



**Connecting the World
with Quality Services**

Annual Report 2012

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 type of business, namely Voice Services, SMS Services, Mobile VAS and Data Services. Its independent hub connects over 650 telecoms operators in 75 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.



Connecting the World
with Quality means
the Future

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Milestones 2012



FEBRUARY

- Set up partnership arrangements with leading industry players to leverage support in the web/mobile industry
- SMS Hub services covered all over Japan
- CITIC Telecom International CPC Limited ("CPC") won "Third Quarter Editors' Choice – The Best Cloud Infrastructure Service Provider" by SingTao Daily IT Square
- Awarded as "Top Service Base Partner" by a major telecom operator in Singapore
- Established a new direct connection with a Malawi's telecom operator



MARCH

- Launched USSD Menu services for a China mobile operator
- Won "Outstanding Global Telecom Service Provider" and "Outstanding Cloud Computing Service Provider" in the "12th CAPITAL Outstanding Enterprise Awards" by CAPITAL Magazine
- CPC has launched the first SmartCLOUD service centre in Taiwan



APRIL

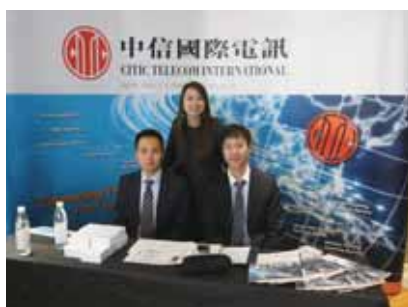
- CPC won "Platinum Brand Election 2012 – Best Cloud Solution" by PC3 magazine

MAY

- Established direct connection with a Mauritius's telecom operator

JUNE

- Launched a SIMN services in Macau for a Philippines service provider
- Awarded as "Best Product Innovations" by a telecom operator in China
- CPC won 3 awards:
 - * "The Distinguished Salesperson Award (DSA)" from Hong Kong Management Association for the ninth consecutive year
 - * CPC won "2011 Customer Relationship Excellence (CRE) Awards – CRM Manager of the Year 2011 (ICT)" from the Asia Pacific Customer Service Consortium, for the fifth consecutive year
 - * CPC won "Computerworld Hong Kong Awards 2012 – Managed Security Services" from Computerworld Hong Kong
- Established a new direct connection with a Papua New Guinea's telecom operator



JULY

- Launched its new retail product, HIPPI mVoIP application. The service is built on top of the company's global managed network (MPLS) and complement with existing prepaid calling card and IPX services
- CPC has launched the first SmartCLOUD service centre in Association of Southeast Asian Nations (ASEAN) in Singapore

Milestones 2012

AUGUST

- Launched WiFi services under "CITIC_TELECOM" with over 6,500 hotspots that fit in any mobile device
- Won "The Best New Telecommunications Applications" with communication application "HIPPI" and "The Best Cloud Computing Solution" with SmartCLOUD in IT Brand Awards 2012 by The Chamber of Hong Kong Computer Industry and Metroinfo FM99.7
- CPC also won Enterprise Asia's "Outstanding Entrepreneurship Award" at the "Asia Pacific Entrepreneurship Awards 2012"
- Awarded the rights to distribute prepaid mobile service by a leading mobile operator in Singapore



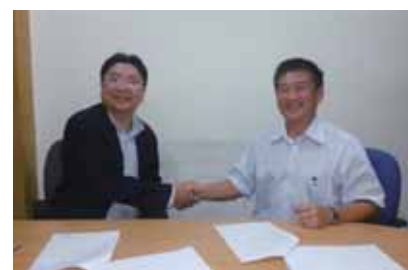
SEPTEMBER

- Launched its second mobile application solution to provincial subsidiary of a China operator
- CPC was honoured as the "2012 Frost & Sullivan Asia Pacific Best Practices Awards – Greater China Emerging IaaS Vendor of the Year" from Frost & Sullivan
- Infocom Development Authority of Singapore (IDA) approved license upgraded to support Mobile Virtual Network Operation in Singapore



OCTOBER

- Enhancement of PRS with Home Route features for an European mobile operator
- Expanded the enterprise retail business to Malaysia by acquiring an established company
- CPC won "2012 The Best SME Partners" for the sixth consecutive year, organised by Hong Kong Economic Digest, for "Cloud Computing Solutions" and "Managed Security Services"



NOVEMBER

- Launched its second IPX product, LTE Signaling Transit. The service enables international roaming between 4G LTE mobile networks and fallback to 3G mobile networks
- CPC won "2012 Networkworld Asia Reader's Choice Product Excellence Awards – Best Cloud Services Provider"
- CPC was selected as one of the "2012 MIS Asia Strategic 100 – Top 20 Regional Global ICT Companies 2012", organised by MIS Asia magazine, for the fourth consecutive year
- CPC signed an agreement with the Institute of Electrical and Electronics Engineers (IEEE) Hong Kong chapter, providing the Institution with various cloud infrastructure platforms as test beds for research and studies on different cloud computing standards which would pave way for future interoperability recommendation



DECEMBER

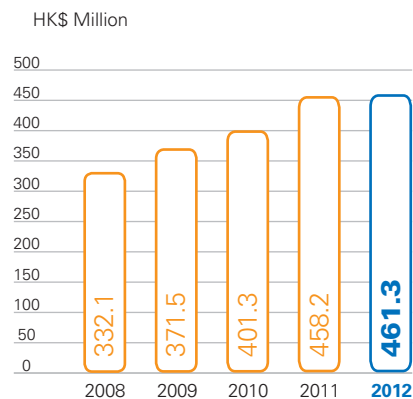
- CPC won "2012 SMBWorld Awards – Best Cloud Services" by SMBWorld



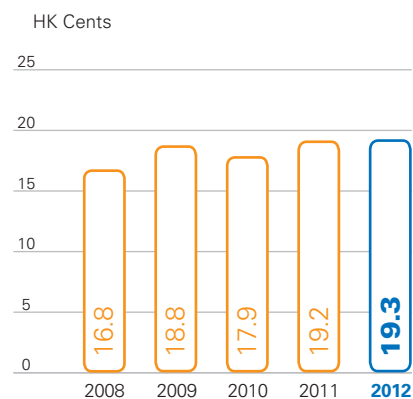
Financial Highlights

- Profit attributable to equity shareholders of the Company increased to HK\$461.3 million while turnover rose to HK\$3,609.8 million.
- Basic and diluted earnings per share for the year 2012 increased to HK19.3 cents and HK19.3 cents respectively.
- Voice traffic handled over 8.6 billion minutes.
- 1.8 billion SMS carried.
- Turnover from Mobile VAS increased by 15.0% to HK\$202.7 million.
- Turnover from Data Services increased by 29.7% to HK\$952.0 million.
- Dividends per share for the year 2012 was HK9.6 cents, representing a dividend payout ratio of 50%.

Profit attributable to equity shareholders of the Company

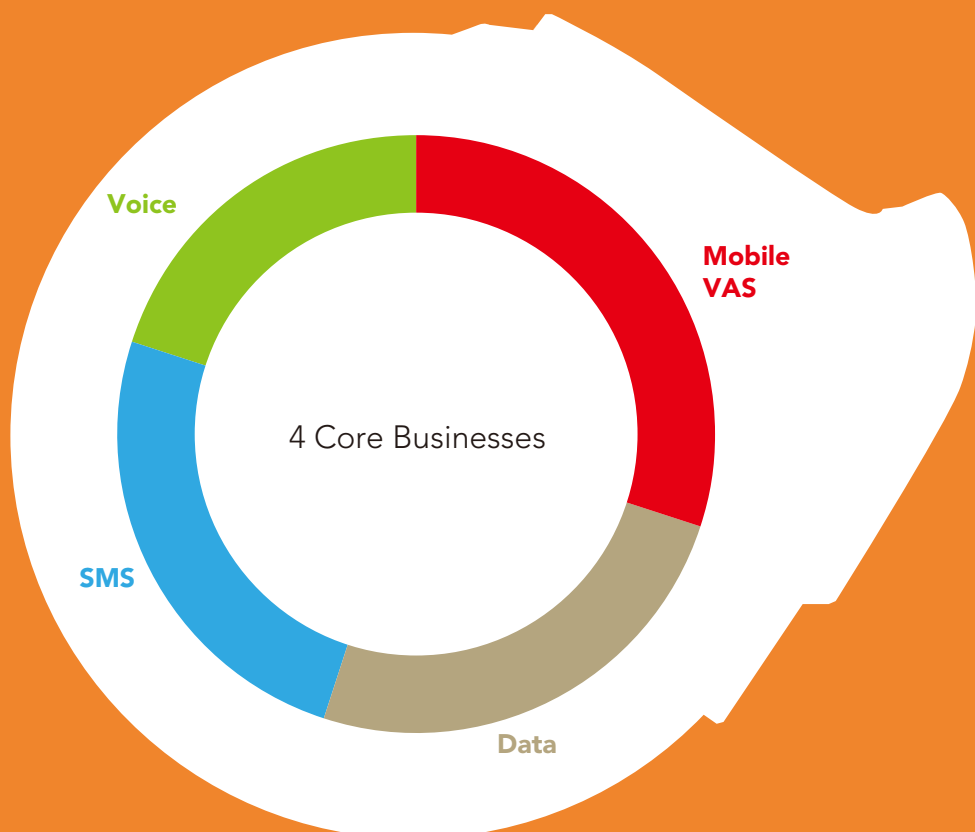


Basic earnings per share



in HK\$ Million	2012	2011	
Turnover			
Voice Services	2,079.6	1,939.1	Increase 7.2%
SMS Services	375.5	347.2	Increase 8.2%
Mobile VAS	202.7	176.3	Increase 15.0%
Data Services	952.0	734.2	Increase 29.7%
	3,609.8	3,196.8	Increase 12.9%
Profit attributable to equity shareholders of the Company	461.3	458.2	Increase 0.7%
Total assets	4,680.4	4,337.5	Increase 7.9%
Total equity	3,421.0	3,179.1	Increase 7.6%
Total equity attributable to equity shareholders of the Company	3,423.7	3,179.1	Increase 7.7%
Cash and bank deposits	354.8	257.0	Increase 38.1%
Bank loans	(100.0)	-	N/A
Net cash	254.8	257.0	Decrease 0.9%
in HK cents			
Earnings per share			
Basic	19.3	19.2	Increase 0.5%
Diluted	19.3	19.2	Increase 0.5%
Dividends per share			
Interim dividend	2.4	2.4	Same level as last year
Final dividend	7.2	7.2	Same level as last year
	9.6	9.6	Same level as last year

Quality Means





**Reliable
& Faster
Access**

Voice

- Providing premium international voice hubbing services to fixed line and mobile operators across the globe.
- Providing circuit switch voice service solution to cooperate customers under our regional POPs around the world.
- Handled over 8.6 billion minutes of voice traffic in 2012.
- Being the top 15 International Carriers, ranked by international minutes handled by CITIC Telecom International Holdings Limited in 2011, 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.
- Handled over 1.8 billion messages in 2012.
- 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").
- First VPN service provider in Hong Kong to receive three ISO certificates, namely, ISO 9001 – Quality Management System, ISO 27001 – Information Security Management System and ISO 20000 – Information Technology Service Management System.
- Provide fully managed VPN services access to different cities or countries in Asia Pacific, including China, Australia, Japan, Malaysia, Singapore, Vietnam etc.



Chairman's Statement



Chairman's Statement

I am pleased to present the annual results of CITIC Telecom International Holdings Limited (the "Group") for 2012.

During 2012, the adverse sentiment from the European debt crisis continued to affect the world economy, and the emerging economies around the globe registered only mild growth. As for the telecommunications market, competition remained intense with increasing new challenges. Facing such a complicated and fast-changing market, the Group has proactively taken measures to bolster its capability in addressing multiple challenges. Through allocating more internal resource to expand market coverage, the Group has strived to mitigate the negative effect of unfavourable market forces and has achieved stable growth in the overall business. Total revenue of the Group for 2012 amounted to HK\$3,609.8 million, an increase of 12.9% compared with the previous year. Profit attributable to equity shareholders of the Company grew 0.7% year-on-year to HK\$461.3 million. Basic earnings per share were HK19.3 cents, 0.5% higher than 2011.

The traditional voice business has continued to experience downward pressure. The Group has taken effective measures and managed to overcome the difficulties, resulting in an increase of 7.2% in revenue from the voice services over the previous year. While the total volume of China inbound and outbound voice traffic decreased, the gross profit of China outbound voice traffic has maintained stable growth. The Group has expanded its international voice business with international-to-international voice traffic recording a comparatively higher increase than last year. Revenue generated from the SMS business rose 8.2% over the previous year, while that of Mobile Value-added Services ("VAS") surged 15.0%.

Data businesses, including virtual private networks ("VPN") and Internet access services, rose by 29.7% over the previous year. The increase was partly contributed by the completion of the Group's acquisition of 49% of the issued capital of China Enterprise Communications Ltd. ("CEC-BJ") on 6 September 2012. Companhia de Telecomunicacoes de Macau, S.A.R.L. ("CTM") continued to record stable growth and profit contribution to the Group from CTM increased by 6.4% year-on-year.

The Group's strategy to maintain its market position in China and to expand its overseas markets enabled the Group to achieve an increase in total revenue. The Group's efforts to integrate the operation of CEC-BJ began to bear fruit. The Group also allocated more resources to integrate the Group's overseas business to achieve better operational efficiency. Ongoing staff training programmes were implemented to further enhance professional capabilities and operating efficiency. Strict control measures on expenses were maintained in order to improve the Group's cost efficiency. During the year, Phase I of the Data Centre at CITIC Telecom Tower was fully let and the construction of Phase II commenced. All of these initiatives further strengthened the Group's foundation and were in line with targets set by the Board.

Chairman's Statement

On 13 January 2013, the Group has signed sale and purchase agreements with the wholly owned subsidiaries of Cable & Wireless Communications Plc and Portugal Telecom, SGPS, S.A., PT Participações SGPS, S.A. and PT Comunicações, S.A. respectively to acquire their entire combined 79% interests in CTM. The acquisitions are to be completed upon the approval of our shareholders, the Macau Government and relevant PRC governmental and regulatory authorities. Increasing the stake in CTM should help to facilitate the Group's business diversification and long-term business development, and the Group should realise significant synergies through business integration. Through this acquisition, the Group is able to extend its quality telecom services to Macau's people and contribute to the development of the IT industry there.

The Board recommended a final dividend of HK7.2 cents per share for 2012. Together with the interim dividend of HK2.4 cents per share, the total dividend per share for 2012 amounted to HK9.6 cents, the same as for 2011. The dividend payout ratio for the year was 50%.

I. REVIEW OF 2012

FURTHER STRENGTHENED PARTNERSHIPS WITH TELECOM OPERATORS AND STRIVED TO ACHIEVE STABLE DEVELOPMENT OF ITS CHINA VOICE BUSINESS

In response to the mounting pressure on China traffic in the first half of 2012, the Group has further strengthened collaboration with operators and improved the quality of services. The Group has coordinated with overseas operators in managing their China inbound traffic, in order to maintain the market share of China inbound voice business. On the other hand, the Group has strived to stabilise the market selling price to stabilise the overall gross profit margin of its China voice business. The Group also has managed to lower the termination cost through sourcing less expensive overseas routing services. By implementing these measures, the Group has ensured a stable China voice business and retained its advantageous market position in China's voice traffic market.

