 February 2012 to renew the First Management Services Agreement, pursuant to which ComNet Investment shall continue to engage Hang Luen Chong as the property manager to provide property management services, chilled water supply and air-conditioning supply in respect of the Property until 29 December 2014, subject to further renewal. The current general management fee is approximately HK$203,000 per month. The chilled water charges are based on the actual volume of chilled water used and are estimated to be HK$150,000 per month. The air-conditioning charges during normal office hours are approximately HK$80,000 per month and the air-conditioning charges for supply after normal office hours are based on the actual usage and are estimated to be HK$30,000 per month.

   The aggregate of the general management fees, chilled water charges and air-conditioning charges payable to Broadway/Hang Luen Chong for the 12-month period ended 29 December 2011 will not exceed HK$6,800,000. The aggregate of the general management fees, chilled water charges and air-conditioning charges payable to Hang Luen Chong for each of the 12-month period during the term of the Renewed Management Services Agreement is subject to an annual cap of HK$7,000,000.

   In 2011, the aggregate of the general management fees, chilled water charges and air-conditioning charges paid to Broadway (for the period from 1 January 2011 to 31 October 2011) and Hang Luen Chong (for the period from 1 November 2011 to 31 December 2011) was approximately HK$4,436,000.

3. On 24 November 2010, 中企網絡通信技術有限公司 (China Enterprise Communications Ltd.) ("CEC"), China Enterprise Netcom Corporation Limited ("CEC-HK"), presently a wholly-owned subsidiary of the Company and CITIC Telecom International CPC Limited ("CPC"), another wholly-owned subsidiary of the Company, entered into an exclusive service agreement ("the Exclusive Service Agreement"), pursuant to which CEC shall provide technical and support services to the customers of CEC-HK and CPC in the PRC for a term of three years to facilitate the provision of value-added telecom services to these customers. CEC will be responsible for arranging, operating and maintaining all necessary technical and support services exclusively in the PRC to service the customers of CEC-HK and CPC in the PRC. A service fee shall be payable to CEC monthly with reference to CEC's costs in servicing such customers provided that CEC-HK and CPC shall be entitled to retain the first 30% of the corresponding sales proceeds from customers such that the service fee shall not in any event exceed 70% of the relevant sales proceeds. If CEC's costs shall be less than 70% of the corresponding sales proceeds, CEC on one hand and CEC-HK and CPC on the other shall be entitled to share the surplus equally. The annual caps for the transactions under the Exclusive Service Agreement for the two years ending 31 December 2012 and the ten months ending 31 October 2013 are estimated to be US$40,000,000 (approximately HK$312,000,000), US$55,000,000 (approximately HK$429,000,000) and US$60,000,000 (approximately HK$468,000,000) respectively. In accordance with the Listing Rules, CEC is an associate of CITIC Group Corporation (formerly CITIC Group), the controlling shareholder of CITIC Pacific, and therefore is a connected person of the Company.

   The aggregate service fee paid by CEC-HK and CPC to CEC under the Exclusive Service Agreement for the year ended 31 December 2011 was approximately HK$138,663,000.

Review of the Continuing Connected Transactions:

The independent non-executive directors of the Company have reviewed the aforesaid continuing connected transactions made for the year ended 31 December 2011 and confirmed that the transactions had been entered into

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

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing the findings and conclusions in respect of the Continuing Connected Transactions disclosed by the Group on pages 49 to 50 of the annual report in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited ("the Stock Exchange").

Related Party Transactions:

Details of the significant related party transactions undertaken in the normal course of business are provided under note 11 to the financial statements. None of these related party transactions constitutes a discloseable connected transaction as defined under the Listing Rules, except for those described in the section of "Continuing Connected Transactions", in respect of which the disclosure requirements in accordance with Chapter 14A of the Listing Rules have been complied with.

SHARE OPTION PLAN

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

1. The purpose of the Plan is to attract and retain the best quality personnel for the development of the Company's businesses; to provide additional incentives to Employees (as defined herebelow); and to promote the long term financial success of the Company by aligning the interests of grantees to shareholders.

2. The grantees of the Plan are any person employed by the Company or any of its subsidiaries and any person who is an officer or director (whether executive or non-executive) of the Company or any of its subsidiaries ("the Employees") as the Board may, in its absolute discretion, select.

3. The maximum number of shares over which options may be granted under the Plan must not exceed 10% of (i) the shares of the Company in issue from time to time; or (ii) the shares of the Company in issue as at the date of adopting the Plan, whichever is the lower. As at 22 February 2012, the maximum number of shares available for issue under the Plan is 93,405,500, representing approximately 3.91% of the issued share capital.

4. The total number of shares of the Company ("the Shares") issued and to be issued upon exercise of options (whether exercised or outstanding) in any 12-month period granted to each grantee must not exceed 1% of the Shares in issue. Where any further grant of options to a grantee would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant shall be subject to separate approval by the shareholders of the Company in general meeting.

5. The exercise period of any option granted under the Plan must not be more than ten years commencing on the date of grant.

6. The acceptance of an offer of the grant of the options must be made within 28 days from the date of grant with a non-refundable payment of HK$1.00 from the grantee.

7. The subscription price determined by the Board will not be less than the higher of (i) the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

8. The Plan shall be valid and effective till 16 May 2017.

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

Date of grant	Number of share options	Exercise period	Exercise price HK$
23 May 2007	18,720,000	23 May 2007 to 22 May 2012	3.26
17 September 2009	17,912,500	17 September 2010 to 16 September 2015	2.10
17 September 2009	17,912,500	17 September 2011 to 16 September 2016	2.10
19 August 2011	24,227,500	19 August 2012 to 18 August 2017	1.54
19 August 2011	24,227,500	19 August 2013 to 18 August 2018	1.54

All options granted and accepted under the Plan can be exercised in whole or in part within 5 years from the date of grant. The closing price of the Company's shares immediately before the grant on 19 August 2011 was HK$1.54 per share.

All options granted on 19 August 2011 were accepted except for options for 200,000 shares. Options for 791,000 shares were exercised and options for 2,278,000 shares have lapsed during the year ended 31 December 2011.

A summary of the movements of the share options during the year ended 31 December 2011 is as follows:

A. DIRECTORS OF THE COMPANY

Name of director	Date of grant	Exercise price HK$	Exercise period	Number of share options: Balance as at 1.1.2011	Granted during the year ended 31.12.2011	Exercised during the year ended 31.12.2011	Balance as at 31.12.2011	Percentage to the issued share capital %
Xin Yue Jiang	17.9.2009	2.10	17.9.2010 – 16.9.2015	900,000	–	–	900,000	
	17.9.2009	2.10	17.9.2011 – 16.9.2016	900,000	–	–	900,000	
	19.8.2011	1.54	19.8.2012 – 18.8.2017	–	1,250,000	–	1,250,000	
	19.8.2011	1.54	19.8.2013 – 18.8.2018	–	1,250,000	–	1,250,000	
							4,300,000	0.180
Yuen Kee Tong	23.5.2007	3.26	23.5.2007 – 22.5.2012	2,500,000	–	–	2,500,000	
	17.9.2009	2.10	17.9.2010 – 16.9.2015	800,000	–	–	800,000	
	17.9.2009	2.10	17.9.2011 – 16.9.2016	800,000	–	–	800,000	
	19.8.2011	1.54	19.8.2012 – 18.8.2017	–	1,100,000	–	1,100,000	
	19.8.2011	1.54	19.8.2013 – 18.8.2018	–	1,100,000	–	1,100,000	
							6,300,000	0.264
David Chan Tin Wai	23.5.2007	3.26	23.5.2007 – 22.5.2012	1,845,000	–	–	1,845,000	
	17.9.2009	2.10	17.9.2010 – 16.9.2015	700,000	–	–	700,000	
	17.9.2009	2.10	17.9.2011 – 16.9.2016	700,000	–	–	700,000	
	19.8.2011	1.54	19.8.2012 – 18.8.2017	–	950,000	–	950,000	
	19.8.2011	1.54	19.8.2013 – 18.8.2018	–	950,000	–	950,000	
							5,145,000	0.216

Name of director	Date of grant	Exercise price HK$	Exercise period	Number of share options: Balance as at 1.1.2011	Granted during the year ended 31.12.2011	Exercised during the year ended 31.12.2011	Balance as at 31.12.2011	Percentage to the issued share capital %
Yang Xianzu	23.5.2007	3.26	23.5.2007 – 22.5.2012	300,000	–	–	300,000	
	17.9.2009	2.10	17.9.2010 – 16.9.2015	150,000	–	–	150,000	
	17.9.2009	2.10	17.9.2011 – 16.9.2016	150,000	–	–	150,000	
	19.8.2011	1.54	19.8.2012 – 18.8.2017	–	150,000	–	150,000	
	19.8.2011	1.54	19.8.2013 – 18.8.2018	–	150,000	–	150,000	
							900,000	0.038
Liu Li Qing	23.5.2007	3.26	23.5.2007 – 22.5.2012	300,000	–	–	300,000	
	17.9.2009	2.10	17.9.2010 – 16.9.2015	150,000	–	–	150,000	
	17.9.2009	2.10	17.9.2011 – 16.9.2016	150,000	–	–	150,000	
	19.8.2011	1.54	19.8.2012 – 18.8.2017	–	150,000	–	150,000	
	19.8.2011	1.54	19.8.2013 – 18.8.2018	–	150,000	–	150,000	
							900,000	0.038
Gordon Kwong Che Keung	23.5.2007	3.26	23.5.2007 – 22.5.2012	300,000	–	–	300,000	
	17.9.2009	2.10	17.9.2010 – 16.9.2015	150,000	–	–	150,000	
	17.9.2009	2.10	17.9.2011 – 16.9.2016	150,000	–	–	150,000	
	19.8.2011	1.54	19.8.2012 – 18.8.2017	–	150,000	–	150,000	
	19.8.2011	1.54	19.8.2013 – 18.8.2018	–	150,000	–	150,000	
							900,000	0.038

B. EMPLOYEES OF THE COMPANY WORKING UNDER CONTINUOUS CONTRACTS (AS DEFINED IN THE EMPLOYMENT ORDINANCE), OTHER THAN THE DIRECTORS OF THE COMPANY

Date of grant	Exercise price HK$	Number of share options: Balance as at 1.1.2011	Granted during the year ended 31.12.2011	Exercised during the year ended 31.12.2011 *(Note 1)*	Cancelled/ lapsed during the year ended 31.12.2011	Balance as at 31.12.2011
23.5.2007	3.26	9,620,000	–	–	760,000	8,860,000
17.9.2009	2.10	26,393,000	–	641,000	1,368,000 *(Note 2)*	24,384,000
19.8.2011	1.54	–	40,955,000	–	200,000 *(Note 3)*	40,755,000

C. OTHERS

Date of grant	Exercise price HK$	Number of share options: Balance as at 1.1.2011	Exercised during the year ended 31.12.2011 *(Note 5)*	Lapsed during the year ended 31.12.2011	Balance as at 31.12.2011
17.9.2009	2.10	300,000 *(Note 4)*	150,000	150,000	–

Notes:

1. The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK$2.63.
2. These are in respect of options granted to former employees under continuous contracts who have resigned. Such options have lapsed during the year ended 31 December 2011.
3. These are in respect of options granted to employees under continuous contracts who have not accepted the options. Such options have been cancelled during the year ended 31 December 2011.
4. These are in respect of options granted to a former director who has resigned in 2010.
5. The weighted average closing price of the shares immediately before the date on which the options were exercised was HK$2.69.