STRONGER EFFORTS TO EXPAND OVERSEAS MARKETS BOOST REVENUE FROM INTERNATIONAL VOICE BUSINESS

During 2012, the Group has made considerable progress in increasing contributions from overseas markets through focusing on expanding its business in Europe, India, Middle East, Africa and South America. This was evidenced by a notable increase in international voice traffic and revenue. Besides, the Group continued to acquire more direct end-users in overseas retail markets, thereby securing primary voice traffic and complementing the wholesale business. CITIC Telecom has leveraged the Group's competitive edge in its wholesale voice business by launching Voice over Internet Protocol ("VoIP") products for smartphones under the brand "HIPPI", intensifying the development efforts in end-user markets outside the Greater China Region.

MAINTAINED STABLE GROWTH IN MOBILE VAS AND SMS BUSINESSES THROUGH ENHANCED MARKETING EFFORTS

The Group has achieved a breakthrough in its international-to-international mobile single IMSI multiple number ("SIMN") business. During the first half of the year, the Group secured an overseas operator to join the SIMN hubbing services solution provided by an operator in Macau. During the year, the Group has continued to promote its Mobile VAS products to other mobile operators by leveraging its extensive network connections and quality service. The increasing take-up of international roaming by mobile users has led to a continuous surge in the Group's Mobile VAS business, providing a good contribution to the Group's performance. To increase operating efficiency and to leverage multi-product capability, the Group reorganised its sales teams structure from a product focus to become geographically oriented. The restructure had enhanced each regional sales team to promote bundled services comprising Voice, SMS and Mobile VAS, thus boosting the Group's competitiveness of the Group's Mobile VAS and SMS businesses.

OPTIMISED PRODUCT RANGE OF DATA BUSINESSES SUCH AS VPN AND INTERNET ACCESS SERVICES AND DEVELOPMENT OF CLOUD COMPUTING CENTRES

The Group's wholly-owned subsidiary CITIC Telecom International CPC Limited ("CPC") has continuously offered new products to the market, thereby keeping pace with market needs and developments. In 2012, its cloud computing solution has been well received by the market and has optimised the product range of its data businesses such as VPN and Internet access services. A highlight of this new line is a back-up, replication and recovery service, the "SmartCLOUD BRR" service, which slashes back-up and recovery time. This function prevents any loss of customer information while backing up and also quickly recovers information. Another major product is the "SmartCLOUD VC" video conferencing service, a cloud technology-based regional video conferencing management solution. "SmartCLOUD VC" extends the meeting place from the conference room to various personal devices such as desktop computers, conferencing systems or notebook computers, tablets and smartphones. Users can arrange multi-point video conferencing with telepresence quality anytime, anywhere.

In March 2012, CPC opened its first Asia Pacific SmartCLOUD cloud computing services centre in Taiwan and was quickly followed by a second one in Singapore in June 2012. These two centres, together with four SmartCLOUD cloud computing services centres in China and Hong Kong opened since 2011, have optimised the development of our cloud computing business across the region. The new cloud computing offerings have complemented the Group's existing cloud computing products and have helped to enrich the variety of its cloud computing solutions. These offerings had reinforced the Group's competitiveness in the rapidly expanding market.

Chairman's Statement

ENHANCE DEVELOPMENT OF NEW PRODUCTS, LAYING A FIRM FOUNDATION FOR THE GROUP'S FUTURE DEVELOPMENT

The Group has responded to the market development and needs by exerting continuous efforts in developing of new products. One of our initiatives was the improvement and optimisation of functions of "HIPPI", a smartphone-based VoIP voice business product. The Group has been preparing for the latest 4G development and has completed installation of LTE/IPX equipment. The Group is now collaborating with several operators for joint testing. While reviewing the mobile certification technology, the Group has also held discussions on the application of mobile certification technology in areas such as mobile banking, internet banking and ATM services. The Group is actively evaluating potential technology solutions with financial institutions in Mainland China to be deployed in business cooperation.

IMPROVED OVERALL SERVICE STANDARDS THROUGH BETTER QUALITY MANAGEMENT OF ENGINEERING AND STRONGER BACK-OFFICE SUPPORT

The Group has continued to improve quality management of its services offering and enhanced back-office support capability. Quality supervision and management and routing quality management meetings were held on a regular basis to discuss quality management issues and suggest relevant solutions. In response to changing market requirements, the Group has continued to expand its network capacity, upgrade its network equipment, optimise its global IP network and strengthen the transmission capacity of its international network.

DATA CENTRE BUSINESS STRENGTHENED WITH COMPLETION OF DATA CENTRE PHASE II AND THE COMMENCEMENT OF CONSTRUCTION OF THE AP LEI CHAU DATA CENTRE

The Group started the construction of Phase II of the Data Centre in January 2012. Through comprehensive arrangement and meticulous planning, the Group has ensured the construction complies with quality standards and realised capital efficiency by completion within the budget.

The Group continued to evaluate the construction of new data centre on an all-round basis and has adhered to the principle of "spend less and do more". The Group has completed the planning and preparation of related documents of the Ap Lei Chau Data Centre and confirmed the initial layout design and technological standards. The Group expects the construction of the new Data Centre to be completed on schedule which will further strengthen the Group's competitiveness in the data centre business.

II. OUTLOOK FOR 2013

Global economic condition remains uncertain for 2013 which will definitely affect the telecommunications market. The operating environment for the Group's traditional business remains challenging. Management will continue to increase its effort to explore the emerging market and to launch new product offerings so as to strengthen its competitiveness and to improve room for growth. With the continued support from shareholders and dedication of the team, management is confident that the Group can overcome these challenges, as it has during the past few years.

The Group's strategy is to maintain the stable growth of its voice, SMS and Mobile VAS businesses, and to allocate more resource in order to develop the established data business in cloud computing VPN and Internet access services. The Group continues to proactively procure the smooth completion of the acquisition of 79% equity interest in CTM and maintain that enterprise's growth. The Group will leverage on each of its overseas subsidiaries to penetrate the local telecommunications market. To summarise, through enhancing operational efficiencies, and more effective control of costs, the Group is confident it can achieve stable profit growth in 2013.

FORTIFY PARTNERSHIPS WITH TELECOM OPERATORS AND MAINTAIN STABLE BUSINESS GROWTH

The Group will continue to deploy more resources to the development of new products. Through constant improvement of our quality of service, we will enhance our collaboration with the operators and strive to maintain stable business growth. CPC will also provide VPN and other telecommunications services to domestic SMEs engaged in overseas expansion in close alignment with China's economic development.

SECURE NEW CUSTOMERS, EXPAND MARKET COVERAGE AND BROADEN THE SCOPE OF BUSINESS COOPERATION WITH THIRD-WORLD NATIONS

Leveraging on its global marketing reach and telecommunications network, the Group will continue to conduct timely analysis on market changes and customer demands of emerging markets such as Africa, Central Asia, the Middle East and South America. The Group plans to engage business partners along these new frontiers through the formulation and execution of effective marketing initiatives.

The Group will continue to collaborate with China's telecommunications operators to identify new opportunities for cooperation within new market situations and geographies. The overseas operations experience of the Group place it in an advantageous position to proactively and effectively engage in mutually beneficial business ventures with Chinese operators in developing countries.

Chairman's Statement

ENHANCE MANAGEMENT AND COMPETITIVE ADVANTAGES OF OVERSEAS OFFICES IN THEIR LOCAL MARKETS

The Group will continue to deploy more resources to expand the operation of our overseas offices. Through bolstering the business capability of our overseas offices, the Group will aim to create new growth drivers through enhancing the management of overseas offices and boosting their competitive advantages within their respective markets.

STRENGTHEN DEVELOPMENT OF NEW BUSINESSES SUCH AS VoIP, CLOUD COMPUTING AND LTE, ENABLING FAST TIME-TO-MARKET FOR NEW PRODUCTS

We will continue to develop and deploy new technologies and applications to meet market demand and trends. In particular, we will enhance our efforts in the application of VoIP services, cloud computing services, mobile roaming certification payments services and LTE technology with the intention to launch new products in a timely manner. Emphasis would be on LTE technology applications so that we could provide customers with top quality next-generation LTE solutions.

CONSTRUCTION AND MARKETING OF DATA CENTRES TO ENHANCE THEIR BUSINESS DEVELOPMENT POTENTIAL

The construction of Phase II of the Data Centre located at CITIC Telecom Tower in Hong Kong is in progress and will commence service soon. Detailed planning is also underway for the construction of the data centre in Ap Lei Chau to ensure the quality of its implementation. The construction of the data centre in Ap Lei Chau would further strengthen the development of the Group's data centre business, and becomes a new growth driver in the Group's operation.

EXPEDITE THE COMPLETION OF THE ACQUISITION OF CTM

The acquisition of CTM is subject to approvals from shareholders at the shareholders' meeting, and authorities of the Macau Government and PRC Government. If the acquisition is completed, the Group will hold 99% equity interest in CTM. This is a major milestone in the development of the Group. After completion of the acquisition, the Group will continuously improve the network quality of CTM and enhance the ability of CTM to provide higher quality services to Macau residents. The Group will apply new technologies, explore new businesses and make new contributions to the development of the telecommunications industry in Macau.

To summarise, thanks to the dedication and hard work of our entire staff and the support from our shareholders and business partners, the Group has been able to maintain a stable performance for 2012. On behalf of the entire Group, I would like to express our sincere gratitude and appreciation to them for their efforts.

Xin Yue Jiang

Chairman

Hong Kong, 6 February 2013



**Quality
Means**

**Power On
for the
next High
Peak**

Business Review

In 2012, CITIC has placed greater focus on business development, aiming to foster closer ties with key customers and to broaden its customer base globally. As a result, we successfully expanded our clientele, which now includes customers from Latin American, Middle Eastern and African countries. Therefore, despite the fact that our China business continued to be under pressure, the growth of our international business has enabled the Group to achieve a healthy increase in voice and SMS businesses. Mobile value added service has recorded positive results as well, realising double-digit growth in revenue over 2011, and thus consolidating CITIC Telecom's position as the leading roaming service provider in the Asia Pacific.

The retail front also continued to perform well. Thanks to the tremendous efforts of our overseas offices, which, by delivering creative marketing and promotion campaigns, had reported strong business growth. Another highlight of 2012 has been the launch of "HIPPI", a mobile voice-over-IP ("mVoIP") application that offers high-quality voice services to subscribers whether they are at home or abroad. Underscoring the significance of this application, HIPPI was bestowed with the "The Best New Telecommunications Applications" from The Chamber of Hong Kong Computer Industry, in August 2012.

The data services business has continued to demonstrate robust growth, driven by our high-value SmartCLOUD solutions that have won the trust of customers. Going forward, we will leverage the emergence of cloud computing to further advance this business segment. Along with providing the necessary hardware, such as the CITIC Telecom Tower ("CTT") Data Centre and similar facilities to meet customers' needs, we will also continue to develop associated software, including SmartCLOUD solutions that address the growing requirements of both public and private sectors.

Business Review / Voice Services



VOICE SERVICES

The Group recorded revenue of HK\$2,079.6 million from voice services in 2012, a year-on-year increase of 7.2%. There was however a drop of 4.9% in total traffic volume, which was mainly due to our decision to focus on areas with high margin traffic.

Over the course of 2012, the China business continued to be under pressure. Despite facing challenging market conditions, our management team has remained fully focused on analysing every facet of the Group's operation. Consequently, plans aimed at improving quality and service standards, as well as better adapting to international market changes have been implemented. As well, we have further increased our marketing efforts and sought to better comprehend and address customers' needs, which has led to the bolstering of quality controls and development of more innovative products. Progress has also been made at standardising the management of engineering work, routing and billing.

CITIC Telecom has continued to work closely with the top three telecom operators in China, and we were able to leverage our position as its overseas operation to tap international business, as well as work with key business partners. We have also earned the "Best Partner" title once again from a PRC operator, having received the distinction for several years in succession.

Up to November 2012, China's outbound fixed line traffic and related IP traffic recorded a decrease of approximately 18.4% when compared to same period of last year, according to statistics published by the Ministry of Industry and Information Technology of the PRC. Despite the contraction in traditional voice volume, we have continued to generate a stable flow of revenue from this area of operation. In terms of China outbound and inbound traffic, the Group has handled 691 million minutes and 5,463 million minutes in 2012, or a drop of 15.4% when compared with 2011.



In respect of international voice traffic, total volume has increased to 2,502 million minutes, representing growth of 36.8%. This has been the result of expanding our customer base to different geographical locations, as well as establishing direct connections with Latin American, Middle Eastern and African countries during the year.

Despite challenges posed by over-the-top (“OTT”) players and fierce market competition, the CITIC Telecom International Retail business unit has achieved strong growth in 2012. Overall retail traffic and turnover has risen by 11.7% and 14.5% respectively when compared with 2011.

Calling card traffic has grown as well, up by 10.1% year-on-year. The launch of online marketing and promotion campaigns via social media has not only enabled us to realise a significant uptake in calling cards but open a new avenue from which to communicate with target customers, assess their buying behaviour and introduce new solutions that generate greater sales.

It is worth noting that in the past year, we have launched ‘HIPPI’, a mVoIP application that offers carrier-grade voice quality IDD service for users to make international calls when they are at home or abroad. HIPPI subsequently received “The Best New Telecommunications Applications” from The Chamber of Hong Kong Computer Industry in August 2012.

In Singapore, our business unit has expanded its customer base and provided communications services to over 800 enterprises. To allow for greater flexibility to customise mobile offerings for the enterprise market, the unit has successfully upgraded its license to include Mobile Virtual Network Operations (“MVNO”). Moreover, the Singapore unit has been bestowed ‘Top Service Base Partner’ title by a major Singapore telecom operator in recognition of the significant sales performance achieved.

Over in Taiwan, national long-distance tariffs came into effect in early 2012. The subsequent migration of high-value customers to VoIP services has led to an overall increase in revenue contributions.

Business Review / Short Message Services



SMS SERVICES

The SMS business recorded turnover growth of 8.2%, reaching HK\$375.5 million – up from HK\$347.2 million in 2011 – thus reaffirming our position as one of the international SMS services market leaders in the Asia Pacific.

During the year, we handled approximately 470 million China outbound SMS, which is a year-on-year increase of 1.5%. Though Inter-Operator SMS (“IOSMS”) traffic has experienced a decline due to the change in usage pattern among OTT players, we remain a dominant IOSMS service provider in Hong Kong. Total SMS handled by the Group reached 1,850 million, representing a contraction of 5.7%.

Outside of China, we have successfully assisted a major Japanese mobile operator to roll out its international SMS services to nearly 50 mobile network operators in Asia and Europe. We also established a strategic partnership with another large Japanese mobile operator involved in supporting a globally branded online shopping company

to launch its new mobile services in Japan. Also, we have expanded our business significantly with a large SMS provider in North America, establishing bilateral arrangements with 14 mobile network operators covering 10 countries.

We are progressing well with the Enterprise SMS business as well, having achieved stable growth over 2011 by delivering customised solutions to an increasing number of enterprises, including those in Japan. To consolidate our position as a major SMS provider in the region, we now facilitate authentication for several large-scale social networking applications in the Asia Pacific.

Negotiation concerning an Enterprise SMS project with a global social networking customer is nearing conclusion. We therefore anticipate the project will be secured, and will lead to promising revenue contributions to the Group in 2013.



MOBILE VAS

The Mobile value added service (“MVAS”) business has been able to sustain market growth as reflected by an increase in revenue of 15.0% over 2011.