DIRECTORS' INTERESTS IN SECURITIES

The interests of the directors of the Company in shares of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as at 31 December 2011 as recorded in the register required to be kept under section 352 of the SFO were as follows:

1. SHARES IN THE COMPANY AND ASSOCIATED CORPORATIONS

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

2. SHARE OPTIONS IN THE COMPANY

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

3. SHARE OPTIONS IN AN ASSOCIATED CORPORATION, CITIC PACIFIC

Name of director	Date of grant	Exercise period	Exercise price per share HK$	Number of share options as at 31.12.2011	Percentage to the issued share capital %
Liu Jifu *(Note 3)*	16.10.2007	16.10.2007 – 15.10.2012	47.32	700,000	
	19.11.2009	19.11.2009 – 18.11.2014	22.00	500,000	
				1,200,000	0.033
Fei Yiping	19.11.2009	19.11.2009 – 18.11.2014	22.00	300,000	0.008

Notes:

1. 20,000 shares are in respect of personal interests and 50,000 shares are in respect of corporate interests.
2. These 3,000 shares are in respect of family interests.
3. CITIC Pacific has granted an option for 700,000 shares to Mr. Liu Jifu on 20 June 2006 at the exercise price of HK$22.10 per share. Such share options have expired at the close of business on 19 June 2011.

Save as disclosed above, as at 31 December 2011, none of the directors of the Company had nor were they taken to or deemed to have, under Part XV of the SFO, any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations or any interests which are required to be entered into the register kept by the Company pursuant to section 352 of the SFO or any interests which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2011, the interests of the substantial shareholders, other than the directors of the Company or their respective associates, in the shares of the Company as recorded in the register of interests in shares and short positions required to be kept under section 336 of the SFO were as follows:

Name	Number of shares of the Company	Percentage to the issued share capital %
CITIC Group Corporation	1,445,584,370	60.586
CITIC Limited	1,445,584,370	60.586
CITIC Pacific	1,445,584,370	60.586
Crown Base International Limited	1,445,584,370	60.586
Effectual Holdings Corp.	1,445,584,370	60.586
CITIC Pacific Communications Limited	1,445,584,370	60.586
Douro Holdings Inc.	1,445,584,370	60.586
Ferretti Holdings Corp.	941,692,000	39.468
Ease Action Investments Corp.	941,692,000	39.468
Onway Assets Holdings Ltd.	405,826,087	17.009
Silver Log Holdings Ltd.	405,826,087	17.009
Matthews International Capital Management, LLC	143,933,000	6.032

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

CONTRACTS OF SIGNIFICANCE WITH CONTROLLING SHAREHOLDERS

The Company and the controlling shareholders of the Company have entered into the following contracts of significance which were subsisting during the year ended 31 December 2011:

1. Administrative services agreement dated 21 March 2007 ("the Administrative Services Agreement") entered into between the Company and CITIC Pacific, a controlling shareholder of the Company, pursuant to which CITIC Pacific and the Company will share the company secretarial services and the internal audit services with effect from 1 January 2007. The amount payable by the Company to CITIC Pacific for the services received shall be determined on costs basis with payment terms to be agreed between the parties from time to time. The Administrative Services Agreement may be terminated if CITIC Pacific shall hold less than 30% of the shares of the Company and is terminable by giving a six months' prior notice in writing by either party. Mr. Liu Jifu, an executive director of CITIC Pacific and Mr. Fei Yiping, Group Financial Controller of CITIC Pacific have indirect interests in the Administrative Services Agreement. A copy of the Administrative Services Agreement will be available for inspection at the Annual General Meeting.

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

3. Deed of Indemnity dated 21 March 2007 given by CITIC Pacific in favour of the Company (and its subsidiaries), pursuant to which CITIC Pacific will keep the Company and its subsidiaries indemnified against any taxation falling on it resulting from or by reference to any revenue, income, profits or gains granted, earned, accrued, received or made on the listing date of the Company or any event, transaction, act or omission occurring or deemed to occur on or before the listing date of the Company.

4. Trademark licence agreement dated 23 November 2010 entered into between the Company, CITIC Group Corporation, a controlling shareholder of the Company, and CITIC Pacific, pursuant to which CITIC Group Corporation agreed to licence, on a non-exclusive basis, the trademarks "中信", "CITIC" and "" for use by the Company. The agreement is for a term of three years up till 16 November 2013, and may be renewed thereafter. No consideration is payable by the Company to CITIC Group Corporation for the use of the aforesaid trademarks.

Apart from the above and the transactions as mentioned in the section of "Continuing Connected Transactions", none of the Company or any of its subsidiaries has entered into any other contract of significance with the Company's controlling shareholders or their subsidiaries which were subsisting during the year ended 31 December 2011.

SUFFICIENCY OF PUBLIC FLOAT

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

BORROWINGS

At 31 December 2011, the Group had HK$123,328,000 short-term loan from an associate. The loan bears interest at the prevailing market rate. It is unsecured and repayable on 30 March 2012.

At 31 December 2011, the Group had no outstanding bank borrowings.

SHARE CAPITAL

Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year ended 31 December 2011 and the Company has not redeemed any of its shares during the year ended 31 December 2011.

CONFIRMATION OF INDEPENDENCE

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

DISCLOSURE PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

Pursuant to Rule 13.51B(1) of the Listing Rules, set out below are the changes in monthly salaries for the following directors of the Company with effect from 1 January 2012:

Name of director	Previous monthly salary	Monthly salary (with effect from 1 January 2012)
Xin Yue Jiang	HK$249,600	HK$263,328
Yuen Kee Tong	HK$249,600	HK$263,328
David Chan Tin Wai	HK$166,400	HK$175,552

Note: For information in relation to the 2011 full year emoluments of the directors of the Company, please refer to note 8 to the financial statements.

In addition, subject to shareholders' approval in the Annual General Meeting, an additional remuneration of HK$40,000 per annum (or, if he serves for less than a year, on a pro rata basis) is to be granted to each independent non-executive director who serves on the Nomination Committee.

FIVE YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 28 of the annual report.

RETIREMENT SCHEME

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

AUDITOR

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

By Order of the Board
Xin Yue Jiang
Chairman

Hong Kong, 22 February 2012

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the shareholders of CITIC Telecom International Holdings Limited
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of CITIC Telecom International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 62 to 131 which comprise the consolidated and company balance sheets as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company statements of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

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

22 February 2012

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2011 (Expressed in Hong Kong dollars)

	Note	2011 $'000	2010 $'000
Turnover	3	**3,196,753**	2,966,469
Other revenue	4	**1,485**	3,493
Other net gain/(loss)	5	**213**	(6,999)
		3,198,451	2,962,963
Network, operations and support expenses	6(c)	**(2,214,373)**	(2,042,320)
Depreciation and amortisation	6(c)	**(127,062)**	(113,633)
Staff costs	6(b)	**(300,150)**	(262,778)
Other operating expenses		**(181,389)**	(187,218)
Profit from operations		**375,477**	357,014
Finance costs	6(a)	**(974)**	(214)
Share of profit of an associate	16	**148,770**	88,957
Share of profit of a jointly controlled entity	17	**410**	–
Profit before taxation	6	**523,683**	445,757
Income tax	7(a)	**(65,437)**	(44,469)
Profit attributable to equity holders of the Company		**458,246**	401,288
Earnings per share (HK cents)	10		
Basic		**19.2**	17.9
Diluted		**19.2**	17.8

The notes on pages 69 to 131 form part of these financial statements. Details of dividends payable to equity holders of the Company attributable to the profit for the year are set out in note 23(a).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2011 (Expressed in Hong Kong dollars)

	2011 $'000	2010 $'000
Profit for the year	**458,246**	401,288
Other comprehensive income for the year (after tax)		
Exchange differences on translation of financial statements of overseas subsidiaries	**298**	14,843
Total comprehensive income for the year attributable to equity holders of the Company	**458,544**	416,131

The notes on pages 69 to 131 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

at 31 December 2011 (Expressed in Hong Kong dollars)

	Note	2011 $'000	2010 $'000
Non-current assets			
Property, plant and equipment	12	668,521	595,350
Intangible assets	13	89,888	48,362
Goodwill	14	363,549	281,465
Interest in an associate	16	1,472,414	1,489,382
Interest in a jointly controlled entity	17	43,176	–
Non-current other receivables and deposits	19	109,347	171,370
Deferred tax assets	18(a)	19,902	22,172
		2,766,797	2,608,101
Current assets			
Trade receivables, other receivables and deposits	19	1,308,036	1,140,333
Current tax recoverable	7(b)	5,630	6,265
Cash and bank deposits	20(a)	257,023	327,026
		1,570,689	1,473,624
Current liabilities			
Trade and other payables	21	852,196	876,849
Loans from an associate	22	123,328	96,350
Current tax payable	7(b)	26,006	23,703
		1,001,530	996,902
Net current assets		569,159	476,722
Total assets less current liabilities		3,335,956	3,084,823
Non-current liabilities			
Non-current other payables	21	95,192	102,582
Deferred tax liabilities	18(a)	61,638	38,424
		156,830	141,006
NET ASSETS		3,179,126	2,943,817
CAPITAL AND RESERVES	23		
Share capital	23(b)	238,599	238,520
Reserves		2,940,527	2,705,297
TOTAL EQUITY		3,179,126	2,943,817

Approved and authorised for issue by the board of directors on 22 February 2012

Xin Yue Jiang
Director

Yuen Kee Tong
Director

The notes on pages 69 to 131 form part of these financial statements.

BALANCE SHEET

at 31 December 2011 (Expressed in Hong Kong dollars)

	Note	2011 $'000	2010 $'000
Non-current assets			
Property, plant and equipment	12	**16,278**	19,120
Investments in subsidiaries	15	**4,071**	4,071
Interest in an associate	16	**1,400,268**	1,400,268
Deferred tax assets	18(a)	**1,554**	1,832
		1,422,171	1,425,291
Current assets			
Trade receivables, other receivables and deposits	19	**1,314,212**	1,040,190
Cash and bank deposits	20(a)	**41,029**	90,523
		1,355,241	1,130,713
Current liabilities			
Trade and other payables	21	**96,179**	115,798
Net current assets		**1,259,062**	1,014,915
NET ASSETS		**2,681,233**	2,440,206
CAPITAL AND RESERVES	23		
Share capital	23(b)	**238,599**	238,520
Reserves		**2,442,634**	2,201,686
TOTAL EQUITY		**2,681,233**	2,440,206

Approved and authorised for issue by the board of directors on 22 February 2012

Xin Yue Jiang
Director

Yuen Kee Tong
Director

The notes on pages 69 to 131 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2011 (Expressed in Hong Kong dollars)

		Attributable to equity holders of the Company						
	Note	Share capital (note 23(b)) $'000	Share premium (note 23(c)) $'000	Capital reserve (note 23(d)) $'000	Capital redemption reserve (note 23(c)) $'000	Exchange reserve (note 23(e)) $'000	Retained profits $'000	Total $'000
Balance at 1 January 2010		197,773	629,517	15,129	2,034	(3,995)	876,482	1,716,940
Changes in equity for 2010:								
Profit for the year		–	–	–	–	–	401,288	401,288
Other comprehensive income		–	–	–	–	14,843	–	14,843
Total comprehensive income		–	–	–	–	14,843	401,288	416,131
Dividends approved in respect of the previous year	23(a)(ii)	–	–	–	–	–	(140,419)	(140,419)
Shares issued for acquisition of an associate	23(b)(ii)	40,583	949,603	–	–	–	–	990,186
Shares issued under share option plan	23(b)(iii)	164	4,431	(1,146)	–	–	–	3,449
Equity-settled share-based transactions	6(b)	–	–	14,578	–	–	–	14,578
Release upon lapse of share options		–	–	(97)	–	–	97	–
Dividends approved in respect of the current year	23(a)(i)	–	–	–	–	–	(57,205)	(57,205)
Share of reserve of an associate		–	–	157	–	–	–	157
Balance at 31 December 2010 and 1 January 2011		**238,520**	**1,583,551**	**28,621**	**2,034**	**10,848**	**1,080,243**	**2,943,817**
Changes in equity for 2011:								
Profit for the year		**–**	**–**	**–**	**–**	**–**	**458,246**	**458,246**
Other comprehensive income		**–**	**–**	**–**	**–**	**298**	**–**	**298**
Total comprehensive income		**–**	**–**	**–**	**–**	**298**	**458,246**	**458,544**
Dividends approved in respect of the previous year	23(a)(ii)	**–**	**–**	**–**	**–**	**–**	**(169,405)**	**(169,405)**
Shares issued under share option plan	23(b)(iii)	**79**	**2,133**	**(551)**	**–**	**–**	**–**	**1,661**
Equity-settled share-based transactions	6(b)	**–**	**–**	**10,845**	**–**	**–**	**–**	**10,845**
Release upon lapse of share options		**–**	**–**	**(1,014)**	**–**	**–**	**1,014**	**–**
Dividends approved in respect of the current year	23(a)(i)	**–**	**–**	**–**	**–**	**–**	**(57,264)**	**(57,264)**
Share of reserve of an associate		**–**	**–**	**(9,072)**	**–**	**–**	**–**	**(9,072)**
Balance at 31 December 2011		**238,599**	**1,585,684**	**28,829**	**2,034**	**11,146**	**1,312,834**	**3,179,126**

The notes on pages 69 to 131 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2011 (Expressed in Hong Kong dollars)

	Note	Share capital (note 23(b)) $'000	Share premium (note 23(c)) $'000	Capital reserve (note 23(d)) $'000	Capital redemption reserve (note 23(c)) $'000	Retained profits $'000	Total $'000
Balance at 1 January 2010		197,773	629,517	71,026	2,034	494,003	1,394,353
Changes in equity for 2010:							
Total comprehensive income for the year		–	–	–	–	235,264	235,264
Dividends approved in respect of the previous year	23(a)(ii)	–	–	–	–	(140,419)	(140,419)
Shares issued for acquisition of an associate	23(b)(ii)	40,583	949,603	–	–	–	990,186
Shares issued under share option plan	23(b)(iii)	164	4,431	(1,146)	–	–	3,449
Equity-settled share-based transactions	6(b)	–	–	14,578	–	–	14,578
Release upon lapse of share options		–	–	(97)	–	97	–
Dividends approved in respect of the current year	23(a)(i)	–	–	–	–	(57,205)	(57,205)
Balance at 31 December 2010 and 1 January 2011		**238,520**	**1,583,551**	**84,361**	**2,034**	**531,740**	**2,440,206**
Changes in equity for 2011:							
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**455,190**	**455,190**
Dividends approved in respect of the previous year	23(a)(ii)	**–**	**–**	**–**	**–**	**(169,405)**	**(169,405)**
Shares issued under share option plan	23(b)(iii)	**79**	**2,133**	**(551)**	**–**	**–**	**1,661**
Equity-settled share-based transactions	6(b)	**–**	**–**	**10,845**	**–**	**–**	**10,845**
Release upon lapse of share options		**–**	**–**	**(1,014)**	**–**	**1,014**	**–**
Dividends approved in respect of the current year	23(a)(i)	**–**	**–**	**–**	**–**	**(57,264)**	**(57,264)**
Balance at 31 December 2011		**238,599**	**1,585,684**	**93,641**	**2,034**	**761,275**	**2,681,233**

The notes on pages 69 to 131 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2011 (Expressed in Hong Kong dollars)

	Note	2011 $'000	2010 $'000
Operating activities			
Cash generated from operations	20(b)	**397,489**	417,060
Hong Kong Profits Tax paid		**(45,401)**	(68,270)
Overseas tax paid		**(2,869)**	(3,749)
Hong Kong Profits Tax refunded		**236**	–
Overseas tax refunded		**–**	1,820
Net cash generated from operating activities		**349,455**	346,861
Investing activities			
Payment for the purchase of property, plant and equipment		**(221,383)**	(132,786)
Proceeds from sale of property, plant and equipment		**3**	412
Payment for acquisition of an associate		**–**	(410,082)
Payment for acquisition of a jointly controlled entity		**(42,766)**	–
Payment for acquisition of subsidiaries (net of cash and cash equivalents acquired)	27	**(7,434)**	–
Deposit paid for acquisition of subsidiaries	27	**–**	(65,931)
Transaction costs for acquisition of subsidiaries		**(7,098)**	(3,542)
(Increase)/decrease in pledged deposits		**(2,177)**	312
Interest received		**571**	1,245
Dividend received from an associate		**157,635**	–
Net cash used in investing activities		**(122,649)**	(610,372)
Financing activities			
Proceeds from new shares issued under share option plan		**1,661**	3,453
Dividends paid to equity holders of the Company		**(226,669)**	(197,624)
Proceeds from loan from an associate		**124,091**	96,946
Repayment of loan from an associate		**(96,946)**	–
Borrowing cost paid		**(486)**	–
Repayment of loan due to a previous shareholder of a subsidiary		**(70,769)**	–
Repayment of bank loan		**(30,000)**	–
Net cash used in financing activities		**(299,118)**	(97,225)
Net decrease in cash and cash equivalents		**(72,312)**	(360,736)
Cash and cash equivalents at 1 January	20(a)	**325,499**	684,397
Effect of foreign exchange rate changes		**139**	1,838
Cash and cash equivalents at 31 December	20(a)	**253,326**	325,499

The notes on pages 69 to 131 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies

(a) STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("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 1(c) 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 2011 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in an associate and a jointly controlled entity.

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 2.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (Continued)

(c) CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs and one new Interpretation 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:

– HKAS 24 (revised 2009), *Related party disclosures*

– Improvements to HKFRSs (2010)

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

The impacts of the developments are discussed below:

– HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous period. HKAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities which does not have any material impact on the Group's related party disclosures.

– Improvements to HKFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, *Financial instruments: Disclosures*. The disclosures about the Group's financial instruments in note 26 have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

(d) 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 or a jointly controlled entity (see note 1(e)).

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

1 Significant accounting policies (Continued)

(e) ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

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.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

An interest in an associate or a jointly controlled entity 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(f) and (j)). 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 investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the jointly controlled entity, 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 the associate or the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities 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 or joint control over a jointly controlled entity, 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 or joint control 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 and a jointly controlled entity are stated at cost less impairment losses (see note 1(j)).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (Continued)

(f) 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(j)).

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.

(g) 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(j)).

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.

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 life 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 equipments 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.

1 Significant accounting policies (Continued)

(g) PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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.

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.

(h) 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(j)). 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	7–10 years
– Customer contracts	1 year
– Order backlog	5 years
– Trade names/trademarks	1–15 years

Both the period and method of amortisation are reviewed annually.

(i) 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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (Continued)

(i) LEASED ASSETS (CONTINUED)

(ii) Operating lease charges

Where the Group has the use of assets 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.

(j) IMPAIRMENT OF ASSETS

(i) Impairment of investments in subsidiaries, interest in an associate, interest in a jointly controlled entity and trade receivables, other receivables and deposits

Investments in subsidiaries, interest in an associate, interest in a jointly controlled entity 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;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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

– For investments in subsidiaries, associates and jointly controlled entities (including those recognised using the equity method (see note 1(e))), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(j)(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(j)(ii).

1 Significant accounting policies (Continued)

(j) IMPAIRMENT OF ASSETS (CONTINUED)

(i) *Impairment of investments in subsidiaries, interest in an associate, interest in a jointly controlled entity and trade receivables, other receivables and deposits (Continued)*

– For trade receivables, other receivables and deposits carried at amortised cost, 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 these financial assets 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.