SINGLE IMSI MULTIPLE NUMBERS (“SIMN”)

Revenue from SIMN continued to record good growth. The healthy increase has been driven by the delivery of expanded services, including an interprovincial SIMN service presented to a China operator’s subsidiary in Guangdong provinces, with total VAS provided by CITIC Telecom. The solution targets commercial and collegiate subscribers, which, in the case of the former, consist of frequent travellers from Guangdong to other provinces. Such individuals are now able to forward mobile services from their Guangdong provinces SIM cards to the

subscribed SIM cards of another province. As for targeting collegiate subscribers, which are college students from other provinces studying in Guangdong, the VAS solution forwards the mobile services from a SIM card issued by other provinces to a Guangdong SIM card.

We have also introduced an intra-province SIMN service delivered to a China operator’s subsidiary in Guangdong, with total VAS provided by CITIC Telecom. The service allows customers to apply for a maximum of three virtual secondary numbers, based on their primary SIM card subscription, or bundle existing SIM card subscriptions as secondary numbers. Customers can use different secondary numbers to communicate with different parties. Moreover, mobile applications have been developed for iOS and the Android platform as user interfaces.

Business Review / Mobile VAS

Yet a further service that we have introduced in 2012 is the Smart Pinoy Macau Card. Representing a joint venture with a major Philippines operator, the Macau retail SIM card allows for the use of Philippines phone numbers. This is a clear departure from the traditional wholesale SIMN model involving retail products and partnerships with overseas operators. As at the end of 2012, the service has already captured 30% of Macau's overseas Filipino worker ("OFW") market. We will consider offering similar services in other countries where there are also large groups of overseas workers.

PREPAID ROAMING SERVICE ("PRS")

The PRS segment has achieved a stable increase in revenue. This has been driven by a rise in number of subscribers, as well as greater geographical penetration. In respect of the latter, we now offer PRS to 16 countries/regions, specifically, Australia, China, Egypt, France, Hong Kong, Indonesia, Italy, Japan, Macau, Malaysia,

Philippines, Singapore, South Korea, Taiwan, Thailand and Vietnam. And we will seek to expand services to new markets in Europe, the Middle East and Africa in the near future.

ROAMING SIGNALLING SERVICE ("SCCP")

SCCP revenue continued to record satisfactory growth, due to the strong growth of roaming activities in the Asia Pacific. The burgeoning markets have spurred us to upgrade SCCP during the year to meet the upcoming roaming requirements of 4G LTE. This is consistent with our overall effort to maintain high-quality roaming signalling services, and also reflects our strengthening ties with mobile network operators, in turn, the result of expanding roaming destinations, which totalled 100 in 2012. Our business in America is developing healthily as well, growing by 101% from last year. We are able to leverage the extensive coverage of our global signaling network to help strategic partners in America provide quality roaming services to their customers.



DATA SERVICES

Revenue from data services has increased by 29.7% when compared with 2011. During 2012 we successfully engaged a tier one carrier to establish a point of presence (“POP”) for its internet platform at the CITIC Telecom Tower (“CTT”). It is worth noting that the initial floor available at our new CTT Data Centre has now achieved an occupancy rate of approximately 80%. The significant jump in rack occupancy in 2012 can be attributed to the patronage of a major customer from the financial sector. Overall, CTT has gained a good mix of customers, ranging from medium- to large-sized enterprises. A further floor at CTT has been completed and can be brought into service in 2013 to accommodate demand. Demand for data centres in Hong Kong remains strong, and despite efforts to increase supply, the market still lacks adequate number of such facilities, particularly on Hong Kong Island. In view of this, we will develop a new high-tier data centre on Hong Kong Island that will be targeted for completion by the end of 2013. Apart from providing high-quality facilities, we have also continued to enhance our product portfolio to meet the needs of enterprises. This has

included delivering applications that support customers’ business continuity, as well as enhancing our own internet platform.

In 2012, CITIC Telecom International CPC Limited (“CITIC Telecom CPC”) has continued to provide customers with high-value leading-edge technology solutions, including TrueCONNECT™, an advanced state-of-the-art fully meshed Multiprotocol Label Switching (“MPLS”) Virtual Private Network (“VPN”) service; TrustCSI™, an integrated suite of information security solutions; and SmartCLOUD, a diversified and highly effective cloud computing solution that complements a company’s managed VPN network and managed security solutions.

We have expanded the POP of TrueCONNECT™ and launched four additional SmartCLOUD solutions, as well as enhanced various existing services. The coverage of TrueCONNECT™ VPN has increased to over 50 POPs, and is now firmly established in the United States.

Business Review / Data Services

In respect of the four newly launched SmartCLOUD solutions, they are as follows:

- **SmartCLOUD BRR** provides a full range of managed backup, replication and recovery services with functionalities that include onsite, offsite and offline backup, along with physical and virtual replication variety for protecting corporate data and ensuring business continuity in all situations. Compared with traditional backup services, the innovative “reverse incremental” technology that is found in SmartCLOUD BBR significantly accelerates recovery time from hours to minutes, and provides highly granular recovery points that are down to an hour. With Global Server Load Balancing technology, customers can be assured of comprehensively capturing all business data without omissions, and rapid recovery to any time point.
- **SmartCLOUD Compute PA** is a service that, via the use of an online portal, enables SmartCLOUD Compute users to manage and monitor their cloud performance. Maximum visibility of resource utilisation down to Virtual Machine (“VM”) level can be achieved through its monitoring and reporting capabilities. Enterprises can receive real-time data of their service consumption level to achieve better resource planning for present and future needs.
- **SmartCLOUD TAB** represents a revolutionary new means of achieving equilibrium between application performance and efficiency. Through load balancing technology, the application performance has been highly enhanced. This can accelerate webpage loading speed by up to fourfold, increase server efficiency by up to threefold and boosts application server throughput by as much as 50%.
- **SmartCLOUD VC** serves as a regional cloud-based managed video conferencing solution – offering high-quality multimedia integration. Whether the user is at his/her desktop, in a conference room, or on the road with a laptop, smartphone or tablet, telepresence-quality multi-point video conferencing can be performed at anytime and anywhere. Participants can connect to the SmartCLOUD VC service while at the office via a secure VPN network such as TrueCONNECT™, or from an outside location using Internet/WiFi connectivity solutions.



The Group is confident about the market potential of Asia Pacific cloud computing. In March 2012, the first SmartCLOUD services centre was launched in Taiwan, while the first SmartCLOUD services centre in the Association of Southeast Asian Nations (“ASEAN”) was established in Singapore in mid-2012. Together with the four SmartCLOUD services centres in operation in Hong Kong and mainland China since 2011, the comprehensive cloud infrastructure that has been created will not only provide true disaster recovery service for regional-based enterprises, but also enable them to benefit from seamless, highly reliable and efficient cloud computing services across the region.

Looking ahead, cloud computing will not only be adopted by business enterprises but also by governments and academia, and this trend will rapidly drive the growth of our industry. The Group will seek to contribute to the development and advancement of the ICT industry around the world. As one of the leading cloud computing service provider, we have been collaborating with the Institute of Electrical and Electronics Engineers (“IEEE”) Hong Kong Section, sponsoring their Cloud and Testbed project since November 2012, providing various cloud computing platforms for their operation, as well as for research, development and education purposes. CITIC Telecom CPC is indeed committed to the long-term development of cloud computing.

While seeking to constantly advance the Group, the Group remains fully aware that service excellence is essential for fulfilling this objective. CITIC Telecom CPC is the first VPN service provider in Hong Kong to receive three ISO certificates (ISO 9001 – Quality Management System, ISO 27001 – Information Security Management System and ISO 20000 – Information Technology Service Management System). The Group will continue to further develop and deliver reliable and secure services to serve our customers.

Financial Review

INTRODUCTION

This Financial Review is designed to assist readers in understanding the Group's financial information through a discussion of the business performance and financial position of the Group as a whole.

Pages 70 to 76 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 this financial information, on pages 77 to 141 of the Annual Report, are notes that further explain certain figures presented in the report.

On page 69 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 has prepared its consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.

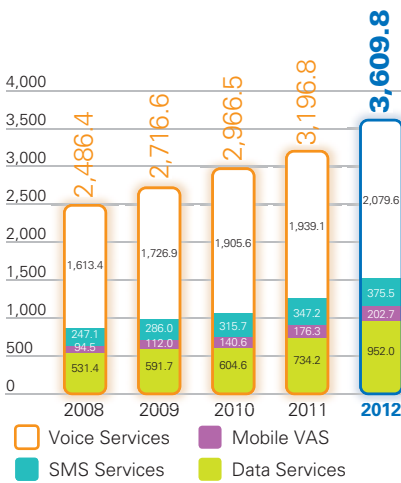
REVIEW OF FINANCIAL PERFORMANCE

Turnover

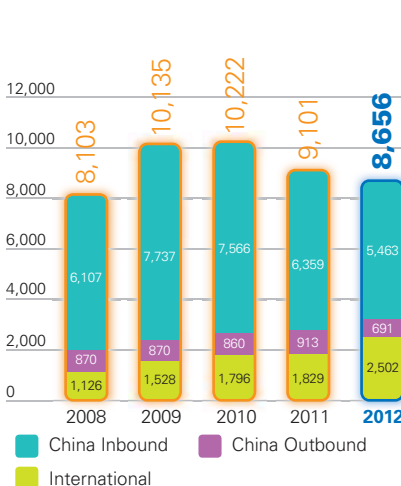
The Group's turnover increased by 12.9% to HK\$3,609.8 million for the year ended 31 December 2012, up from HK\$3,196.8 million in 2011.

Voice Services turnover has grown by HK\$140.5 million, or a year-on-year increase of 7.2% to HK\$2,079.6 million. The Group has handled 8.66 billion minutes in total traffic in 2012, a 4.9% reduction when compared with last year. Total China inbound and outbound traffic for the year has dropped 15.4% but was partially offset by the growth of international traffic, which has increased by 36.8% when compared to 2011. The increase in international traffic was due to the Group's ability to cover new destinations. As a result of the change in service mix, overall revenue per minute has increased by 12.8% year-on-year.

Turnover
HK\$ Million



Traffic (By location)
Minutes in Million



Financial Review

SMS Services sustained stable growth during 2012, with turnover rising by HK\$28.3 million to HK\$375.5 million, or up 8.2% when compared with 2011. Though the number of messages handled by the Group has dropped by 5.7% to 1,849.7 million messages compared to 2011, average revenue per SMS has actually increased by 14.7% due to the change in sales mix. In addition, international SMS has continued to maintain stable growth. However, owing to the rising popularity of social networking applications, the number of Hong Kong domestic SMS messages has dropped by 23.4% during the year. The increase in international traffic was partly offset by the decrease in local domestic SMS messaging. During the year, total China inbound and outbound traffic rose by 5.3% as the Group was able to secure additional China traffic by expanding its international network and enhancing management capabilities. The Group's international traffic has also grown by 4.5% over the past year as it further advanced its leading market position – through the provision of higher quality services and the adoption of an effective pricing strategy.

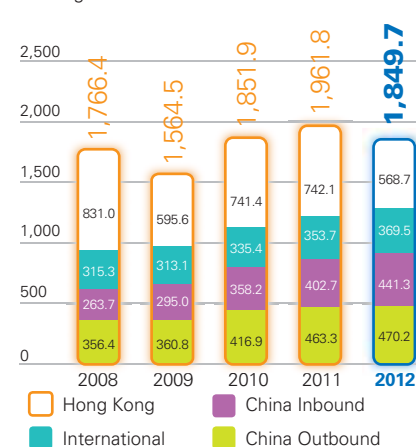
Mobile Value-added Services (“VAS”) registered steady growth in 2012 with turnover rising by 15.0% year-on-year to HK\$202.7 million. The growth can be attributed to the Group's strategy to customise existing products to address changing market needs and by providing bundled services that have been well received by operators in China.

In respect of Data Services, which consist of managed VPN services, cloud computing services and data centre services, among others, notable business upswing has been achieved during the past year. Owing to the rise in demand for VPN services coupled with the launch of the Group's cloud services, as well as the first time inclusion of revenue from China Enterprise Communications Ltd. (“CEC-BJ”), turnover from Data Services increased by 29.7% to HK\$952.0 million compared to HK\$734.2 million in 2011.

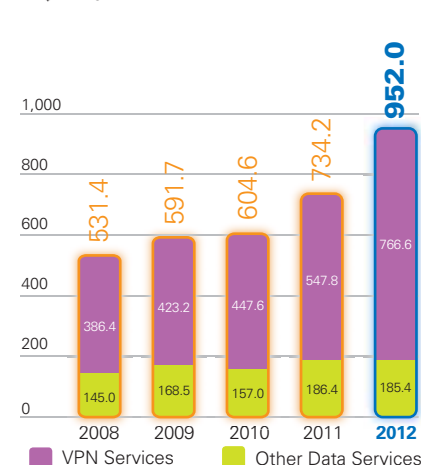
Net Foreign Exchange (Loss)/Gain

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

Number of SMS
Messages in Million



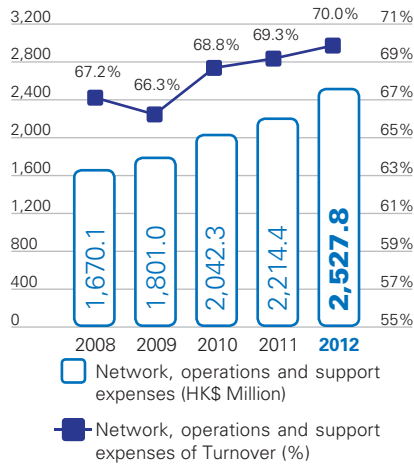
Data services turnover
HK\$ Million



Financial Review

Network, operations and support expenses

HK\$ Million



Network, Operations and Support Expenses

Network, operations and support expenses amounted to HK\$2,527.8 million in 2012, an increase of 14.2% as compared with 2011. Owing to the first time inclusion of CEC-BJ which had a comparatively lower gross profit margin, the percentage increase in network, operations and support expenses was higher than turnover. Similar to 2011, network, operations and support expenses as a percentage of turnover was approximately 70.0%.

Staff Costs

Staff costs for the year ended 31 December 2012 amounted to HK\$353.0 million, an increase of 17.6% compared with HK\$300.2 million for 2011. The increase was mainly due to the first time inclusion of CEC-BJ, the first time full year impact of China Enterprise Netcom Corporation Limited and a larger headcount to facilitate the Group's continuous business expansion.

Depreciation and Amortisation

With the commissioning of a new data centre and network system upgrade, and additional intangible assets recognised following the acquisition of CEC-BJ in 2012, depreciation and amortisation expenses increased by HK\$27.2 million to HK\$154.3 million for the year ended 31 December 2012.

Other Operating Expenses

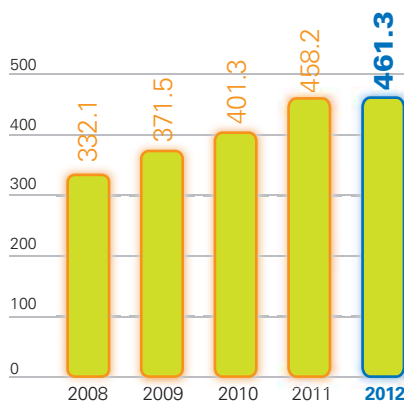
Other operating expenses for the year ended 31 December 2012 amounted to HK\$220.0 million, representing a year-on-year increase of 21.3%. The increase was mainly due to the inclusion of CEC-BJ's operating expenses subsequent to its acquisition, higher utilities charges incurred by the new data centre, and an increase in repairs and maintenance expenses during the year, which were consistent with the Group's operational growth.

Share of Profit of an Associate

The Group's 20% share of profit of the associate, Companhia de Telecomunicacoes de Macau, S.A.R.L. ("CTM") amounted to HK\$158.3 million for the year ended 31 December 2012, representing a 6.4% increase over 2011. The rise was mainly due to the increase in mobile revenue recorded by CTM during the year.

Profit attributable to equity shareholders of the Company

HK\$ Million



Income Tax

The Group's income tax expense for the year ended 31 December 2012 amounted to HK\$40.2 million. If the profit contribution from CTM was excluded, the effective tax rate for 2012 and 2011 would be 11.6% and 17.4% respectively. The decrease in the effective tax rate was due to the recognition of deferred tax assets during 2012 in respect of prior years' unrecognised tax losses incurred by certain subsidiaries during 2012.

Profit Attributable to Equity Shareholders of the Company

The Group recorded a profit attributable to the Company's equity shareholders of HK\$461.3 million for the year ended 31 December 2012, an increase of 0.7% when compared with 2011. The change was the result of business growth and an increase in the share of an associate's profits, but was partly offset by the rise in depreciation and amortisation expenses and other operating expenses as mentioned above.

Financial Review

Earnings Per Share ("EPS")

Basic EPS and diluted EPS were HK19.3 cents and HK19.3 cents respectively for the year ended 31 December 2012, representing a modest increase of 0.5% and 0.5% respectively as compared with last year.

Dividends Per Share

A final dividend of HK7.2 cents per share has been proposed for 2012. Total dividends per share will therefore amount to HK9.6 cents for the year.

Capital Expenditure

Capital expenditure of HK\$173.1 million was recorded for the year, representing a decrease of 7.2% as compared to 2011. As the new data centre in 2011 has proven to be highly popular with customers, the Group has sought to expand its data centre at CITIC Telecom Tower. Consequently, fitting-out costs of HK\$43.3 million were incurred during the year.

Excluding the capital expenditure on the data centre, the capital expenditure for the year amounted to HK\$129.8 million, a year-on-year decline of 11.0%. The decrease in capital expenditure was in line with the comparatively slower pace of business growth.

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. Financing and cash management activities are centralised to maintain a high degree of financial control and strengthen the Group's risk management.

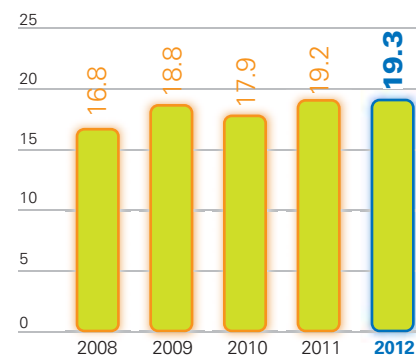
Exchange Rate Risk

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

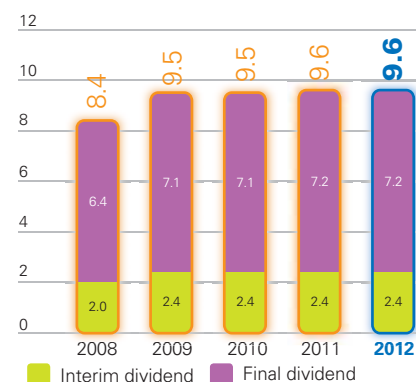
Credit Risk

Credit evaluations are performed on all customers with a credit level exceeding a certain amount. Trade receivables are due within 7 to 180 days from the date of billing. The Group also assigns an officer who is responsible for devising a settlement plan with those debtors who have balances due over one year so as to reduce the outstanding balances within a reasonable period of time.

Basic earnings per share
HK Cents



Dividends per share
HK Cents



■ Interim dividend ■ Final dividend

Financial Review

The Group has certain concentration risk in respect of trade receivables due from its five largest customers who account for approximately 57% and 54% of the Group's total trade receivables at 31 December 2012 and 2011 respectively. Credit risk exposure to trade receivables balance has been and will continue to be monitored by the Group on an ongoing basis. Impairment loss on doubtful debts remains 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.

At 31 December 2012, the Group's cash and cash equivalents was at HK\$351.0 million (31 December 2011: HK\$253.3 million).

The Group had net operating cash inflow plus dividend received from an associate totalling HK\$471.9 million for the year ended 31 December 2012, a decrease of HK\$35.2 million when compared with 2011. The decrease was mainly due to timing differences in the settlement of trade receivables by certain customers in December 2012.

The Group raised loans of HK\$100.0 million to complete its acquisition of CEC-BJ upon obtaining approval from the PRC government. In addition, the Group received HK\$180.7 million in dividend from an associate and the Group paid dividends of HK\$229.1 million for return of profit to its shareholders during the year ended 31 December 2012. The loan from its associate in 2011, which amounted to HK\$124.1 million, was fully settled during the year. At 31 December 2012, the loan due to its associate amounted to HK\$161.9 million.

At 31 December 2012 and 2011, the Group had a net cash balance of HK\$254.8 million and HK\$257.0 million respectively.

Currency Portfolio

The original denomination of the Group's cash and bank deposits by currencies at 31 December 2012 is summarised as follows:

HK\$ Million Equivalent	Denomination			Total
	HKD	USD	Others	
Cash and Bank Deposits	151.8	148.4	54.6	354.8
Percentage of Total Amount	42.8%	41.8%	15.4%	100.0%

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

Banking Facilities and Borrowings

At 31 December 2012, the Group had available banking facilities of approximately HK\$337.0 million. A total of HK\$100.0 million was drawn as uncommitted revolving loans that were unsecured and bore interest at prevailing market rates. Approximately HK\$13.0 million was utilised as guarantees for the Group's procurement of services from telecoms operators, performance to customers and rental deposits. Around HK\$7.0 million of these facilities were required to be secured by pledged deposits.

Securities and Guarantees

At 31 December 2012, the Group pledged approximately HK\$3.8 million of bank deposits to secure its banking facilities. The Group had not created any other security over its assets nor had it provided any corporate guarantee to third parties.

Contingent Liabilities

At 31 December 2012, the Group did not have any contingent liability.

Capital Commitments

At 31 December 2012, the Group had outstanding capital commitments (excluding investment in subsidiary) of HK\$56.4 million, mainly for the acquisition of telecommunications equipment which had yet to be delivered to the Group, and fitting out costs associated with the new data centre in Ap Lei Chau, Hong Kong. Of these commitments, HK\$21.0 million were outstanding contractual capital commitments and HK\$35.4 million were capital commitments authorised but for which contracts had yet to be entered into.

At 31 December 2012, the Group has no significant capital commitment in investment in subsidiary.

Acquisition of Subsidiaries

In line with the Group's strategy to strengthen its market position and to extend its international market out-reach, it has completed the acquisition of CEC-BJ on 6 September 2012 for a consideration of RMB17.1 million (approximately HK\$20.8 million). CEC-BJ is engaged in the provision of value-added telecommunications services in China.

On 13 January 2013, the Company entered into two sale and purchase agreements with Sable Holding Limited (a wholly-owned subsidiary of Cable & Wireless Communications Plc) and Portugal Telecom, SGPS, S.A., PT Participações SGPS, S.A. and PT Comunicações, S.A. respectively to acquire their entire interests in CTM (being a total of 79% interest), for a total cash consideration of USD1,161.3 million (approximately HK\$9,058.1 million), subject to adjustments as set out in the relevant sale and purchase agreements (together referred to as the "Acquisitions"). Upon completion of the Acquisitions, the Company will hold a 99% interest in CTM, which will then become a subsidiary of the Company. The completion of the Acquisitions will be subject to the terms and conditions as set out in the relevant sale and purchase agreements. Please refer to page 28 to 29 for the historical financial information on CTM.

Financial Review

FINANCIAL INFORMATION ON COMPANHIA DE TELECOMUNICACOES DE MACAU, S.A.R.L.

Extracts of Financial Statements of CTM

The financial information denominated in MOP set out below is extracted from the audited consolidated financial statements of CTM, which were prepared in accordance with International Financial Reporting Standards, for the years ended 31 December 2010, 31 December 2011 and 31 December 2012. The auditor of CTM has expressed an unqualified opinion on the consolidated financial statements of CTM for each of the three years presented. For presentation purposes, the conversion of MOP into HKD for the financial information is based on the exchange rate of MOP1 to HK\$0.9635.

Companhia de Telecomunicacoes de Macau, S.A.R.L.

Consolidated Income Statements

	Year ended 31 December			Year ended 31 December		
	2012 MOP'000	2011 MOP'000	2010 MOP'000 (Note)	2012 HK\$'000	2011 HK\$'000	2010 HK\$'000 (Note)
Turnover	4,922,192	3,981,932	2,760,153	4,742,532	3,836,591	2,659,407
Other net income	481	375	363	463	361	350
Operating costs and expenses	(3,833,607)	(2,930,782)	(1,836,387)	(3,693,680)	(2,823,808)	(1,769,359)
Profit from operations	1,089,066	1,051,525	924,129	1,049,315	1,013,144	890,398
Interest income	12,035	5,850	1,436	11,596	5,637	1,384
Profit before taxation	1,101,101	1,057,375	925,565	1,060,911	1,018,781	891,782
Income tax	(131,838)	(125,148)	(112,087)	(127,026)	(120,580)	(107,996)
Profit for the year	969,263	932,227	813,478	933,885	898,201	783,786

Financial Review

Companhia de Telecomunicacoes de Macau, S.A.R.L.

Consolidated Statements of Financial Position

	31 December			31 December		
	2012 MOP'000	2011 MOP'000	2010 MOP'000 (Note)	2012 HK\$'000	2011 HK\$'000	2010 HK\$'000 (Note)
Non-current assets						
Property, plant and equipment	896,286	827,187	806,689	863,572	796,995	777,245
Intangible assets	6,275	6,872	3,148	6,046	6,621	3,033
Other non-current assets	750	750	750	723	723	723
Deferred tax assets	10,790	10,321	4,262	10,395	9,944	4,106
	914,101	845,130	814,849	880,736	814,283	785,107
Current assets						
Inventories	124,505	128,745	102,463	119,961	124,046	98,723
Trade and other receivables	399,476	390,336	350,431	384,895	376,089	337,640
Loans to related parties	831,600	633,600	495,000	801,247	610,474	476,933
Cash and cash equivalents	561,574	738,678	627,342	541,076	711,715	604,444
	1,917,155	1,891,359	1,575,236	1,847,179	1,822,324	1,517,740
Current liabilities						
Trade and other payables	831,090	776,258	566,236	800,755	747,925	545,568
Current taxation	135,403	130,546	116,807	130,461	125,780	112,544
	966,493	906,804	683,043	931,216	873,705	658,112
Net current assets	950,662	984,555	892,193	915,963	948,619	859,628
Non-current liabilities						
Net defined benefit retirement obligations	84,761	80,847	30,352	81,667	77,897	29,244
NET ASSETS	1,780,002	1,748,838	1,676,690	1,715,032	1,685,005	1,615,491
Capital and reserves						
Share capital	150,000	150,000	150,000	144,525	144,525	144,525
Reserves	1,630,002	1,598,838	1,526,690	1,570,507	1,540,480	1,470,966
TOTAL EQUITY	1,780,002	1,748,838	1,676,690	1,715,032	1,685,005	1,615,491

Note: The financial information represented the operating results of CTM for the year ended 31 December 2010 while the Group acquired a 20% equity interest in CTM from its intermediate holding company, CITIC Pacific Limited on 5 May 2010 and equity accounted for the associate thereafter.

FORWARD LOOKING STATEMENTS

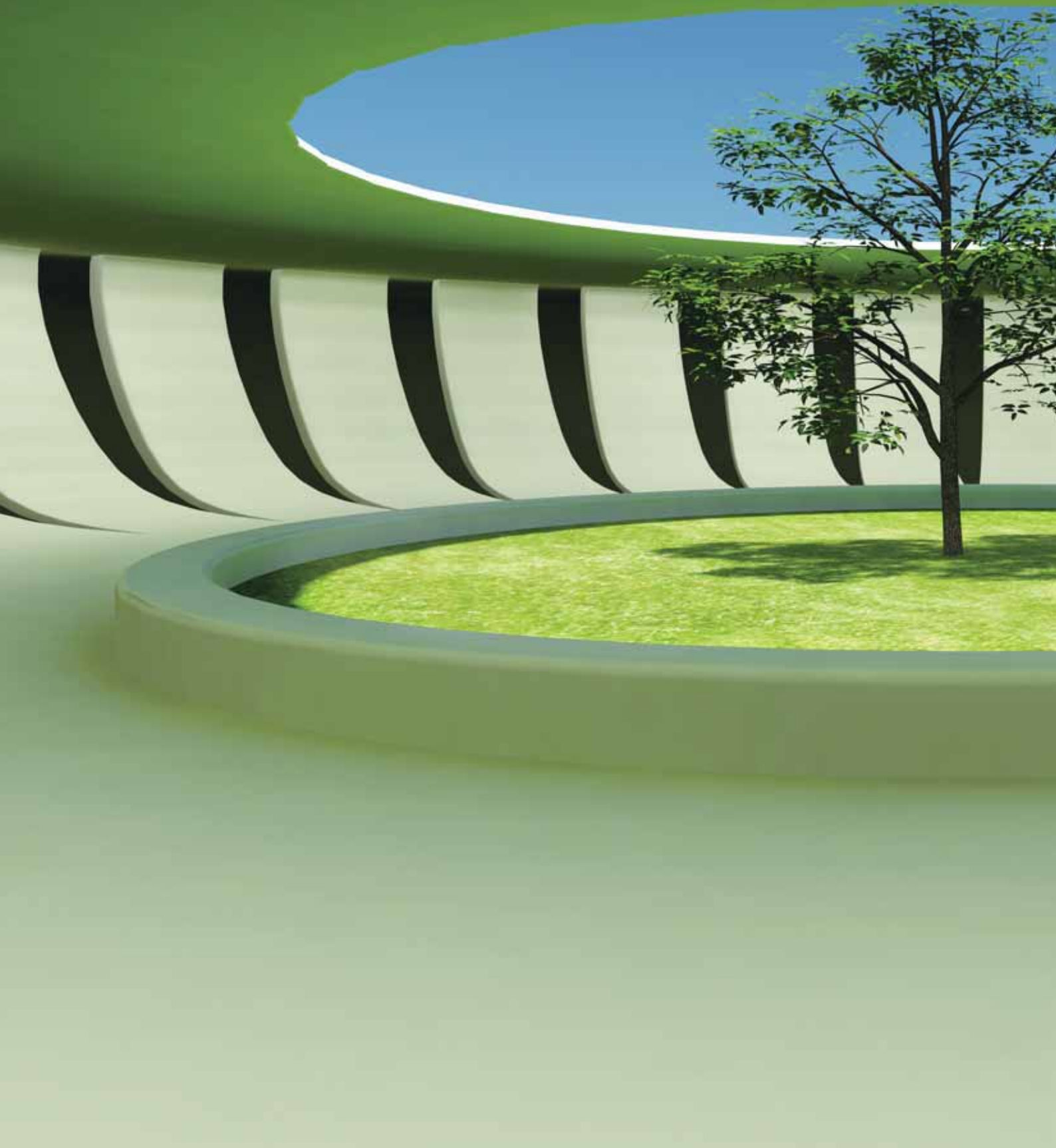
This Annual Report contains certain forward looking statements with respect to the financial condition, results of operations and business of the Group. These forward looking statements represent the Company's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty 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				
	2008 HK\$'000	2009 HK\$'000	2010 HK\$'000	2011 HK\$'000	2012 HK\$'000
Assets and liabilities					
Property, plant and equipment	363,105	541,691	595,350	668,521	742,376
Intangible assets	34,849	55,232	48,362	89,888	105,825
Goodwill	214,269	277,419	281,465	363,549	402,456
Interest in an associate	5,163	–	1,489,382	1,472,414	1,449,938
Interest in a jointly controlled entity	–	–	–	43,176	45,950
Non-current other receivables and deposits	29,716	21,481	171,370	109,347	174,352
Deferred tax assets	29,907	14,284	22,172	19,902	37,451
Net current assets	876,901	845,122	476,722	569,159	615,725
Non-current other payables	–	–	(102,582)	(95,192)	(87,808)
Deferred tax liabilities	(36,200)	(38,289)	(38,424)	(61,638)	(65,241)
NET ASSETS	1,517,710	1,716,940	2,943,817	3,179,126	3,421,024
Capital and reserves					
Share capital	197,773	197,773	238,520	238,599	238,668
Reserves	1,319,937	1,519,167	2,705,297	2,940,527	3,194,035
Total equity attributable to equity shareholders of the Company	1,517,710	1,716,940	2,943,817	3,179,126	3,432,703
Non-controlling interests	–	–	–	–	(11,679)
TOTAL EQUITY	1,517,710	1,716,940	2,943,817	3,179,126	3,421,024
For the year ended 31 December					
	2008 HK\$'000	2009 HK\$'000	2010 HK\$'000	2011 HK\$'000	2012 HK\$'000
Results					
Turnover	2,486,362	2,716,559	2,966,469	3,196,753	3,609,810
Profit before taxation	397,875	446,959	445,757	523,683	505,221
Income tax	(65,747)	(75,432)	(44,469)	(65,437)	(40,232)
Profit for the year	332,128	371,527	401,288	458,246	464,989
Attributable to:					
Equity shareholders of the Company	332,128	371,527	401,288	458,246	461,283
Non-controlling interests	–	–	–	–	3,706
Profit for the year	332,128	371,527	401,288	458,246	464,989
Basic earnings per share (HK cents)	16.8	18.8	17.9	19.2	19.3
Diluted earnings per share (HK cents)	16.8	18.8	17.8	19.2	19.3
Dividends per share					
Interim dividend (HK cents)	2.0	2.4	2.4	2.4	2.4
Final dividend (HK cents)	6.4	7.1	7.1	7.2	7.2
	8.4	9.5	9.5	9.6	9.6