(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 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).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (Continued)

(j) IMPAIRMENT OF ASSETS (CONTINUED)

(ii) Impairment of other assets (Continued)

– 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(j)).

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.

(k) TRADE RECEIVABLES, OTHER RECEIVABLES AND DEPOSITS

Trade receivables, other receivables and deposits are initially recognised at fair value and thereafter stated at amortised cost using effective interest method less allowance for impairment of doubtful debts (see note 1(j)), 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.

(l) 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.

(m) 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.

1 Significant accounting policies (Continued)

(n) 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.

(o) 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).

(p) 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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (Continued)

(p) INCOME TAX (CONTINUED)

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.

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.

1 Significant accounting policies (Continued)

(q) 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(q)(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 other 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.

(r) 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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (Continued)

(r) REVENUE RECOGNITION (CONTINUED)

(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. Contingent rentals are recognised as income in the accounting period in which they are earned.

(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.

(s) 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") 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.

(t) BORROWING COSTS

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

1 Significant accounting policies (Continued)

(u) RELATED PARTIES

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

(v) 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 locations 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.

(w) 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.

(x) 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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 Accounting judgement and estimates

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) IMPAIRMENT

Notes 14 and 26(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) INCOME TAX

The Group is subject to income tax in various jurisdictions. Significant judgement is required in determining the worldwide provision for income tax. There are transactions during the ordinary course of business, for which calculation of the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

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 result in future years.

2 Accounting judgement and estimates (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.

3 Turnover and segment reporting

(a) 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:

	2011 $'000	2010 $'000
Fees from the provision of voice services	**1,939,124**	1,905,617
Fees from the provision of short message services	**347,240**	315,713
Fees from the provision of other telecommunications services	**910,389**	745,139
	3,196,753	2,966,469

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 government-related 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 $1,295,567,000 for the year ended 31 December 2011 (2010: $1,141,951,000). Details of concentrations of credit risk arising from these customers are set out in note 26(a).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

3 Turnover and segment reporting (Continued)

(b) 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.

(i) Reconciliation of reportable segment profit

	2011 $'000	2010 $'000
Profit		
Reportable segment profit	**379,834**	370,450
Share of profit of an associate	**148,770**	88,957
Share of profit of a jointly controlled entity	**410**	–
Unallocated other revenue	**1,485**	3,493
Unallocated head office and corporate expenses	**(6,816)**	(17,143)
Consolidated profit before taxation	**523,683**	445,757

Revenue and expenses are allocated to the reportable segment 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.

(ii) Reconciliation of reportable segment assets and liabilities

	2011 $'000	2010 $'000
Assets		
Reportable segment assets	**2,796,364**	2,497,975
Interest in an associate	**1,472,414**	1,489,382
Interest in a jointly controlled entity	**43,176**	–
Current tax recoverable	**5,630**	6,265
Deferred tax assets	**19,902**	22,172
Unallocated corporate assets	**–**	65,931
Consolidated total assets	**4,337,486**	4,081,725
Liabilities		
Reportable segment liabilities	**944,112**	970,374
Current tax payable	**26,006**	23,703
Deferred tax liabilities	**61,638**	38,424
Loans from an associate	**123,328**	96,350
Unallocated corporate liabilities	**3,276**	9,057
Consolidated total liabilities	**1,158,360**	1,137,908

Segment assets include all tangible, intangible assets and other current and non-current assets with the exception of interest in an associate, interest in a jointly controlled entity, 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.

3 Turnover and segment reporting (Continued)

(b) SEGMENT REPORTING (CONTINUED)

(iii) Geographic information

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of revenue is based on the physical location of assets through which the services were provided.

	2011 **$'000**	2010 $'000
Hong Kong (place of domicile)	**2,837,265**	2,633,033
United States of America	**133,713**	148,160
Singapore	**115,748**	113,168
Other countries	**110,027**	72,108
	3,196,753	2,966,469

4 Other revenue

	2011 **$'000**	2010 $'000
Bank interest income	**180**	601
Other interest income	**705**	763
Total interest income	**885**	1,364
Rental income from operating leases	**600**	2,129
	1,485	3,493

5 Other net gain/(loss)

	2011 **$'000**	2010 $'000
Net gain/(loss) on disposal of property, plant and equipment	**160**	(313)
Net foreign exchange gain/(loss)	**53**	(6,686)
	213	(6,999)

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(Expressed in Hong Kong dollars unless otherwise indicated)

6 Profit before taxation

Profit before taxation is arrived at after charging:

		2011 $'000	2010 $'000
(a)	**FINANCE COSTS**		
	Interest on borrowings wholly repayable within 5 years	**974**	214
(b)	**STAFF COSTS (INCLUDING DIRECTORS' REMUNERATION (NOTE 8))**		
	Contributions to defined contribution retirement plans	**9,167**	8,729
	Equity-settled share-based payment expenses (note 28)	**10,845**	14,578
	Salaries, wages and other benefits	**280,138**	239,471
		300,150	262,778
(c)	**OTHER ITEMS**		
	Network, operations and support expenses	**2,214,373**	2,042,320
	– operating leases – leased circuits	**252,903**	212,892
	Depreciation	**115,602**	105,186
	Amortisation	**11,460**	8,447
	Impairment loss on trade debtors	**13,720**	13,685
	Auditors' remuneration		
	– audit services	**3,271**	2,805
	– non-audit services	**1,885**	3,784
	Transaction costs for acquisition of subsidiaries	**172**	10,468
	Operating lease charges in respect of land and buildings	**44,258**	47,310

7 Income tax

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

	2011 $'000	2010 $'000
Current tax – Hong Kong Profits Tax		
Provision for the year	44,590	46,858
Under-provision in respect of prior years	80	533
	44,670	47,391
Current tax – Overseas		
Provision for the year	4,118	4,097
Under/(over)-provision in respect of prior years	491	(190)
	4,609	3,907
Deferred tax		
Recognition of tax losses not recognised in prior years	–	(23,692)
Origination and reversal of temporary differences	16,158	16,863
	16,158	(6,829)
	65,437	44,469

The provision for Hong Kong Profits Tax for 2011 is calculated at 16.5% (2010: 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:

	2011 $'000	2010 $'000
Profit before taxation	523,683	445,757
Less: Share of profit of an associate	(148,770)	(88,957)
Share of profit of a jointly controlled entity	(410)	–
	374,503	356,800
Notional tax at 16.5% (2010: 16.5%)	61,793	58,872
Tax effect of different tax rate	(1,205)	(105)
Tax effect of non-taxable income and non-deductible expenses	1,774	5,969
Recognition of tax losses not recognised in prior years	–	(23,692)
Tax effect of unused tax losses not recognised	2,600	2,403
Under-provision in respect of prior years	571	343
Others	(96)	679
Actual tax expense	65,437	44,469

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

7 Income tax (Continued)

(b) INCOME TAX IN THE CONSOLIDATED BALANCE SHEET REPRESENTS:

	2011 $'000	2010 $'000
Hong Kong Profits Tax		
Through acquisition of subsidiaries (note 27(d))	2,141	–
Provision for the year	44,590	46,858
Provisional Profits Tax paid	(43,696)	(45,469)
	3,035	1,389
Overseas tax		
Provision for the year	4,118	4,097
Profits tax paid	–	(1,355)
Balance payable relating to prior years	13,652	13,294
Exchange adjustments	(429)	13
	17,341	16,049
	20,376	17,438
Representing:		
Current tax recoverable	(5,630)	(6,265)
Current tax payable	26,006	23,703
	20,376	17,438

8 Directors' remuneration

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

	2011						
	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	–	3,279	3,052	12	6,343	582	6,925
Yuen Kee Tong	–	3,293	2,747	150	6,190	515	6,705
Chan Tin Wai, David	–	2,195	2,456	12	4,663	447	5,110
Non-executive directors							
Fei Yiping	–	–	–	–	–	–	–
Liu Jifu	–	–	–	–	–	–	–
Independent non-executive directors							
Yang Xianzu	270	–	–	–	270	81	351
Liu Li Qing	270	–	–	–	270	81	351
Kwong Che Keung, Gordon	270	–	–	–	270	81	351
Total	810	8,767	8,255	174	18,006	1,787	19,793

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

8 Directors' remuneration (Continued)

	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

The above remuneration is included in staff costs as presented in note 6(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 option plans are set out in note 28.

The discretionary bonuses of the Group were determined and approved by the Company's board of directors (the "Board") with reference to the performance of the Group and the respective directors.

During the years ended 31 December 2011 and 2010, 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.

9 Individuals with highest emoluments

Of the five individuals with the highest emoluments, three (2010: three) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other two (2010: two) individuals are as follows:

	2011 $'000	2010 $'000
Salaries and other emoluments	**3,905**	3,741
Discretionary bonuses	**3,504**	3,214
Share-based payments	**758**	1,054
Retirement scheme contributions	**271**	257
	8,438	8,266

The emoluments of the two (2010: two) individuals with the highest emoluments are within the following bands:

	2011 Number of individuals	2010 Number of individuals
$		
3,500,001–4,000,000	**1**	1
4,000,001–4,500,000	**–**	–
4,500,001–5,000,000	**1**	1

During the years ended 31 December 2011 and 2010, 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.

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(Expressed in Hong Kong dollars unless otherwise indicated)

10 Earnings per share

	2011 $'000	2010 $'000
Profit attributable to equity holders of the Company	458,246	401,288

WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES

	Number of shares	
	2011 '000	2010 '000
Issued ordinary shares at 1 January	2,385,202	1,977,731
Effect of shares issued for acquisition of an associate	–	267,956
Effect of share options exercised	739	379
Weighted average number of ordinary shares at 31 December	2,385,941	2,246,066
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	2,385,941	2,248,711
Basic earnings per share (HK cents)	19.2	17.9
Diluted earnings per share (HK cents)	19.2	17.8

The diluted earnings per share for the year ended 31 December 2011 was the same as the basic earnings per share as the potential ordinary shares outstanding during the year ended 31 December 2011 were anti-dilutive.