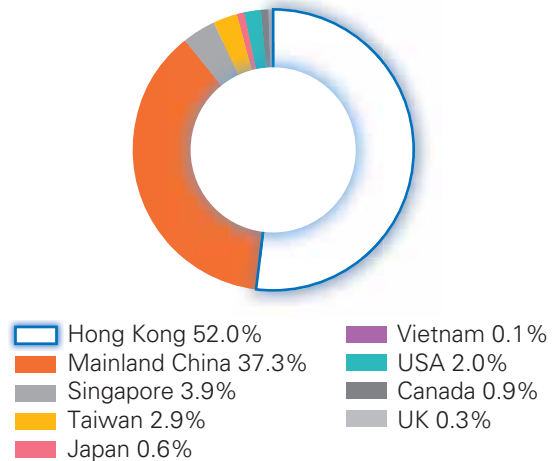
Corporate Social Responsibility



Corporate Social Responsibility



Employee numbers by region:



As a well-established Asia’s communications hub in Hong Kong and telecommunications expert specialised in connecting the world, CITIC Telecom International Group has a strong sense of commitment in fulfilling corporate social responsibility (“CSR”) and ensuring that it is part of our core corporate value in our daily operation. It is our belief that a responsible business creates a win-win situation for the Group, its shareholders, customers, employees, business partners, and the community. Therefore, CSR has always been an integral part of the Group’s corporate business strategy and philosophy that drives the Group’s continued growth. Our CSR is based on “People and Community”, which are represented by the following:

- (I) Fairness and Integrity
- (II) Concertedly Building the “CITIC Team”
- (III) Caring for the Community

- (IV) Support for the Community
- (V) Training and Development
- (VI) Caring for the Environment

FAIRNESS AND INTEGRITY

Equal Opportunity

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. Discrimination is prohibited in the daily operation. Our people hiring is based on the fundamental principle of “employment is based on talents”. Our recruitment process and opportunities for career development are not limited by gender, age, nationality, region, sexual orientation or disability.

Business Ethics

The Group 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 and Conflict of Interest Policy.

The Code of Conduct, Conflict of Interest and Equal Opportunities Policy are structured as a series of policy guidelines on different ethical issues, including bribery, accepting gift, conflicts of interest and equal opportunities. These policy guidelines articulate our commitment to acting in accordance with these values, setting out the standards of behaviour and ethics we expect at all time from each and every staff member.

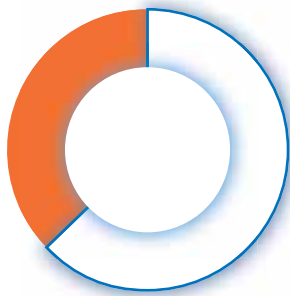
CONCERTEDLY BUILDING THE “CITIC TEAM”

People

As at the end of December 2012, the Group employed a total of 900 employees (2011: 554) for its

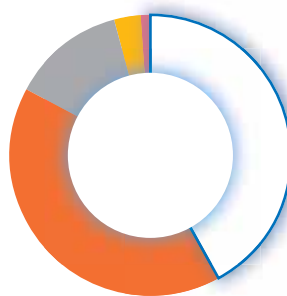
Corporate Social Responsibility

Employee numbers by gender:



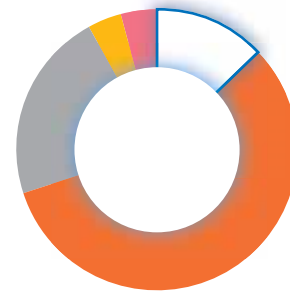
Male 63%
Female 37%

Employee numbers by age:



30 or below 42%
31-40 41%
41-50 13%
51-59 3%
60 or above 1%

Employee numbers by educational background:



Postgraduate 13%
Graduate 57%
Professional 22%
Diploma 4%
Matriculate or below 4%

headquarter in Hong Kong and its principal subsidiaries. Employees overseas and in mainland China totalled 432. The increase in number of employees was mainly due to acquisition projects completed during the year. The diverse workforce offers us the opportunity to learn from one another and to connect with wide range of customers.

Healthy, Safe Working Environment and Comprehensive Benefits

The Group strives to ensure that our staff enjoy a healthy, safe and positive environment in which to work and interact with others. The comprehensive medical benefits, dental benefits, various leave entitlement, shuttle bus services, staff lunch, gifts celebrating the birth of employees' children and discount purchase will be provided to staff members of Hong Kong headquarter. For the members overseas and in mainland China, we will provide the benefits according to the local rules and market requirements.

Work-Life Balance

The Group concerns about the mental health of our staff and we put the objective of the balance of work and daily life into practice so that positive sentiments and motivation could be formed to strengthen their capability to handle difficulties and emotional problems.

The Group supports and organises various kinds of outdoor sports activities and ball games competitions to facilitate interaction and communication among staff to enhance team spirit and physical fitness of our staff, through which staff are provided with opportunities to participate and establish team spirit.

The Group has also built the indoor sports centre and multi-functional recreation centre in our headquarter to allow our staff to enjoy all kinds of leisure and sports activities regardless of the weather conditions.

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.

Corporate Social Responsibility



Two-way Communication

The Group recognises that the best way to encourage the work commitment and enthusiasm is to engage wholeheartedly with our staff, communicating openly with them and providing them with respect and opportunities to express their concerns, idea or suggestions. We have set up a Group intranet platform, suggestion boxes in each office floor and we also run regular staff opinion meeting where staff members can express their concerns to top management and offer their opinions on how to enhance the working environment and efficiency directly. We believe the value in two-way communication: engaging staff is not only about talking, it is also about effective listening which can enable the staff to feel involved in the running of the business and be motivated to perform their very best.

CARING FOR THE COMMUNITY

As a responsible corporate citizen, the Group clearly understands the needs of integrating into the society, creating harmony and making full commitments to social services. The Group has set up the community services team since 2009 and has been active in fulfilling its social responsibility and encouraging its staff to support voluntary services and community activities through various means. During the year, the Group made charitable and other donations amounted to HK\$50,000.

Staff Volunteerism

As a corporate member of Hong Kong Community Volunteer, the Group supports and encourages staff members to offer their time and care to the people in need in our community. Our volunteer services team visited "Ronald McDonald House" located in Shatin for two consecutive years. In 2012, we

supported "Ronald McDonald House" by providing cleaning of the hostel, meal services and funny games to the kids of sickness. "Ronald McDonald House" was the first organisation in Asia providing temporary housing for kids receiving treatment and their families during their stay in hospitals.

Donations and Sponsorships

The Group continued to make donations for "Ronald McDonald House Charities" Raffle Ticket Sale in 2012. The Group's overseas subsidiary in Singapore sponsored "Frost the Trail 2012", a corporate charity run for donation to "Bright Hill Evergreen Home", a local non-profit nursing home for the destitute elderly. The event was meant to generate deeper awareness of the community issues. The subsidiary also sponsored "CITIC Telecom Scholarship" at Singapore Polytechnic in 2012.

Corporate Social Responsibility



Nurturing Youth

Our subsidiary worked with the Hong Kong Federation of Youth Groups on “Workplace Visit” and “Job Shadowing Program”. Both events gave students a better understanding on office environment and assisted them in their future career planning. In “Workplace Visit”, a group of secondary students were led by teachers and social workers to visit our office and data centre. HR department explained to students our products and services, company background, the level of competency required for entry level positions and career prospects in the communications industry. In “Job Shadowing Program”, 12 senior secondary students were arranged to have a one-on-one shadowing with our staff. The students were given the opportunity to observe and practise 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.

Support to Communications Industry Development

Our subsidiary provides support to the industry organisation – the Communications Association of Hong Kong, which encourages the communications industry in maintaining high standard of business and professional ethics and protects the interests of the society and the public.

Children’s Library

The Singapore subsidiary continues to work with Evercare Welfare Centre to encourage reading for children in the community.

Corporate Social Responsibility



Award and Recognition

The Group has been awarded by the Hong Kong Council of Social Service as “Caring Company” for two consecutive years for our dedication to promote corporate social responsibility through caring for the community, employees and the environment. The Group was awarded “Award for Volunteer Service Commitment 2012” by Agency for Volunteer Service in recognition of our commitment to community services.

TRAINING AND DEVELOPMENT

Our staff is our greatest asset. The Group continues its effort in staff training and development to support the needs of its business and staff. In respect of training and development, the Group has been adopting “optimisation of professional performance, motivation of staff’s potentials, and revitalisation of learning culture” as our approaches. As a result, “training” is based on the increment of knowledge, skills

enhancement and improvement in management’s capabilities, while “development” is oriented on the sustainable development of the company and our staff.

In 2012, the Group provided various training opportunities, both internally and externally, in order to enhance the competitiveness of the Company. Such training areas and scopes cover advanced management skills, engineering techniques, quality management, information technology, finance management and language, etc.

To encourage our staff to develop themselves further, the Company launched various policies for culture learning, talents development scheme and advanced training scheme on management skills, etc. The Group also encourages and facilitates knowledge sharing and skill transfer between staff in Hong Kong and other regions to strengthen business integration. The management is determined to nurture elites and

enhance their comprehensive working and management capabilities by actively providing potential staff with training opportunities which are important to the Group’s success as well as succession planning.

The Group also supports and encourages self-initiated personal development of our employees by providing training subsidies for external training courses to enhance their skills and abilities.

In 2012, the Group provided training to employees over 20,000 hours.

Our subsidiary was awarded the “Manpower Developer” in the ERB Manpower Developer Award Scheme of 2011-2013 launched by Employees Retraining Board in recognition of its outstanding accomplishments in manpower training and development.

Internship Schemes

The Group contributes to the society by providing various working and internship opportunities, including

Corporate Social Responsibility



“ICT Elite Incubation Program” (a 12-month integrated industry training provided to the students of communications disciplines) co-organised with the Communications Association of Hong Kong “CAHK” and young technical talents exchange program. Besides, the Group launched university graduates training scheme with talent pool for corporate future growth, including schemes of engineer trainees.

Continuous Professional Development for Directors

All board directors also participate in continuous professional training including update of financial reporting standards and listing rules to develop and refresh their knowledge and skills. This is to ensure that their contribution to the board remains informed and relevant.

Prospects

Along with the growth and needs of the Group, training no longer focuses on the level of techniques training and on-the-job training solely, but also

on the level of personal development of the management, which helps the Group to nurture successors with potential and promote diversified learning culture. Also, staff is encouraged to develop continuously and is well communicated among each other in order to establish well managed team. Looking forward, the Group will lay a solid foundation for optimisation of its management and nurture talents to match corporate development.

CARING FOR THE ENVIRONMENT

Climate change is one of the most important challenges facing mankind. The Group is committed to conduct business in an environmentally responsible manner. In 2012, we became the “Carbon Audit • Green Partner” of Environmental Protection Department for the recognition of supporting greenhouse gas emission reduction activities. The Group is embarking upon a series of measures to reduce greenhouse gas emissions. These include improving energy

efficiency and energy conservation, encouraging greening and raising public awareness.

Reduce electricity consumption and improving energy efficiency

- Replace existing installations by electronics of higher energy efficiency
- Use energy saving T5 fluorescent tubes, LED light bulbs and energy saving light bulbs to reduce energy consumption and heat load
- Separate lighting zones to allow lights to be switched off when not in use
- Switch off air-conditioning, lighting and equipment in office zones not in operation
- Perform regular maintenance and cleaning of air conditioning system and all electrical appliances to optimise energy usage
- Set thermostat of office areas at 25°C

Corporate Social Responsibility



- Encourage and educate staff to save energy through channels such as notice board, reminders and company intranet
- Record electricity usage regularly in order to monitor and control the energy usage

Reduce paper consumption

- Utilise intranet, e-mail and e-fax systems for internal and external communications to avoid unnecessary photocopies/printouts
- Minimise photocopying/printing and reinforce double-sided copying/printing
- Encourage staff to reuse one-sided paper for internal printing
- Place collection boxes near copiers to collect single-sided printed documents for internal-reuse
- Use electronic filing whenever possible
- Send e-cards instead of paper type celebration cards
- Encourage staff to reduce of paper use by email

- Record paper usage regularly in order to monitor and control the paper usage

Reduce water consumption

- Install water efficient taps in toilet
- Encourage staff to save water in toilet by email
- Record water usage monthly in order to monitor and control the water usage

Reuse and Recycle

- Donate office computers to charitable organisations for reuse
- Reuse stationery such as paper, folders, paper clips, envelopes, boxes, plastic bags, etc.
- Place boxes beside copiers to collect double-sided non-confidential paper documents, envelopes or magazines and to be collected by recycling dealers regularly
- Recycle computer hardware, toner cartridges and other e-waste

Establish and Maintain Green Environment

- Plant over 100 small to medium size green plants in our indoor green garden and inside office areas

The Singapore office of the Group continues its effort to protect the environment. The office was succeeded in obtaining re-certification as an Eco-office for another two years upon passing the external audit. The Eco-Office certification is awarded by the Singapore Environment Council to offices which have displayed environmental consciousness in their daily operations.