11 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	2011 $'000	2010 $'000
Telecommunications services and related income received/receivable from Companhia de Telecomunicacoes de Macau, S.A.R.L. ("CTM")	(1)	**14,969**	15,970
Telecommunications services and related expenses paid/payable to CTM		**6,720**	6,389
Professional fees paid/payable to CITIC Pacific Limited	(2)	**3,200**	2,900
Operating lease charges, building management fees, air conditioning charges and car parking spaces rental paid/payable to Goldon Investment Limited	(3)	**16,057**	24,410
Building management fees and air conditioning charges paid/payable to Broadway Centre Property Management Company Limited/Hang Luen Chong Property Management Company, Limited	(4)	**4,436**	2,268

Notes:

(1) CTM is an associate of the Group starting from May 2010 (previously was an associate of CITIC Pacific Limited).

(2) Professional fees were paid/payable to CITIC Pacific Limited for the provision of internal audit and company secretarial services.

(3) 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/payable to Goldon Investment Limited.

(4) Broadway Centre Property Management Company Limited and Hang Luen Chong Property Management Company, Limited (both are wholly-owned subsidiaries of CITIC Pacific Limited) provided building management services to the Group for the period from 1 January 2011 to 31 October 2011 and from 1 November 2011 to 31 December 2011 respectively. The amounts represent the building management fees and air conditioning charges paid/payable to Broadway Centre Property Management Company Limited and Hang Luen Chong Property Management Company, Limited.

During the year, Broadway Centre Property Management Company Limited novated the building management services to Hang Luen Chong Property Management Company, Limited.

(5) 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 paid by the Group were reimbursement of costs incurred by the related party, the price which the Group received or paid for the relevant services were fair and reasonable with reference to market price.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

11 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

	2011 $'000	2010 $'000
Acquisition of 20% equity interest in CTM from CITIC Pacific Limited	–	1,396,354
Interest paid/payable for loan from CTM	914	214
Mechanical ventilation and air-conditioning installation works provided by Dah Chong Hong (Engineering) Limited (a wholly-owned subsidiary of CITIC Pacific Limited)	5,380	4,642

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

	2011 $'000	2010 $'000
Amount due from/(to) CTM included in		
– Trade receivables, other receivables and deposits	4,525	11,493
– Trade and other payables	(2,947)	(2,455)
	1,578	9,038
Amount due to Dah Chong Hong (Engineering) Limited included in		
– Trade and other payables	1,002	–

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

(iv) Loans from an associate

	2011 $'000	2010 $'000
Loans from CTM (note 22)	123,328	96,350

11 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)

(v) Capital commitment to an affiliate

Capital commitment to an affiliate of the Group outstanding at the balance sheet date not provided for in the financial statements is as follows:

	2011 $'000	2010 $'000
Contracted for (Note)	**–**	5,380
Authorised but not contracted for (Note)	**8,108**	8,108

Note: The capital commitment was related to Dah Chong Hong (Engineering) Limited (a wholly-owned subsidiary of CITIC Pacific Limited) for providing mechanical ventilation and air-conditioning installation works to the Group.

(vi) Commitments under operating leases payable to Goldon Investment Limited

The total future minimum lease payments under non-cancellable operating leases relating to land and building are payable as follows:

	2011 $'000	2010 $'000
Within 1 year	**11,764**	13,445
After 1 year but within 5 years	**–**	11,764
	11,764	25,209

(b) TRANSACTIONS WITH A FELLOW SUBSIDIARY, CHINA ENTERPRISE COMMUNICATIONS LTD. ("CEC")

(i) Recurring transactions

	2011 $'000	2010 $'000
Telecommunications services and related expenses paid/payable to CEC (Note)	**138,663**	–

Note: The directors are of the opinion that the above transaction with related party was 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.

(ii) Non-recurring transactions

During the year ended 31 December 2011, the Group completed the acquisition of the entire equity interest 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). Please refer to note 24(c) for details.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

11 Material related party transactions (Continued)

(b) TRANSACTIONS WITH A FELLOW SUBSIDIARY, CHINA ENTERPRISE COMMUNICATIONS LTD. ("CEC") (CONTINUED)

(iii) Trade receivables, other receivables and deposits

	2011 $'000	2010 $'000
Amount due from CEC included in trade receivables, other receivables and deposits	**86,538**	–

(c) TRANSACTIONS WITH OTHER GOVERNMENT-RELATED ENTITIES

The Group is a government-related enterprise and has transactions with entities directly or indirectly controlled by the PRC government through government authorities, agencies, affiliates and other organisations (collectively referred to as "government-related entities").

Apart from transactions with CITIC Pacific Limited and its affiliates and the affiliates of the Group and transactions with CEC as disclosed above, the Group has collectively, but not individually, significant transactions with other government-related entities which include but 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 government-related. 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 government-related entities or not.

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 government-related entities require disclosure:

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

	2011 $'000	2010 $'000
Interest income	**41**	264
Fees received/receivable from provision of telecommunications services	**1,280,598**	1,125,981
Fees paid/payable for network, operations and support services	**(725,759)**	(705,491)

11 Material related party transactions (Continued)

(c) TRANSACTIONS WITH OTHER GOVERNMENT-RELATED ENTITIES (CONTINUED)

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

	2011 $'000	2010 $'000
Bank deposits	**52,236**	26,290
Trade debtors	**608,226**	420,700
Trade creditors	**(178,781)**	(171,731)

(iii) Commitments under operating leases payable to other government-related entities in the PRC

The total future minimum lease payments under non-cancellable operating leases relating to leased circuits are payable as follows:

	2011 $'000	2010 $'000
Within 1 year	**931**	373

(d) KEY MANAGEMENT PERSONNEL REMUNERATION

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	2011 $'000	2010 $'000
Short-term employee benefits	**24,431**	22,564
Share-based payments	**2,302**	3,163
Post-employment benefits	**445**	425
	27,178	26,152

Total remuneration is included in "staff costs" (see note 6(b)).

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(Expressed in Hong Kong dollars unless otherwise indicated)

12 Property, plant and equipment

The Group

	Land and building held for own use (note (a)) $'000	Tele-communications equipment $'000	Other assets (note (b)) $'000	Construction in progress $'000	Total assets $'000
Cost:					
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
At 1 January 2011	**156,958**	**919,524**	**108,388**	**95,547**	**1,280,417**
Exchange adjustments	**–**	**(94)**	**33**	**(10)**	**(71)**
Additions					
– through acquisition of subsidiaries (note 27(d))	**–**	**3,738**	**88**	**–**	**3,826**
– others	**2,394**	**79,294**	**10,976**	**93,859**	**186,523**
Disposals	**–**	**(3,373)**	**(1,854)**	**–**	**(5,227)**
Reclassification	**167**	**100,750**	**34,749**	**(135,666)**	**–**
At 31 December 2011	**159,519**	**1,099,839**	**152,380**	**53,730**	**1,465,468**
Accumulated depreciation:					
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
At 1 January 2011	**4,186**	**627,889**	**52,992**	**–**	**685,067**
Exchange adjustments	**–**	**(167)**	**(75)**	**–**	**(242)**
Charge for the year	**4,232**	**93,668**	**17,702**	**–**	**115,602**
Written back on disposals	**–**	**(2,828)**	**(652)**	**–**	**(3,480)**
At 31 December 2011	**8,418**	**718,562**	**69,967**	**–**	**796,947**
Net book value:					
At 31 December 2011	**151,101**	**381,277**	**82,413**	**53,730**	**668,521**
At 31 December 2010	152,772	291,635	55,396	95,547	595,350

12 Property, plant and equipment (Continued)

The Company

	Other assets (note (b)) $'000
Cost:	
At 1 January 2010	38,663
Additions	19,787
Disposals	(16,115)
At 31 December 2010	42,335
At 1 January 2011	**42,335**
Additions	**1,300**
At 31 December 2011	**43,635**
Accumulated depreciation:	
At 1 January 2010	38,663
Charge for the year	667
Written back on disposals	(16,115)
At 31 December 2010	23,215
At 1 January 2011	**23,215**
Charge for the year	**4,142**
At 31 December 2011	**27,357**
Net book value:	
At 31 December 2011	**16,278**
At 31 December 2010	19,120

Notes:

(a) Land and building held for own use is held under a medium-term lease in Hong Kong.

(b) Other assets include electronic data processing equipment, furniture and fixtures, motor vehicles and office equipment.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

13 Intangible assets

The Group

	Customer relationships $'000	Customer contracts $'000	Order backlog $'000	Trade names/ trademarks $'000	IRU of tele-communications capacity $'000	Total $'000
Cost:						
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
At 1 January 2011	**61,639**	**8,690**	**–**	**5,160**	**626**	**76,115**
Additions through acquisition of subsidiaries (note 27(d))	**26,900**	**–**	**13,400**	**12,800**	**–**	**53,100**
Exchange adjustments	**(286)**	**–**	**–**	**–**	**–**	**(286)**
At 31 December 2011	**88,253**	**8,690**	**13,400**	**17,960**	**626**	**128,929**
Accumulated amortisation:						
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
At 1 January 2011	**17,711**	**8,690**	**–**	**1,039**	**313**	**27,753**
Exchange adjustments	**(172)**	**–**	**–**	**–**	**–**	**(172)**
Charge for the year	**9,469**	**–**	**1,240**	**648**	**103**	**11,460**
At 31 December 2011	**27,008**	**8,690**	**1,240**	**1,687**	**416**	**39,041**
Net book value:						
At 31 December 2011	**61,245**	**–**	**12,160**	**16,273**	**210**	**89,888**
At 31 December 2010	43,928	–	–	4,121	313	48,362

14 Goodwill

The Group

	2011 $'000	2010 $'000
Cost and carrying amount:		
At 1 January	**281,465**	277,419
Exchange adjustments	**(626)**	4,046
Additions through acquisition of subsidiaries (note 27(d))	**82,710**	–
At 31 December	**363,549**	281,465

IMPAIRMENT TESTS FOR CASH-GENERATING UNITS CONTAINING GOODWILL

Goodwill is allocated to the Group's cash-generating unit ("CGU") identified as follows:

	2011 $'000	2010 $'000
Telecommunications services	**363,549**	281,465

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:

	2011 %	2010 %
Long term growth rate	**5**	5
Discount rate	**10**	10

The long term growth rate used is based on past performance and management's expectation for market development. The discount rate used is pre-tax and reflect specific risks relating to this segment.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

15 Interests in subsidiaries

The Company

	2011 $'000	2010 $'000
Unlisted shares, at cost	4,071	4,071
Amounts due from subsidiaries (note 19)	1,307,530	1,033,692
	1,311,601	1,037,763
Amounts due to subsidiaries (note 21)	(70,610)	(81,500)
	1,240,991	956,263