To further the environmental protection effort as well as to help financially needy students, the Singapore subsidiary started "CITIC Telecom Scholarship" at Singapore Polytechnic in 2012 to help students pursuing the related courses concerning the preservation of the environment.

Corporate Governance

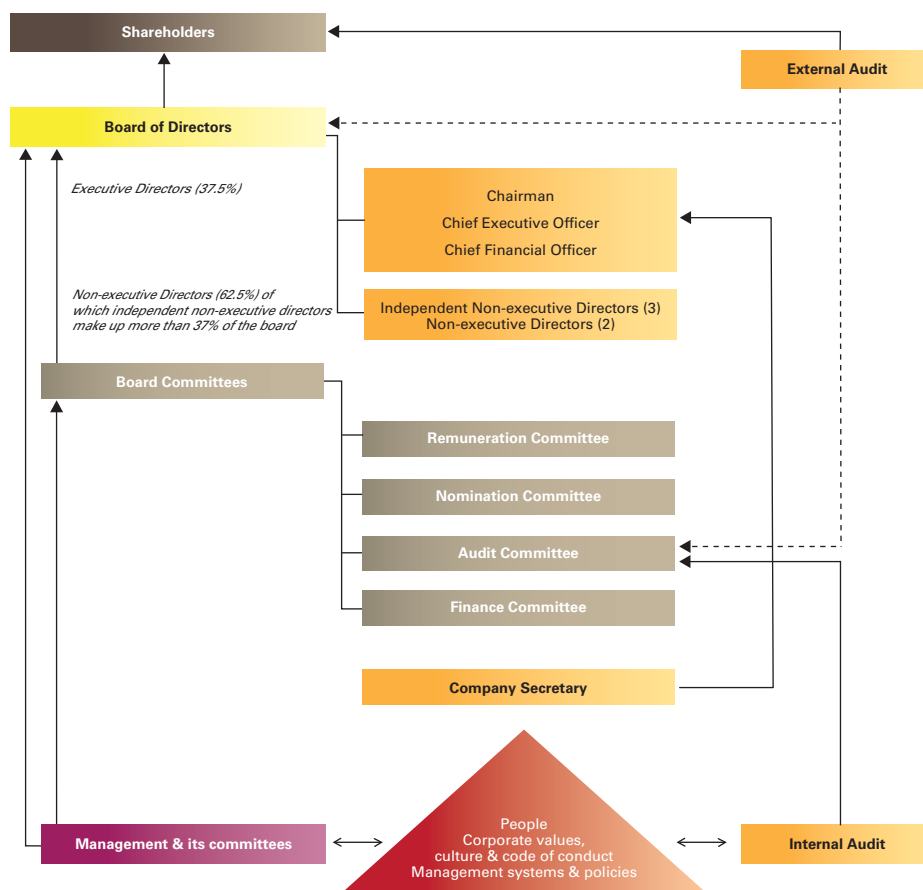
CORPORATE GOVERNANCE PRACTICES

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. Save as disclosed below, the Company has fully complied throughout the year 2012 with the applicable code provisions in the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (the "Code") (effective from 1 April 2012) set out 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 respect of the code provision A.6.7 of the Code, Mr. Fei Yiping, a non-executive director, Mr. Yang Xianzu and Mr. Liu Li Qing, both independent non-executive directors, were unable to attend the annual general meeting of the Company held on 27 April 2012 as they had other engagements in China.

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



Corporate Governance

BOARD OF DIRECTORS

OVERALL ACCOUNTABILITY

Members of the board 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, every director of the Company is required to pursue excellence in the interests of the shareholders and fulfill his fiduciary duties by applying the required level of skills, 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 constitute more than one-third and non-executive directors constitute 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 52 to 53.

Under 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 number nearest to one-third, must retire from office at each annual general meeting and their re-election is subject to a vote of the shareholders. Retiring directors are eligible for re-election at the annual general meeting at which they retire. Also, any director appointed to fill a casual vacancy is subject to re-election at the next following annual general meeting of the Company. 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. On 22 February 2012, the Company established a nomination committee, details of which are set out below. During 2012, no new director has been selected or recommended for directorship.

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 directors or the officer in charge of each division and function who is required to report back to the board. Functions reserved to the board and those delegated to management are reviewed periodically. 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 monthly reports and recommendations on significant matters. Should separate independent professional advice be considered necessary by the directors or any board committee, independent professional services would be made available to the directors or such board committee upon request.

The board has delegated some of its functions to the board committees, 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, significant appointments such as Company Secretary and external auditor, terms of reference of board committees, as well as major corporate policies such as code of conduct and whistle-blowing policy.

Corporate Governance

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 and officers liability and company reimbursement insurances 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 43 to 45.

BOARD MEETINGS AND ATTENDANCE

The board meets regularly to review the financial and operating performance of the Company and to discuss future strategy. Five board meetings were held in 2012. At the board meetings, the board reviewed significant matters including the Company's annual and interim financial statements, annual budget, proposals for final and interim dividends, annual report and half-year report. At least 14 days' notice is given to all directors for all regular board meetings 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. During the year, the Chairman of the Company has held a meeting with the non-executive directors (including the independent non-executive directors) without the executive directors present.

The attendance record of each director at board meetings in 2012 is set out below:

Directors	Attendance/ Number of Meetings
Executive Directors	
Mr. Xin Yue Jiang – <i>Chairman</i>	5/5
Mr. Yuen Kee Tong – <i>Chief Executive Officer</i>	5/5
Dr. David Chan Tin Wai – <i>Chief Financial Officer</i>	5/5
Non-executive Directors	
Mr. Liu Jifu	5/5
Mr. Fei Yiping	4/5
Independent Non-executive Directors	
Mr. Yang Xianzu	5/5
Mr. Liu Li Qing	5/5
Mr. Gordon Kwong Che Keung	5/5

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, and also take primary responsibility for ensuring good corporate governance practices and procedures are established. 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.

Corporate Governance

DIRECTORS' CONTINUING PROFESSIONAL DEVELOPMENT PROGRAMME

Each newly appointed director is provided with necessary induction and information to ensure that he has a proper understanding of the Company's operations and businesses as well as his responsibilities under the relevant statutes, laws, rules and regulations.

Directors' training is an ongoing process. During the year, directors are provided with monthly updates on the Company's performance, position and prospects to enable the board as a whole and each director to discharge their duties. In addition, all directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company updates directors on the latest development regarding the Listing Rules and other applicable regulatory requirements from time to time, to ensure compliance and enhance their awareness of good corporate governance practices.

During the year, the Company has also organised two briefing sessions conducted by Messrs. Mayer Brown JSM and KPMG respectively for the directors of the Company. The briefing sessions covered topics including the new Corporate Governance Code, the disclosure of price sensitive information and establishment of an internal control system.

According to the records provided by the directors, a summary of training received by the directors since 1 April 2012 up to 31 December 2012 is as follows:

Directors	Type of continuous professional development programmes
Executive Directors	
Mr. Xin Yue Jiang	A, B
Mr. Yuen Kee Tong	A, B
Dr. David Chan Tin Wai	A, B
Non-executive Directors	
Mr. Liu Jifu	A, B
Mr. Fei Yiping	A, B
Independent Non-executive Directors	
Mr. Yang Xianzu	A, B
Mr. Liu Li Qing	A, B
Mr. Gordon Kwong Che Keung	A, B

Notes:

A: attending briefing sessions and/or seminars

B: reading seminar materials and updates relating to the latest development of the Listing Rules and other applicable regulatory requirements

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, share options and other plans, etc. 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 of the committee members are as follows:

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

A meeting was held in 2012 in which the remuneration committee reviewed the remuneration policies and approved the salaries and bonuses of the executive directors and senior management. No director took part in any discussion about his own remuneration. 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 Corporate Social Responsibility on page 33, and directors' emoluments and retirement benefits are disclosed on pages 99 to 100 and page 116. Remuneration payable to members of senior management are disclosed on page 101. Share options granted under the Company's share option plan are disclosed on pages 60 to 64.

Corporate Governance

AUDIT COMMITTEE

The audit committee reviews financial information of the Group, monitors the effectiveness of the external audit 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 system of internal controls and risk management, including the internal audit function as well as arrangements for concerns raised by the staff on financial reporting and other relevant matters ("whistle blowing"). The board also 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 policies and practices on corporate governance and its compliance with the Code and disclosures in the Corporate Governance Report. The full terms of reference setting out the committee's authority and its role and responsibilities are available on the Company's website (www.citictel.com) and the Stock Exchange's website.

The audit committee currently consists of three independent non-executive directors and a non-executive director having the relevant professional qualifications and expertise. The Chairman of the committee is Mr. Gordon Kwong Che Keung, an independent non-executive director. The Company Secretary acts as secretary of 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 2012 with full attendance by the committee members in person or by video conference. The 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 and final versions of minutes were sent to all committee members within a reasonable time after each meeting.

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

Membership and Attendance		Attendance/ Number of Meetings
Members		
Independent Non-executive Directors		
Mr. Gordon Kwong Che Keung – <i>Chairman</i>		2/2
Mr. Yang Xianzu		2/2
Mr. Liu Li Qing		2/2
Non-executive Director		
Mr. Fei Yiping (appointed on 3 April 2012)		1/1

Corporate Governance

During 2012, the audit committee has considered the external auditor's proposed audit fees; discussed with the external auditor their independence and the nature and scope of the audit; reviewed the interim and annual financial statements of the Group, 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 financial statements for 2012. The audit committee has also performed the aforesaid corporate governance duties as delegated to it by the board.

NOMINATION COMMITTEE

The board established a nomination committee on 22 February 2012. 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 is also responsible for reviewing the structure, size and composition of the board.

The committee currently comprises five members, a majority of whom are independent non-executive directors and is chaired by the Chairman of the board. The Company Secretary of the Company serves as secretary of the nomination committee. Minutes for the meetings are sent to the nomination 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 nomination committee during the year as well as the meeting attendance of the committee members are as follows:

Membership and Attendance		Attendance/ Number of Meeting
Members		
<hr/>		
Executive Director		
Mr. Xin Yue Jiang – <i>Chairman</i>		1/1
Non-executive Director		
Mr. Liu Jifu		1/1
Independent Non-executive Directors		
Mr. Yang Xianzu		1/1
Mr. Liu Li Qing		1/1
Mr. Gordon Kwong Che Keung		1/1

A meeting was held in 2012, in which members of the nomination committee reviewed the structure, size and composition of the board.

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 papers, bills of exchange and foreign exchange, etc.

The finance committee comprises the three executive directors. In 2012, three resolutions in writing were passed by the finance committee to approve financial transactions such as acceptance of a banking facility.

Corporate Governance

ACCOUNTABILITY AND AUDIT

FINANCIAL REPORTING

The board of directors recognises the importance of integrity of financial information and acknowledges its responsibility for preparing interim and annual financial statements that give a true and fair view of the Group's affairs and 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 regulations, 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 the adoption of the financial statements 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 financial reporting standards that became effective during the year has not had a significant impact on the Group's financial statements, details of which are disclosed in Note 1(c) on page 77.

The responsibilities of the external auditor with respect to the financial statements for the year ended 31 December 2012 are set out in the Independent Auditor's Report on page 69.

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\$3.4 million. In addition, approximately HK\$2.9 million was charged for non-audit services. The non-audit services mainly consist of taxation services, interim review and other special audits. The fees charged by other auditors of the Group for audit and non-audit services during the year amounted to HK\$0.2 million and HK\$1.1 million respectively.

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, as delegated by the board, 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 programmes and budgets.

Corporate Governance

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 units or functions 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 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 new employees during orientation sessions. A set of Code of Conduct would be distributed to employees and can be accessed through the Company’s 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 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 the 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 of the Company. Those who 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 of the Company or the Chief Executive Officer (those who have conflict of interest shall be excluded).

PRICE-SENSITIVE INFORMATION

With respect to the procedures and internal controls for the handling and dissemination of price-sensitive information, the Company is aware of its obligations under Part XIVA of the Securities and Futures Ordinance and the Listing Rules and has established the inside information/price-sensitive information disclosure policy with close regard to the “Guidelines on Disclosure of Inside Information” issued by the Securities and Futures Commission.

Corporate Governance

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 2012. The interests held by individual directors in the Company's securities at 31 December 2012 are set out in the Directors' Report on pages 64 to 65.

COMMUNICATION WITH SHAREHOLDERS

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

INFORMATION DISCLOSURE ON CORPORATE WEBSITE

The Company endeavours to disclose all material information about the Group to all interested parties as widely and 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 2012, 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.

The 2012 annual general meeting ("2012 AGM") was held on 27 April 2012. The attendance record of the directors at the 2012 AGM is set out below:

Directors	Attendance/ Number of general meetings
Executive Directors	
Mr. Xin Yue Jiang	1/1
Mr. Yuen Kee Tong	1/1
Dr. David Chan Tin Wai	1/1
Non-executive Directors	
Mr. Liu Jifu	1/1
Mr. Fei Yiping	0/1
Independent Non-executive Directors	
Mr. Yang Xianzu	0/1
Mr. Liu Li Qing	0/1
Mr. Gordon Kwong Che Keung	1/1

The Company's external auditor also attended the 2012 AGM.

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.

SHAREHOLDERS' 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:

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.

Corporate Governance

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.

Pursuant to Article 108 of the Company's New Articles of Association, 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.

CONSTITUTIONAL DOCUMENTS

At the 2012 AGM, amendments to the New Articles of Association of the Company were approved by the shareholders of the Company, mainly to bring the articles of the Company in line with the amendments made to the Listing Rules. An updated version of the Memorandum and New Articles of Association of the Company is available on the websites of the Company and 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 64, 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 64, 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 48, 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 69, 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.

Directors and Senior Management

* **Mr. Fei Yiping**, aged 49, has been a director of the Company since January 2010. Mr. Fei is the Vice President and the Group Financial Controller of CITIC Pacific, a director and the Chief Financial Officer of CITIC HK and a non-executive director of Dah Chong Hong Holdings Limited, a fellow subsidiary of the Company. 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 13 years experience in accounting and financial management. He has been with CITIC Group Corporation (“CG”), 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

*△# **Mr. Yang Xianzu**, aged 73, 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. Liu Li Qing**, aged 72, 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. Mr. Liu previously served as the Chairman of China Association of Communications Enterprises and now is the Honorary Chairman of China Association of Communications Enterprises.

*△# **Mr. Kwong Che Keung, Gordon**, aged 63, 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, 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 previously served as an independent non-executive director of a number of companies listed on the Stock Exchange, including Beijing Capital International Airport Company Limited, China Oilfield Services Limited, COSCO International Holdings Limited, Frasers Property (China) Limited, Tianjin Development Holdings Limited and Quam Limited. 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
- △ Member of the Remuneration Committee
- # Member of the Nomination Committee
- ^ Member of the Finance Committee

Directors and Senior Management

SENIOR MANAGEMENT

Mr. Cheung Yuet Pun, aged 40, 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 17 years of operational experience in the telecoms industry.

Since 2012, he has been the President of Internet Service & Content Provider Group of Communications Association of Hong Kong (CAHK). He has also been appointed as the incu-Apps admission panel member for Hong Kong Science & Technology Parks 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 47 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. Wong Ching Wa, aged 38, is the President, head of China business of the Company. He joined the Company in January 2008 as director of Chinese business department and was responsible for China market and business development. Mr. Wong obtained a Bachelor degree of Telecom Engineering from Beijing Information Technology College in 1996 and a Master degree of Engineering Management from Sichuan University in 2002. Mr. Wong previously held management positions in different telecoms and technology companies in the PRC. Before joining the Company, he was the General Manager of operations management department of China Netcom (Hong Kong) Operations Limited. To date, Mr. Wong has more than 16 years experience in the telecoms industry.

Mr. Ho Wai Chung, Stephen, aged 54, 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. Mr. Ho was appointed CEO of CPC in 2002 and President of 中企網絡通信技術有限公司 (China Enterprise Communications Ltd.) in 2010. 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 30 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 leaderships awards, including "The CEO of the Year 2007" by Asia Pacific Customer Service Consortium and "Outstanding Entrepreneurship Awards 2011 & 2012" by Enterprise Asia. Since 2012, he has been the Chairman of the Communications Association of Hong Kong (CAHK). 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 2012.

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 14(c) to the financial statements.

DIVIDENDS

The directors declared an interim dividend of HK2.4 cents (2011: HK2.4 cents) per share in respect of the year ended 31 December 2012 which was paid on 12 September 2012. The directors recommended, subject to the approval of the shareholders at the forthcoming annual general meeting of the Company to be held on 12 April 2013 ("the Annual General Meeting"), the payment of a final dividend of HK7.2 cents (2011: HK7.2 cents) per share in respect of the year ended 31 December 2012 payable on 30 April 2013 to shareholders on the Register of Members at the close of business on 22 April 2013.

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	20.8%	
Five largest customers in aggregate	38.7%	
The largest supplier		16.2%
Five largest suppliers in aggregate		36.0%

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 2012 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 70 to 141.

TRANSFER TO RESERVES

Profits attributable to shareholders, before dividends, of HK\$464,989,000 (2011: HK\$458,246,000) have been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity.

Directors' Report

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to approximately HK\$50,000 (2011: HK\$56,000).

PROPERTY, PLANT AND EQUIPMENT

During the year, there were additions of property, plant and equipment amounted to HK\$217,037,000 of which HK\$43,919,000 was through acquisition of subsidiaries. Details of these additions and other movements in property, plant and equipment are set out in note 11(a) to the financial statements.

DIRECTORS

The directors of the Company who held office during the year ended 31 December 2012 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. Xin Yue Jiang, Liu Li Qing and Gordon Kwong Che Keung 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 2012, 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, was a former 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 and satellite communication networks, the provision of value-added telecommunications services in communications services sector, network system integration, software development, the development of salt lake resources, the development and manufacture of new materials, as well as the development and management of properties. Mr. Fei resigned as director of CITIC Guoan on 27 June 2012.

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 ("the First CITIC Tower Premises") for a term of three years up to 15 November 2012. 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.

As CITIC Telecom International Limited ("CITIC Telecom", a wholly-owned subsidiary of the Company) intends to continue to lease certain portion of the First CITIC Tower Premises upon expiration of the Lease Agreement, on 24 October 2012, CITIC Telecom entered into a tenancy agreement ("the CITIC Tower Tenancy Agreement") with Goldon, pursuant to which CITIC Telecom leased from Goldon the premises comprising all those suites 811-16 on the 8th floor of CITIC Tower ("the Second CITIC Tower Premises") for a term of two years up to 15 November 2014, with a monthly rental of approximately HK\$577,000. CITIC Telecom shall also pay its share of service charge (for maintenance and supply of central air-conditioning during normal business hours and management services), being approximately HK\$53,000 per month (subject to revision), and charges for extension of chilled water supply, which are based on actual usage, in respect of the Second CITIC Tower Premises. CITIC Telecom shall also be responsible for the payment of its own utility charges and government rates and government rent in respect of the Second CITIC Tower Premises during the term of the CITIC Tower Tenancy Agreement.

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 is a connected person of the Company.

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 ended 15 November 2012 will not exceed HK\$26,000,000. The expected maximum amounts (including rentals, service charge, charges for extension of chilled water supply and other outgoings) payable under the CITIC Tower Tenancy Agreement to Goldon for the period from 16 November 2012 to 31 December 2012, the financial year ending 31 December 2013 and the period from 1 January 2014 to 15 November 2014 will be approximately HK\$1,200,000, HK\$9,300,000 and HK\$8,200,000, respectively.

For the year ended 31 December 2012, the aggregate amount paid by the Company in respect of the Lease Agreement for the period from 1 January 2012 to 15 November 2012 was approximately HK\$14,514,000. The aggregate amount paid by CITIC Telecom in respect of the CITIC Tower Tenancy Agreement for the period from 16 November 2012 to 31 December 2012 was approximately HK\$1,142,000.

Directors' Report

2. On 24 November 2010, 中企網絡通信技術有限公司 (China Enterprise Communications Ltd.) ("CEC-BJ", presently a non-wholly owned subsidiary of the Company and in which CITIC Group Corporation holds 45.09% interest), 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-BJ 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-BJ 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-BJ monthly with reference to CEC-BJ'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-BJ's costs shall be less than 70% of the corresponding sales proceeds, CEC-BJ 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 ended 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-BJ is an associate of CITIC Group Corporation, 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-BJ under the Exclusive Service Agreement for the year ended 31 December 2012 was approximately HK\$155,775,000.

3. On 6 February 2012, ComNet Investment Limited ("ComNet Investment", a wholly-owned subsidiary of the Company) entered into a management services agreement ("the Management Services Agreement") with Hang Luen Chong Property Management Company, Limited ("Hang Luen Chong"), pursuant to which ComNet Investment engaged Hang Luen Chong as the property manager to provide property management services, chilled water supply and air-conditioning supply in respect of those areas of CITIC Telecom Tower owned by ComNet Investment from time to time until 29 December 2014, subject to further renewal. The 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. Hang Luen Chong is a wholly-owned subsidiary of CITIC Pacific, and therefore is a connected person of the Company.

The aggregate of the general management fees, chilled water charges and air-conditioning charges payable by ComNet Investment to Hang Luen Chong for each of the 12-month period during the term of the Management Services Agreement is subject to an annual cap of HK\$7,000,000.

For the year ended 31 December 2012, the aggregate of the general management fees, chilled water charges and air-conditioning charges paid to Hang Luen Chong was approximately HK\$4,962,000.

4. On 24 October 2012, CITIC Telecom entered into a tenancy agreement ("the Ap Lei Chau Tenancy Agreement") with Tendo Limited ("Tendo"), pursuant to which CITIC Telecom leased from Tendo the premises comprising the whole of the 5th floor, a portion of the ground floor, a portion of the 3rd floor podium, a portion of the roof floor, and an area for cable duct and trunking ("the Ap Lei Chau Premises") at the building located at No.111 Lee Nam Road, Ap Lei Chau, Hong Kong ("the Building") for a term of no more than three years commencing from the earlier of 20 September 2012 or the delivery of vacant possession of the Ap Lei Chau Premises to CITIC Telecom and expiring on 19 September 2015, with an aggregate monthly rental of approximately HK\$554,000. CITIC Telecom shall also pay its share of management fee in respect of the Ap Lei Chau Premises, being approximately HK\$58,000 per month, subject to revision. CITIC Telecom shall also be responsible for the payment of its own utility charges and government rates and government rent in respect of the Ap Lei Chau Premises during the term of the Ap Lei Chau Tenancy Agreement. In addition, CITIC Telecom had also paid to Tendo a lump-sum of HK\$4,600,000 to cover the expenses incurred by Tendo in relation to the removal, relocation and reinstallation of the existing chiller plants at the portion of the roof floor of the Building, and the removal and demolition of the existing fixtures and fittings at the portion of the ground floor of the Building, which are necessary to make room for the equipment required for the establishment of a data centre at the Ap Lei Chau Premises.

The expected maximum amounts (including rentals, expenses associated with the removal and/or reinstallation of fixtures at the Ap Lei Chau Premises, management fees and other outgoings such as rentals for car parking spaces to be leased by Tendo to CITIC Telecom from time to time) payable under the Ap Lei Chau Tenancy Agreement to Tendo for the period from the earlier of 20 September 2012 or the delivery of vacant possession of the Ap Lei Chau Premises to CITIC Telecom to 31 December 2012, the two financial years ending 31 December 2013 and 2014, and the period from 1 January 2015 to 19 September 2015 will be approximately HK\$6,300,000, HK\$7,500,000, HK\$7,600,000 and HK\$5,500,000, respectively. Tendo is a wholly-owned subsidiary of CITIC Pacific, and therefore is a connected person of the Company.

In addition, CITIC Telecom shall have the right to, during the term of the Ap Lei Chau Tenancy Agreement, take a lease of the whole of the 3rd and/or 4th floors of the Building.

Incidental to the Ap Lei Chau Tenancy Agreement, Tendo and CITIC Telecom also entered into a supplemental agreement on 24 October 2012 pursuant to which Tendo has granted to CITIC Telecom three consecutive options to renew the Ap Lei Chau Tenancy Agreement for a further term of three years each upon the expiration of the Ap Lei Chau Tenancy Agreement. In the event that CITIC Telecom shall have duly exercised its option to renew for the first new term, the Ap Lei Chau Tenancy Agreement will be renewed at the then current open market rent. In the event that CITIC Telecom shall have duly exercised its options to renew for the second and the third new terms, the Ap Lei Chau Tenancy Agreement will be renewed at a new rent to be mutually agreed by the parties.

For the year ended 31 December 2012, the aggregate amount paid by CITIC Telecom in respect of the Ap Lei Chau Tenancy Agreement was approximately HK\$6,234,000.

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 2012 and confirmed that the transactions had been entered into

- in the ordinary and usual course of business of the Group;

Directors' Report

- 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 57 to 59 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 28 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 here below); 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 6 February 2013, the maximum number of shares available for issue under the Plan is 109,596,500, representing approximately 4.58% 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.

Directors' Report

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 per share 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 were accepted except for options for 115,000 shares granted on 17 September 2009 and options for 200,000 shares granted on 19 August 2011. The share options granted on 23 May 2007 have expired at the close of business on 22 May 2012. The remaining options granted and accepted under the Plan can be exercised in whole or in part within 5 years from the date of commencement of the exercise period.

During the year ended 31 December 2012, none of the options granted was cancelled, but options for 682,500 shares were exercised and options for 16,255,500 shares have lapsed.

Directors' Report

A summary of the movements of the share options during the year ended 31 December 2012 is as follows:

A. DIRECTORS OF THE COMPANY

Name of director	Date of grant	Exercise price per share HK\$	Exercise period	Number of share options			Balance as at 31.12.2012	Percentage to the issued share capital %
				Balance as at 1.1.2012	Exercised during the year ended 31.12.2012	Lapsed during the year ended 31.12.2012		
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	
							3,800,000	0.159
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	
							3,300,000	0.138

Directors' Report

Name of director	Date of grant	Exercise price per share HK\$	Exercise period	Number of share options				Percentage to the issued share capital %
				Balance as at 1.1.2012	Exercised during the year ended 31.12.2012	Lapsed during the year ended 31.12.2012	Balance as at 31.12.2012	
Yang Xianzu	23.5.2007	3.26	23.5.2007 – 22.5.2012	300,000	–	300,000	–	0.025
	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	
							600,000	
Liu Li Qing	23.5.2007	3.26	23.5.2007 – 22.5.2012	300,000	–	300,000	–	0.025
	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	
							600,000	
Gordon Kwong Che Keung	23.5.2007	3.26	23.5.2007 – 22.5.2012	300,000	–	300,000	–	0.025
	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	
							600,000	

Directors' Report

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 per share HK\$	Number of share options			
		Balance as at 1.1.2012	Exercised during the year ended 31.12.2012 (Note 1)	Lapsed during the year ended 31.12.2012	Balance as at 31.12.2012
23.5.2007	3.26	8,860,000	–	8,860,000	–
17.9.2009	2.10	24,384,000	–	1,305,500 (Note 2)	23,078,500
19.8.2011	1.54	40,755,000	682,500	845,000 (Note 2)	39,227,500

Notes:

1. The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK\$2.07.
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 2012.

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 2012 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	0.0209
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 31.12.2012	Percentage to the issued share capital %
Liu Jifu (<i>Note 3</i>)	19.11.2009	19.11.2009 – 18.11.2014	22.00	500,000	0.014
Fei Yiping	19.11.2009	19.11.2009 – 18.11.2014	22.00	300,000	0.008

Notes:

- 20,000 shares are in respect of personal interests and 50,000 shares are in respect of corporate interests.
- These 3,000 shares are in respect of family interests.
- CITIC Pacific has granted an option for 700,000 shares to Mr. Liu Jifu on 16 October 2007 at the exercise price of HK\$47.32 per share. Such share options have expired at the close of business on 15 October 2012.

Save as disclosed above, as at 31 December 2012, 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.

Directors' Report

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, 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	60.569
CITIC Limited	1,445,584,370	60.569
CITIC Pacific	1,445,584,370	60.569
Crown Base International Limited	1,445,584,370	60.569
Effectual Holdings Corp.	1,445,584,370	60.569
CITIC Pacific Communications Limited	1,445,584,370	60.569
Douro Holdings Inc.	1,445,584,370	60.569
Ferretti Holdings Corp.	903,018,087	37.836
Ease Action Investments Corp.	903,018,087	37.836
Onway Assets Holdings Ltd.	444,500,000	18.624
Silver Log Holdings Ltd.	444,500,000	18.624
Matthews International Capital Management, LLC	167,726,000	7.028

CITIC Group Corporation is the ultimate holding company of CITIC Limited and CITIC Limited is an intermediate holding company of 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 2012:

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, the Vice President and the 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.

Directors' Report

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 "CITIC" 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 2012.

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 2012, the Group had HK\$161,868,000 short-term loan from an associate. The loan bears interest at the prevailing market rate. It is unsecured and repayable on 28 March 2013.

At 31 December 2012, the Group had HK\$100,000,000 uncommitted revolving bank loans. The loans bear interest at the prevailing market rate. They are unsecured and repayable within one year.

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 2012 and the Company has not redeemed any of its shares during the year ended 31 December 2012.

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.

Directors' Report

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 30 of the annual report.

RETIREMENT SCHEME

The Group operates a Mandatory Provident Fund Scheme. Particulars of the retirement scheme are set out in note 21 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, 6 February 2013

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 (together "the Group") set out on pages 70 to 141, which comprise the consolidated and company balance sheets as at 31 December 2012, 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 the 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 2012 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

6 February 2013

Consolidated Income Statement

for the year ended 31 December 2012 (Expressed in Hong Kong dollars)

	Note	2012 \$'000	2011 \$'000
Turnover	3	3,609,810	3,196,753
Other revenue	4	545	1,485
Other net (loss)/gain	5	(6,432)	213
		3,603,923	3,198,451
Network, operations and support expenses	6(c)	(2,527,843)	(2,214,373)
Depreciation and amortisation	6(c)	(154,282)	(127,062)
Staff costs	6(b)	(353,003)	(300,150)
Other operating expenses		(219,985)	(181,389)
Profit from operations		348,810	375,477
Finance costs	6(a)	(3,063)	(974)
Share of profit of an associate	15(d)	158,295	148,770
Share of profit of a jointly controlled entity	16(d)	1,179	410
Profit before taxation	6	505,221	523,683
Income tax	7(a)	(40,232)	(65,437)
Profit for the year		464,989	458,246
Attributable to:			
Equity shareholders of the Company		461,283	458,246
Non-controlling interests		3,706	–
Profit for the year		464,989	458,246
Earnings per share (HK cents)			
	10		
Basic		19.3	19.2
Diluted		19.3	19.2

The notes on pages 77 to 141 form part of these financial statements. Details of dividends payable to equity shareholders 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 2012 (Expressed in Hong Kong dollars)

	2012	2011
	\$'000	\$'000
Profit for the year	464,989	458,246
Other comprehensive income for the year (after tax)		
Exchange differences on translation of financial statements of operations outside Hong Kong	8,867	298
Total comprehensive income for the year	473,856	458,544
Attributable to:		
Equity shareholders of the Company	469,956	458,544
Non-controlling interests	3,900	–
Total comprehensive income for the year	473,856	458,544

The notes on pages 77 to 141 form part of these financial statements.