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

At 31 December 2011, 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*
China Enterprise Netcom Corporation Limited	Hong Kong	Provision of telecommunications leasing and technology services	–	100%	HK$100*
CITIC 1616 Holdings Limited	Hong Kong	Equipment holding	100%	–	HK$1,000* and HK$38,000,000#
CITIC Consultancy 1616 Limited	Hong Kong	Provision of telecommunications consultancy 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 (Concept) Limited	Hong Kong	Provision of systems integration services	–	100%	HK$2*
CITIC Telecom International (Data) Limited	Hong Kong	Provision of data and other telecommunications services in Hong Kong	–	100%	HK$2*
CITIC Telecom International Limited	Hong Kong	Provision of telecommunications services	100%	–	HK$2*

15 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 Telecom International CPC Limited	Hong Kong	Provision of telecommunications services	–	100%	HK$394,866,986*
CITIC Telecom International CPC (Singapore) Pte. Ltd.	Republic of Singapore	Provision of telecommunications services	–	100%	SG$2,000,000*
CITIC Telecom International CPC Japan Limited (formerly known as CPCNet Japan Limited)	Japan	Provision of telecommunications services	–	100%	JPY10,000,000*
CITIC Telecom (UK) Limited	United Kingdom	Provision of telecommunications services	–	100%	£2*
CITIC TeleSoft 1616 Limited	Hong Kong	Provision of systems integration and maintenance services	–	100%	HK$2*
CITIC Telecom International (SEA) Pte. Ltd. (formerly known as 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 (Canada) Ltd.	Canada	Provision of telecommunications services	–	100%	CAD100** and 1 common share without par value Δ
ComNet Telecom (HK) Limited	Hong Kong	Provision of telecommunications services	–	100%	HK$2*
ComNet Telecom International Limited	Hong Kong	Provision of telecommunications services	–	100%	HK$2*
ComNet Telecom (Singapore) Pte. Ltd.	Republic of Singapore	Provision of telecommunications services	–	100%	SG$100,000*
ComNet (USA) LLC	United States of America	Provision of telecommunications services	–	100%	N/A***
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)

15 Interests in subsidiaries (Continued)

Notes:

* Represents ordinary shares.

[1] Hong Kong Internet eXchange ("HKIX") is an exchange point providing mainly interconnection amongst internet access providers in Hong Kong.

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

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

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

*** Capital contribution for ComNet (USA) LLC amounted to United States dollar ("USD") 10,000.

16 Interest in an associate

The Group

	2011 $'000	2010 $'000
Share of net assets		
– At 1 January	671,132	–
– Additions through acquisition	–	582,018
– Share of profit for the year	148,770	88,957
– Dividend received during the year	(156,666)	–
– Share of reserve	(9,072)	157
– At 31 December	654,164	671,132
Goodwill	818,250	818,250
	1,472,414	1,489,382

The Company

	2011 $'000	2010 $'000
Unlisted shares, at cost	1,400,268	1,400,268

On 5 May 2010, the Group acquired the 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.

16 Interest in an associate (Continued)

Set out below are the particulars of the associate:

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

Summary of financial information on associate:

	At 31 December 2011			Year ended 31 December 2011	
	Assets $'000	Liabilities $'000	Equity $'000	Revenue $'000	Profit $'000
100 per cent	**4,457,262**	**1,186,440**	**3,270,822**	**3,833,657**	**743,852**
Group's effective interest	**891,452**	**237,288**	**654,164**	**766,731**	**148,770**

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

17 Interest in a jointly controlled entity

The Group

	2011 $'000	2010 $'000
Share of net assets		
– At 1 January	**–**	–
– Additions through acquisition	**13,849**	–
– Share of profit for the year	**410**	–
– At 31 December	**14,259**	–
Goodwill	**28,917**	–
	43,176	–

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(Expressed in Hong Kong dollars unless otherwise indicated)

17 Interest in a jointly controlled entity (Continued)

On 30 November 2011, the Group acquired an 85% equity interest in Cheer Harvest Holdings Limited for a consideration of $41,144,000 in cash (excluding transaction costs). The equity interest in Cheer Harvest Holdings Limited is accounted for in the consolidated financial statements under the equity method as the Group and the other shareholder of Cheer Harvest Holdings Limited share joint control over the economic activity of the entity. The fair values assigned to the Group's share of Cheer Harvest Holdings Limited's identifiable assets and liabilities were determined to be $13,849,000 as of the date of acquisition.

Set out below are the particulars of the jointly controlled entity:

Name of jointly controlled entity	Place of incorporation/ operation	Issued and fully paid-up capital	Proportion of ownership interest		Principal activity
			Group's effective interest	Held by the Company	
Cheer Harvest Holdings Limited	Samoa	370,000 shares of USD1 each	85%	–	Provision of telecommunications services

Summary of financial information on jointly controlled entity – Group's effective interest:

	2011 $'000	2010 $'000
Non-current assets	14,051	–
Current assets	9,043	–
Non-current liabilities	(2,292)	–
Current liabilities	(6,543)	–
Net assets	14,259	–
Income	2,803	–
Expenses	(2,393)	–
Profit for the year	410	–

18 Deferred taxation

(a) DEFERRED TAX ASSETS AND LIABILITIES RECOGNISED

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

The Group

	Intangible assets arising from business combination $'000	Depreciation allowances in excess of the related depreciation $'000	Tax losses $'000	Total $'000
At 1 January 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
At 1 January 2011	**9,860**	**45,986**	**(39,594)**	**16,252**
Exchange adjustments	**(19)**	**–**	**203**	**184**
Through acquisition of subsidiaries (note 27(d))	**8,762**	**380**	**–**	**9,142**
(Credited)/charged to profit or loss	**(2,090)**	**11,780**	**6,468**	**16,158**
At 31 December 2011	**16,513**	**58,146**	**(32,923)**	**41,736**

	2011 $'000	2010 $'000
Represented by:		
Deferred tax assets	**(19,902)**	(22,172)
Deferred tax liabilities	**61,638**	38,424
	41,736	16,252

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

18 Deferred taxation (Continued)

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

The Company

	Depreciation in excess of the related depreciation allowances $'000	Tax losses $'000	Total $'000
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)
At 1 January 2011	**(460)**	**(1,372)**	**(1,832)**
(Credited)/charged to profit or loss	**(147)**	**425**	**278**
At 31 December 2011	**(607)**	**(947)**	**(1,554)**

(b) DEFERRED TAX ASSETS NOT RECOGNISED

At 31 December 2011, the Group has not recognised deferred tax assets in respect of unused tax losses of $140,688,000 (2010: $130,072,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdictions and entities. $98,716,000 (2010: $86,766,000) of the tax losses do not expire under the current tax legislation, and $41,972,000 (2010: $43,306,000) of the tax losses will expire after 1 to 20 years.

19 Trade receivables, other receivables and deposits

	The Group		The Company	
	2011	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000
Trade debtors	**1,098,564**	988,516	**–**	–
Less: allowance for doubtful debts	**(28,635)**	(19,690)	**–**	–
	1,069,929	968,826	**–**	–
Other receivables and deposits	**260,916**	342,877	**6,682**	6,498
Amount due from a fellow subsidiary	**86,538**	–	**–**	–
Amounts due from subsidiaries (note 15)	**-**	–	**1,307,530**	1,033,692
	1,417,383	1,311,703	**1,314,212**	1,040,190
Represented by:				
Non-current portion	**109,347**	171,370	**–**	–
Current portion	**1,308,036**	1,140,333	**1,314,212**	1,040,190
	1,417,383	1,311,703	**1,314,212**	1,040,190

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 2011 of the Group and the Company amounted to $30,552,000 (2010: $24,335,000) and $4,340,000 (2010: $4,433,000) respectively which will not be recovered within a year.

At 31 December 2011 and 2010, included in the other receivables and deposits were the following:

(i) net deferred expenditure of $7,020,000 (2010: $12,870,000) 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 $91,273,000 (2010: $97,843,000) 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 the acquisition of subsidiaries of $Nil (2010: $65,931,000), please refer to note 24(c) for details of the transaction.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

19 Trade receivables, other receivables and deposits (Continued)

(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	
	2011	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000
Within 1 year	**1,044,958**	817,549	**–**	–
Over 1 year	**53,606**	170,967	**–**	–
	1,098,564	988,516	**–**	–

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).

(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(j)).

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

	The Group		The Company	
	2011	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000
At 1 January	**19,690**	25,203	**–**	–
Exchange adjustments	**25**	375	**–**	–
Through acquisition of subsidiaries	**7,300**	–	**–**	–
Impairment loss recognised	**13,720**	13,685	**–**	–
Impairment loss written back	**(6,434)**	(3,021)	**–**	–
Uncollectible amounts written off	**(5,666)**	(16,552)	**–**	–
At 31 December	**28,635**	19,690	**–**	–

At 31 December 2011, the Group's trade debtors of $76,456,000 (2010: $52,891,000) 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 $28,635,000 (2010: $19,690,000) were recognised by the Group. The Group does not hold any collateral over these balances.

19 Trade receivables, other receivables and deposits (Continued)

(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	
	2011	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000
Within 1 year	**987,556**	782,419	**–**	–
Over 1 year	**34,552**	153,206	**–**	–
	1,022,108	935,625	**–**	–

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	
	2011	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000
Cash at bank and in hand	**186,473**	220,844	**10,609**	20,314
Time deposits with banks	**70,550**	106,182	**30,420**	70,209
Cash and bank deposits	**257,023**	327,026	**41,029**	90,523
Less: pledged deposits*	**(3,697)**	(1,527)		
Cash and cash equivalents	**253,326**	325,499		

Included in cash and bank deposits were $21,312,000 (2010: $25,442,000) 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 2011 and 2010, certain bank deposits were pledged to secure the general banking facilities provided to the Group.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

20 Cash and cash equivalents (Continued)

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

	2011 $'000	2010 $'000
Profit before taxation	**523,683**	445,757
Adjustments for:		
Depreciation and amortisation	**127,062**	113,633
Net (gain)/loss on disposal of property, plant and equipment	**(160)**	313
Share of profit of an associate	**(148,770)**	(88,957)
Share of profit of a jointly controlled entity	**(410)**	–
Finance costs	**974**	214
Interest income	**(885)**	(1,364)
Equity-settled share-based payment expenses	**10,845**	14,578
Foreign exchange (gain)/loss	**(665)**	5,658
Transaction costs for acquisition of subsidiaries	**172**	10,468
	511,846	500,300
Changes in working capital:		
Increase in trade receivables, other receivables and deposits	**(65,165)**	(352,875)
(Decrease)/increase in trade and other payables	**(57,266)**	269,635
Decrease in amount due from a fellow subsidiary	**8,074**	–
Cash generated from operations	**397,489**	417,060

21 Trade and other payables

	The Group		The Company	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Trade creditors	**642,600**	693,385	**–**	–
Other payables and accruals	**304,788**	286,046	**25,569**	34,298
Amounts due to subsidiaries (note 15)	**–**	–	**70,610**	81,500
	947,388	979,431	**96,179**	115,798
Represented by:				
Non-current portion	**95,192**	102,582	**–**	–
Current portion	**852,196**	876,849	**96,179**	115,798
	947,388	979,431	**96,179**	115,798

21 Trade and other payables (Continued)

At 31 December 2011, other payables included a deferred revenue of $102,576,000 (2010: $109,960,000) for an advance received from a customer for the provision of certain telecommunications services. Such advance has been deferred and amortised on a straight-line basis over the underlying service period of 15 years.

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

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

	The Group		The Company	
	2011	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000
Within 1 year	**554,576**	475,514	**–**	–
Over 1 year	**88,024**	217,871	**–**	–
	642,600	693,385	**–**	–

22 Loans from an associate

The loans from an associate at 31 December 2011 and 2010 bear interest at the prevailing market rate, and are unsecured and repayable on 30 March 2012 and 31 March 2011 respectively.

23 Capital, reserves and dividends

(a) DIVIDENDS

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

	2011	2010
	$'000	$'000
Interim dividend declared and paid of 2.4 cents per share (2010: 2.4 cents per share)	**57,264**	57,205
Final dividend proposed after the balance sheet date of 7.2 cents per share (2010: 7.1 cents per share)	**171,791**	169,405
	229,055	226,610

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

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

	2011 **$'000**	2010 $'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 7.1 cents per share (2010: 7.1 cents per share)	**169,405**	140,419

In respect of the final dividend in respect of the year ended 31 December 2010, there is a difference of $56,000 between the final dividend disclosed in the 2010 annual report and amounts paid during the year ended 31 December 2011 which represents dividends attributable to shares issued upon exercise of share options before the closing date of the register of members.

(b) SHARE CAPITAL

	2011		2010	
	No. of shares	**Amount $'000**	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 (note (i))	**2,385,201,870**	**238,520**	1,977,731,283	197,773
Shares issued for acquisition of an associate (note (ii))	**–**	**–**	405,826,087	40,583
Shares issued under share option plan (note (iii))	**791,000**	**79**	1,644,500	164
At 31 December (note (i))	**2,385,992,870**	**238,599**	2,385,201,870	238,520

Notes:

(i) The 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 share 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 2011, 791,000 (2010: 1,644,500) ordinary shares were issued at a weighted average exercise price of $2.10 (2010: $2.10) 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.

23 Capital, reserves and dividends (Continued)

(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(o)(ii).

(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(s).

(f) DISTRIBUTABILITY OF RESERVES

At 31 December 2011, the aggregate amount of reserves available for distribution to equity holders of the Company was $761,275,000 (2010: $531,740,000). After the balance sheet date, the directors proposed a final dividend of 7.2 cents per ordinary share (2010: 7.1 cents per share), amounting to $171,791,000 (2010: $169,349,000). 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 $6,815,000 for the year ended 31 December 2011 (2010: $17,573,000) 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:

	2011 $'000	2010 $'000
Amount of consolidated loss attributable to equity holders dealt with in the Company's financial statements	**(6,815)**	(17,573)
Interim/final dividends from subsidiaries and an associate attributable to the profits of the year/previous financial year approved and paid during the year	**462,005**	252,837
Company's profit for the year	**455,190**	235,264

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

23 Capital, reserves and dividends (Continued)

(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 2011 and 2010, 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

	2011 **$'000**	2010 $'000
Contracted for	**43,776**	48,802
Authorised but not contracted for	**66,414**	45,606

The Company had no capital commitments at 31 December 2011 and 2010.

24 Commitments (Continued)

(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

	2011 $'000	2010 $'000
Within 1 year	**30,999**	40,759
After 1 year but within 5 years	**12,378**	38,614
	43,377	79,373

The Company

	2011 $'000	2010 $'000
Within 1 year	**11,764**	13,445
After 1 year but within 5 years	**–**	11,764
	11,764	25,209

Leased circuits

The Group

	2011 $'000	2010 $'000
Within 1 year	**48,602**	32,597
After 1 year but within 5 years	**27,715**	45,901
After 5 years	**235**	–
	76,552	78,498

The leases typically run for an initial period of 1 to 7 years, with an option to renew the lease when all terms are renegotiated. None of these leases includes contingent rentals.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

24 Commitments (Continued)

(b) COMMITMENTS UNDER OPERATING LEASES (CONTINUED)

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

The Group

	2011 $'000	2010 $'000
Within 1 year	**17,125**	24,012
After 1 year but within 5 years	**15,261**	32,378
	32,386	56,390

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 Corporation (formerly known as CITIC Group), CE-SCM Network Technology Co., Ltd. ("CE-SCM"), Information Centre of State-owned Assets Supervision & Administration Commission of the State Council ("SASAC") and CEC, pursuant to which the Group, through CITIC Telecom International CPC Limited ("CPC"), 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 Corporation together with a purchase right (the "Purchase Right") to acquire the remaining 45.09% equity interest in CEC held by CITIC Group Corporation, in which the Purchase Right shall be exercisable by CPC when CPC is permitted to hold more equity interest in CEC under the then prevailing PRC laws and regulations; and

(iii) all the issued shares of CEC-HK held by CEC-HK Holding, a wholly-owned subsidiary of CEC.

The aggregate consideration payable by the Group is approximately $286,066,000 comprising:

(i) Renminbi ("RMB") 93,286,000 (approximately $115,143,000) payable to CE-SCM by instalments;

(ii) RMB80,818,000 (approximately $99,754,000) payable to CITIC Group Corporation at completion, out of which RMB61,987,000 (approximately $76,511,000) is paid as advance payment for the acquisition of the remaining 45.09% equity interest in CEC held by CITIC Group Corporation upon CPC 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 Corporation.

24 Commitments (Continued)

(c) OTHER COMMITMENTS (CONTINUED)

Details of the Framework Agreement are set out in the Company's circular to shareholders dated 22 October 2010.

On 29 July 2011, the Group completed the acquisition of CEC-HK pursuant to the Framework Agreement. At 31 December 2011, included in other payable was $48,172,000, being the unpaid portion of the acquisition cost in CEC-HK. Further, the Group has a remaining sum of approximately RMB79,082,000, being the unpaid portion of the aggregate consideration (including the advance payment), that shall be payable at completion after the Framework Agreement becoming unconditional.

25 Financial guarantee issued

At 31 December 2011, 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 2011, 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 $123,328,000 (2010: $96,350,000).

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 take 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 2011, the balance due from these PRC customers amounted to $520,482,000 (2010: $362,530,000). 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 bad and doubtful debts have been within management's expectations.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

26 Financial risk management and fair values (Continued)

(a) CREDIT RISK (CONTINUED)

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

	2011 %	2010 %
Due from the Group's largest customer	**26**	16
Due from the Group's five largest customers	**54**	43

Except for the financial guarantee given by the Group as set out in note 25, the Group does not provide any other guarantees which would expose the Group or the Company to credit risk. The maximum exposure to credit risk in respect of this financial guarantee at the balance sheet date is disclosed in note 25.

(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 Board 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 $1,001,530,000 (2010: $996,902,000) and $96,179,000 (2010: $115,798,000) 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 loans 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.

26 Financial risk management and fair values (Continued)

(c) INTEREST RATE RISK (CONTINUED)

(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 loans from an associate at the balance sheet date:

	The Group				The Company			
	2011		2010		2011		2010	
	Effective interest rate %	One year or less $'000	Effective interest rate %	One year or less $'000	Effective interest rate %	One year or less $'000	Effective interest rate %	One year or less $'000
Cash and bank deposits	0.06	257,023	0.06	327,026	0.16	41,029	0.16	90,523
Loans from an associate	2.03	(123,328)	0.67	(96,350)	-	-	-	-
Net cash		133,695		230,676		41,029		90,523

(ii) *Sensitivity analysis*

At 31 December 2011, it is estimated that interest rates will not decrease and a general increase of 50 basis points (2010: 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 $668,000 (2010: $1,384,000). Other components of consolidated equity would not be affected (2010: $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 loans 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 2010.

(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 balance sheet date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

26 Financial risk management and fair values (Continued)

(d) CURRENCY RISK (CONTINUED)

(ii) Exposure to currency risk (Continued)

The Group

	Exposure to foreign currencies (expressed in HKD) 2011			
	USD '000	**RMB '000**	**Euros '000**	**MOP '000**
Trade receivables, other receivables and deposits	**1,000,070**	**135,863**	**4,851**	**1,212**
Cash and bank deposits	**129,796**	**441**	**3,780**	**–**
Trade and other payables	**(662,462)**	**(163)**	**(20,597)**	**(778)**
Loans from an associate	**–**	**–**	**–**	**(123,328)**
	467,404	**136,141**	**(11,966)**	**(122,894)**

	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)
Loans from an associate	–	–	–	(96,350)
	422,535	93,047	(4,072)	(96,330)

The Company

	Exposure to foreign currencies (expressed in HKD)	
	2011 USD '000	2010 USD '000
Cash and bank deposits	**31,771**	74,329

26 Financial risk management and fair values (Continued)

(d) CURRENCY RISK (CONTINUED)

(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 (2010: $Nil) by the changes in the foreign exchange rates.

The Group

	2011		2010	
	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	**1%**	**1,138**	4%	3,721
Euros	**10%**	**(937)**	(3%)	61
MOP	**1%**	**(1,230)**	1%	(804)

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 2010.

(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 2011 and 2010.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

27 Acquisition of subsidiaries

(a) On 2 September 2010, the Group entered into the Framework Agreement with CITIC Group Corporation, CE-SCM, SASAC and CEC, pursuant to which the Group will acquire the entire equity interest of CEC-HK from CEC-HK Holding. The Group completed the acquisition of CEC-HK on 29 July 2011. CEC-HK is engaged in the provision of telecommunications leasing and technology services. Please refer to note 24(c) for the details of the acquisition.

(b) The Group has completed another acquisition during the year ended 31 December 2011. Since it is relatively immaterial to both the Group's financial position and results, details of this acquisition are not separately disclosed.

(c) The acquired companies contributed an aggregate revenue of $78,628,000 and aggregate net gain of $20,042,000 to the Group's profit for the period from the date of acquisition to 31 December 2011. 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 2011 to the Group were $175,116,000 and $13,150,000 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 amortisation that would have been charged assuming the fair value adjustments to intangible assets had been applied from 1 January 2011 together with the consequential tax effects.

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

	Acquiree's carrying amount before combination $'000	Fair value adjustments $'000	Fair value $'000
Property, plant and equipment (note 12)	3,826	–	3,826
Intangible assets (note 13)	–	53,100	53,100
Trade receivables, other receivables and deposits	27,668	–	27,668
Amount due from a fellow subsidiary	86,538	–	86,538
Cash and bank deposits	265	–	265
Trade and other payables (note (g))	(91,022)	–	(91,022)
Current tax payable (note 7(b))	(2,141)	–	(2,141)
Bank borrowings (note (f))	(30,000)	–	(30,000)
Deferred tax liabilities (note 18(a))	(380)	(8,762)	(9,142)
Net identifiable assets and liabilities	(5,246)	44,338	39,092
Goodwill on acquisition (note (e))			82,710
			121,802

27 Acquisition of subsidiaries (Continued)

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

	Acquiree's carrying amount before combination $'000	Fair value adjustments $'000	Fair value $'000
Satisfied by:			
Deposit for acquisition of subsidiaries (note 19)			65,931
Cash paid			7,699
Other payables (note 24(c))			48,172
			121,802
Cash and cash equivalents acquired			265
Cash consideration paid			(7,699)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			(7,434)

(e) 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.

(f) The Group has wholly repaid the bank borrowings during the year.

(g) Trade and other payables included a debt in amount of USD9,073,000 (approximately $70,769,000) owned by CEC-HK to a subsidiary of CITIC Group Corporation. The debt was wholly repaid by the Group during the year.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

28 Equity share-based transactions

(a) SHARE OPTION PLAN OF AN INTERMEDIATE HOLDING COMPANY

CITIC Pacific Share Incentive Plan 2000

CITIC Pacific Limited ("CITIC Pacific"), an intermediate holding company of the Company, adopted the CITIC Pacific Share Incentive Plan 2000 (the "Plan 2000") on 31 May 2000 under which the board of directors of CITIC Pacific may invite any director, executive or employee of CITIC Pacific or any of its subsidiaries to subscribe for options over CITIC Pacific's shares. The Plan 2000 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 2000:

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 and Fei Yiping, directors of the Company, had options subsisting as at 31 December 2011. 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 as at 31 December 2011. 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 2011 and 2010.

CITIC Pacific Share Incentive Plan 2011

As the Plan 2000 expired on 30 May 2010, CITIC Pacific adopted a new plan, the CITIC Pacific Share Incentive Plan 2011 (the "Plan 2011") on 12 May 2011, pursuant to which the board of directors of CITIC Pacific may at its discretion offer to grant share options to any eligible participant including any employee, executive director, non-executive director, independent non-executive director, consultant or representative of any member of CITIC Pacific Group.

No share options were granted under the Plan 2011 during the year ended 31 December 2011.

28 Equity share-based transactions (Continued)

(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 three lots of share options on 23 May 2007, 17 September 2009 and 19 August 2011 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.

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.

On 19 August 2011, options to subscribe for a total of 48,455,000 shares (the "Third 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 Third Lot is exercisable from 19 August 2012 to 18 August 2017 and the remaining 50% of the Third Lot is exercisable from 19 August 2013 to 18 August 2018. The exercise price is $1.54 per share. The closing price of the Company's ordinary shares on the date of grant of the Third Lot was $1.48 per share.

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)

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	Expiry date
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	Fully vested on 17 September 2011	Expire at the close of business on 16 September 2016
on 19 August 2011	$1.54	3,750,000	Vesting from 19 August 2012	Expire at the close of business on 18 August 2017
on 19 August 2011	$1.54	3,750,000	Vesting from 19 August 2013	Expire at the close of business on 18 August 2018
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	Fully vested on 17 September 2011	Expire at the close of business on 16 September 2016
on 19 August 2011	$1.54	20,477,500	Vesting from 19 August 2012	Expire at the close of business on 18 August 2017
on 19 August 2011	$1.54	20,477,500	Vesting from 19 August 2013	Expire at the close of business on 18 August 2018
Total number of share options		103,000,000		

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:

	2011 Weighted average exercise price	2011 Number of options	2010 Weighted average exercise price	2010 Number of options
Outstanding at the beginning of the year	$2.46	47,258,000	$2.44	50,575,000
Granted during the year	$1.54	48,455,000	–	–
Exercised during the year	$2.10	(791,000)	$2.10	(1,644,500)
Cancelled during the year	$1.54	(200,000)	–	–
Lapsed during the year	$2.49	(2,278,000)	$2.10	(1,672,500)
Outstanding at the end of the year	$1.98	92,444,000	$2.46	47,258,000
Exercisable at the end of the year	$2.47	44,189,000	$2.67	30,245,500

During the year ended 31 December 2011, options for 791,000 (2010: 1,644,500) shares were exercised, options for 200,000 (2010: Nil) shares have been cancelled and options for 2,278,000 (2010: 1,672,500) shares have lapsed. The value of vested options lapsed during the year ended 31 December 2011 was $1,014,000 (2010: $97,000) and was released directly to retained earnings.

The weighted average closing price at the date of exercise of share options exercised during the year was $2.69 (2010: $2.74). The options outstanding at 31 December 2011 had a weighted average exercise price of $1.98 (2010: $2.46) per share and a weighted average remaining contractual life of 4.05 (2010: 3.77) years.

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

(1) The average fair value of an option on one CITIC Telecom International share measured as at the date of grant of 19 August 2011 was $0.485 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 4.9 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 4.0%;

– Rate of eligible grantees leaving service assumed at 7% per annum;

– Early exercise assumption for option holders to exercise their options when the share price is at least 200% of the exercise price; and

– Risk-free interest rate of 0.66% per annum (based on linearly interpolated yields of the Hong Kong Exchange Fund Notes as at the grant date).

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)

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

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 2011 in respect of the grant of the aforesaid 48,455,000 options is $5,918,000 (2010: $Nil).

(2) 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 2011 in respect of the grant of the aforesaid 35,825,000 options is $4,927,000 (2010: $14,578,000).

(3) All the options forfeited before expiry of the CITIC Telecom International Plan will be treated as lapsed options which will 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 Immediate parent and ultimate controlling party

At 31 December 2011, 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 Corporation, which is a wholly state-owned company in the PRC, respectively. The ultimate controlling party produces financial statements available for public use.

31 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).

32 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2011

Up to the date of issue of the financial statements, the HKICPA has issued a number of amendments and five new standards which are not yet effective for the year ended 31 December 2011 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 10, *Consolidated financial statements*	1 January 2013
HKFRS 11, *Joint arrangements*	1 January 2013
HKFRS 12, *Disclosure of interests in other entities*	1 January 2013
HKAS 28, *Investments in associates and joint ventures*	1 January 2013

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.

GLOSSARY

CDMA	Code Division Multiple Access, a digital cellular technology developed in the United States of America which provides a way of multiplying a variety of signals onto a single communications channel
CDMA2000	Code Division Multiple Access 2000 is of the three third-generation (3G) cellular technology standards approved by International Telecommunication Union (ITU). CDMA2000 was registered by Telecommunications Industry Association (TIA-USA) in the United States of America and is widely used in countries such as America, Japan and Korea
GSM	Global System for Mobile Communications, a standard digital cellular phone service and used worldwide by mobile operators
ICT	Information and Communications Technology, an umbrella term that includes any communication device or application, encompassing: radio, television, cellular phones, computer and network hardware and software, satellite systems etc, as well as the various services and applications associated with them
IP	Internet Protocol, a data-oriented protocol used by source and destination hosts for communicating data across a packet-switched inter-network. The protocol is defined by IETF, Internet Engineering Task Force, an international standardisation organisation which is responsible to define standards for Internet
IPX	IP Packet Exchange, a network architecture connecting carriers and operators to provide a private interconnection that can support both bilateral and multilateral types of connections
MPLS	Multi Protocol Label Switching, a mechanism in high-performance telecommunications networks which directs and carries data from one network node to the next with labels
PRS	A pre-paid Mobile VAS which enables mobile customers to send or receive SMS and/or to receive calls or to call other countries using their mobile phones while overseas
SCCP	Signalling Connection Control Part of SS7 signalling protocol that provides connectionless and connection-oriented network services and global title translation (GTT) capabilities above MTP Level 3
SIMN	Single IMSI Multiple Number service, a Mobile VAS which allows mobile operators' subscribers to hold multiple overseas mobile phone numbers on their existing SIM cards, providing frequent travellers and mobile roamers the choice of saving roaming charges in SIMN-enabled regions
SMS	Short Message Service, a service available on most digital mobile phones that permits the sending of short messages between mobile phones, other handheld devices and even landline telephones
TD-SCDMA	Time Division Synchronous Code Division Multiple Access is one of the three third-generation (3G) cellular technology standards approved by International Telecommunication Union (ITU). TD-SCDMA was developed by Chinese Academy of Telecommunications Technology and Siemens and is mainly used in China
VoIP	Voice over Internet Protocol, the category of hardware and software that enables people to make telephone calls via the Internet or IP networks, including phone to phone, phone to PC, PC to phone but excluding PC to PC communications and private network traffic. Voice signals are converted to packets of data, which are transmitted on shared public lines, hence avoiding the tolls of the traditional Public Switched Telephone Network
VPN	Virtual Private Network, a network that uses a public telecommunication infrastructure, such as the Internet, to provide remote offices or individual users with secure access to their organisation's network
WCDMA	Wideband Code Division Multiple Access is one of the three third-generation (3G) cellular technology standards approved by International Telecommunication Union (ITU). WCDMA was developed by 3rd Generation Partnership Project (3GPP) and is widely used in European and Asian countries

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