Consolidated Balance Sheet

at 31 December 2012 (Expressed in Hong Kong dollars)

	Note	2012 \$'000	2011 \$'000
Non-current assets			
Property, plant and equipment	11	742,376	668,521
Intangible assets	12	105,825	89,888
Goodwill	13	402,456	363,549
Interest in an associate	15	1,449,938	1,472,414
Interest in a jointly controlled entity	16	45,950	43,176
Non-current other receivables and deposits	17	174,352	109,347
Deferred tax assets	7(c)	37,451	19,902
		2,958,348	2,766,797
Current assets			
Trade receivables, other receivables and deposits	17	1,363,583	1,308,036
Current tax recoverable	7(b)	3,611	5,630
Cash and bank deposits	18(a)	354,816	257,023
		1,722,010	1,570,689
Current liabilities			
Trade and other payables	19	801,248	852,196
Bank loans	20	100,000	–
Loans from an associate	15(e)	161,868	123,328
Current tax payable	7(b)	43,169	26,006
		1,106,285	1,001,530
Net current assets		615,725	569,159
Total assets less current liabilities		3,574,073	3,335,956
Non-current liabilities			
Non-current other payables	19	87,808	95,192
Deferred tax liabilities	7(c)	65,241	61,638
		153,049	156,830
NET ASSETS		3,421,024	3,179,126
CAPITAL AND RESERVES			
Share capital	23 23(b)	238,668	238,599
Reserves		3,194,035	2,940,527
Total equity attributable to equity shareholders of the Company		3,432,703	3,179,126
Non-controlling interests		(11,679)	–
TOTAL EQUITY		3,421,024	3,179,126

Approved and authorised for issue by the board of directors on 6 February 2013.

Xin Yue Jiang
Director

Yuen Kee Tong
Director

The notes on pages 77 to 141 form part of these financial statements.

Balance Sheet

at 31 December 2012 (Expressed in Hong Kong dollars)

	Note	2012 \$'000	2011 \$'000
Non-current assets			
Property, plant and equipment	11	20,721	16,278
Investments in subsidiaries	14	4,071	4,071
Interest in an associate	15(b)	1,400,268	1,400,268
Deferred tax assets	7(c)	1,175	1,554
		1,426,235	1,422,171
Current assets			
Trade receivables, other receivables and deposits	17	1,588,124	1,314,212
Cash and bank deposits	18(a)	29,015	41,029
		1,617,139	1,355,241
Current liabilities			
Trade and other payables	19	107,744	96,179
Bank loans	20	100,000	–
		207,744	96,179
Net current assets		1,409,395	1,259,062
NET ASSETS		2,835,630	2,681,233
CAPITAL AND RESERVES			
Share capital	23 23(b)	238,668	238,599
Reserves		2,596,962	2,442,634
TOTAL EQUITY		2,835,630	2,681,233

Approved and authorised for issue by the board of directors on 6 February 2013.

Xin Yue Jiang
Director

Yuen Kee Tong
Director

The notes on pages 77 to 141 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2012 (Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Company									
	Note	Share capital	Share premium	Capital reserve	Capital redemption reserve	Exchange reserve	Retained profits	Total	Non-controlling interests	Total equity
		(note 23(b))	(note 23(c))	(note 23(d))	(note 23(c))	(note 23(e))				
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 January 2011		238,520	1,583,551	28,621	2,034	10,848	1,080,243	2,943,817	-	2,943,817
Changes in equity for 2011:										
Profit for the year		-	-	-	-	-	458,246	458,246	-	458,246
Other comprehensive income for the year		-	-	-	-	298	-	298	-	298
Total comprehensive income for the year		-	-	-	-	298	458,246	458,544	-	458,544
Dividends approved in respect of the previous year	23(a)(ii)	-	-	-	-	-	(169,405)	(169,405)	-	(169,405)
Shares issued under share option plan	22(b)(ii)	79	2,133	(551)	-	-	-	1,661	-	1,661
Equity-settled share-based transactions	6(b)	-	-	10,845	-	-	-	10,845	-	10,845
Release upon lapse of share options	22(b)(ii)	-	-	(1,014)	-	-	1,014	-	-	-
Dividends approved in respect of the current year	23(a)(i)	-	-	-	-	-	(57,264)	(57,264)	-	(57,264)
Share of reserve of an associate	15(a)	-	-	(9,072)	-	-	-	(9,072)	-	(9,072)
		79	2,133	208	-	-	(225,655)	(223,235)	-	(223,235)
Balance at 31 December 2011		238,599	1,585,684	28,829	2,034	11,146	1,312,834	3,179,126	-	3,179,126
Balance at 1 January 2012		238,599	1,585,684	28,829	2,034	11,146	1,312,834	3,179,126	-	3,179,126
Changes in equity for 2012:										
Profit for the year		-	-	-	-	-	461,283	461,283	3,706	464,989
Other comprehensive income for the year		-	-	-	-	8,673	-	8,673	194	8,867
Total comprehensive income for the year		-	-	-	-	8,673	461,283	469,956	3,900	473,856
Dividends approved in respect of the previous year	23(a)(ii)	-	-	-	-	-	(171,791)	(171,791)	-	(171,791)
Shares issued under share option plan	22(b)(ii)	69	1,301	(319)	-	-	-	1,051	-	1,051
Equity-settled share-based transactions	6(b)	-	-	12,800	-	-	-	12,800	-	12,800
Release upon lapse of share options	22(b)(ii)	-	-	(10,785)	-	-	10,785	-	-	-
Dividends approved in respect of the current year	23(a)(i)	-	-	-	-	-	(57,264)	(57,264)	-	(57,264)
Share of reserve of an associate	15(a)	-	-	(1,175)	-	-	-	(1,175)	-	(1,175)
Non-controlling interests arising from acquisition of a subsidiary	24(d)	-	-	-	-	-	-	-	(15,579)	(15,579)
		69	1,301	521	-	-	(218,270)	(216,379)	(15,579)	(231,958)
Balance at 31 December 2012		238,668	1,586,985	29,350	2,034	19,819	1,555,847	3,432,703	(11,679)	3,421,024

The notes on pages 77 to 141 form part of these financial statements.

Statement of Changes in Equity

for the year ended 31 December 2012 (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 (note 23(f)) \$'000	Total \$'000
Balance at 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	23(g)	-	-	-	-	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	22(b)(ii)	79	2,133	(551)	-	-	1,661
Equity-settled share-based transactions	6(b)	-	-	10,845	-	-	10,845
Release upon lapse of share options	22(b)(ii)	-	-	(1,014)	-	1,014	-
Dividends approved in respect of the current year	23(a)(i)	-	-	-	-	(57,264)	(57,264)
Balance at 31 December 2011 and 1 January 2012		238,599	1,585,684	93,641	2,034	761,275	2,681,233
Changes in equity for 2012:							
Total comprehensive income for the year	23(g)	-	-	-	-	369,601	369,601
Dividends approved in respect of the previous year	23(a)(ii)	-	-	-	-	(171,791)	(171,791)
Shares issued under share option plan	22(b)(ii)	69	1,301	(319)	-	-	1,051
Equity-settled share-based transactions	6(b)	-	-	12,800	-	-	12,800
Release upon lapse of share options	22(b)(ii)	-	-	(10,785)	-	10,785	-
Dividends approved in respect of the current year	23(a)(i)	-	-	-	-	(57,264)	(57,264)
Balance at 31 December 2012		238,668	1,586,985	95,337	2,034	912,606	2,835,630

The notes on pages 77 to 141 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2012 (Expressed in Hong Kong dollars)

	Note	2012 \$'000	2011 \$'000
Operating activities			
Cash generated from operations	18(d)	328,751	397,489
Tax paid:			
– Hong Kong Profits Tax paid		(34,379)	(45,401)
– Overseas tax paid		(3,392)	(2,869)
Tax refunded:			
– Hong Kong Profits Tax refunded		168	236
Net cash generated from operating activities		291,148	349,455
Investing activities			
Payment for the purchase of property, plant and equipment		(160,347)	(221,383)
Proceeds from sale of property, plant and equipment		584	3
Payment for acquisition of a jointly controlled entity		–	(42,766)
Payment for acquisition of subsidiaries (net of cash and cash equivalents acquired)	24(f)	(43,845)	(7,434)
Advance payment for the acquisition of the remaining equity interest in a subsidiary		(75,988)	–
Transaction costs for acquisition of subsidiaries		(2,361)	(7,098)
Increase in pledged deposits		(111)	(2,177)
Interest received		549	571
Dividend received from an associate		180,708	157,635
Net cash used in investing activities		(100,811)	(122,649)
Financing activities			
Proceeds from new bank loans		100,000	–
Repayment of a bank loan		–	(30,000)
Proceeds from new loans from an associate		162,949	124,091
Repayment of loans from an associate		(124,091)	(96,946)
Repayment of a loan due to a previous shareholder of a subsidiary		–	(70,769)
Proceeds from new shares issued under share option plan		1,051	1,661
Borrowing costs paid		(5,207)	(486)
Dividends paid to equity shareholders of the Company		(229,055)	(226,669)
Net cash used in financing activities		(94,353)	(299,118)
Net increase/(decrease) in cash and cash equivalents		95,984	(72,312)
Cash and cash equivalents at 1 January	18(a)	253,326	325,499
Effect of foreign exchange rate changes		1,698	139
Cash and cash equivalents at 31 December	18(a)	351,008	253,326

The notes on pages 77 to 141 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 2012 comprise CITIC Telecom International Holdings Limited (the “Company”) and its subsidiaries (together referred to as the “Group”) and the Group’s interests in an associate and a jointly controlled entity.

The measurement basis used in the preparation of the financial statements is the historical cost basis, except as otherwise stated in the accounting policies set out below.

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.

(c) CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. None of these developments have a significant impact on the Group’s and the Company’s results of operations and financial position.

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

Notes to the Financial Statements

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) SUBSIDIARIES AND NON-CONTROLLING INTERESTS

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies 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.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholder of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

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)).

(e) ASSOCIATE AND JOINTLY CONTROLLED ENTITY

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 and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entity.

Notes to the Financial Statements

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) ASSOCIATE AND JOINTLY CONTROLLED ENTITY (CONTINUED)

An investment 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 note 1(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 associate and jointly controlled entity 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 or, when appropriate, the cost on initial recognition of an investment in an associate.

In the Company's balance sheet, interest in an associate stated at cost less impairment losses (see note 1(j)).

(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.

Notes to the Financial Statements

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated 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 over their estimated useful life, being no more than 50 years after the date of completion.
- buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.
- telecommunications equipment are depreciated over 3 to 15 years.
- other assets are depreciated over 3 to 5 years.

Where parts of an item of property, plant and equipment have different useful lives, the cost 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.

Notes to the Financial Statements

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(h) INTANGIBLE ASSETS (OTHER THAN GOODWILL)**

Intangible assets that are acquired by the Group are stated 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	5–10 years
– Customer contracts	1 year
– Order backlog	5 years
– Trade names/trademarks	1–16 year

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.

(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.

Notes to the Financial Statements

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) IMPAIRMENT OF ASSETS

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

Investments in subsidiaries, an associate and 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 the end of 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, the associate and the jointly controlled entity (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 the accounting policies set out in 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).
- 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 financial 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 financial 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.

Notes to the Financial Statements

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) IMPAIRMENT OF ASSETS (CONTINUED)

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

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).

– 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.

Notes to the Financial Statements

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) IMPAIRMENT OF ASSETS (CONTINUED)

(ii) *Impairment of other assets (continued)*

- 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 note 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 the 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 on 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.

(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.

Notes to the Financial Statements

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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

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.

Notes to the Financial Statements

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) INCOME TAX (CONTINUED)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group or the Company 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 Group or the Company 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.

(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 the accounting policies set out in 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.

Notes to the Financial Statements

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) FINANCIAL GUARANTEES ISSUED, PROVISIONS AND CONTINGENT LIABILITIES (CONTINUED)

(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 expenditure expected to settle the obligation.

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 and short message services

Revenue derived from provision of voice and short message services is recognised, net of discounts, when an arrangement exists, service is rendered, the amount is fixed or reliably determinable, and collectibility is probable.

(ii) Provision of other telecommunications services

Revenue from the provision of other telecommunications services are recognised when the service is rendered.

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. 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.

Notes to the Financial Statements

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) REVENUE RECOGNITION (CONTINUED)

(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 loss 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.

(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.

Notes to the Financial Statements

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) RELATED PARTIES (CONTINUED)

(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

2 ACCOUNTING JUDGEMENT AND ESTIMATES

Notes 13, 22 and 25 contain information about the assumptions and their risk factors relating to goodwill impairment, fair value of share options granted and financial instruments. Other key sources of estimation uncertainty are as follows:

(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

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.

Notes to the Financial Statements

2 ACCOUNTING JUDGEMENT AND ESTIMATES (CONTINUED)

(d) BUSINESS COMBINATION

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 represents fees from the provision of the following services:

	2012	2011
	\$'000	\$'000
Voice services	2,079,557	1,939,124
Short message services	375,517	347,240
Other telecommunications services	1,154,736	910,389
	3,609,810	3,196,753

Revenue from the provision of 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 \$1,364,897,000 (2011: \$1,295,567,000) for the year ended 31 December 2012. Details of concentrations of credit risk arising from these customers are set out in note 25(a).

Notes to the Financial Statements

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 identified only 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

	2012 \$'000	2011 \$'000
Profit		
Reportable segment profit	356,742	379,834
Share of profit of an associate	158,295	148,770
Share of profit of a jointly controlled entity	1,179	410
Unallocated other revenue	545	1,485
Unallocated head office and corporate expenses	(11,540)	(6,816)
Consolidated profit before taxation	505,221	523,683

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

	2012 \$'000	2011 \$'000
Assets		
Reportable segment assets	3,066,346	2,796,364
Interest in an associate	1,449,938	1,472,414
Interest in a jointly controlled entity	45,950	43,176
Current tax recoverable	3,611	5,630
Deferred tax assets	37,451	19,902
Unallocated corporate assets	77,062	–
Consolidated total assets	4,680,358	4,337,486
Liabilities		
Reportable segment liabilities	883,556	944,112
Current tax payable	43,169	26,006
Deferred tax liabilities	65,241	61,638
Bank loans	100,000	–
Loans from an associate	161,868	123,328
Unallocated corporate liabilities	5,500	3,276
Consolidated total liabilities	1,259,334	1,158,360

Notes to the Financial Statements

3 TURNOVER AND SEGMENT REPORTING (CONTINUED)

(b) SEGMENT REPORTING (CONTINUED)

(ii) Reconciliation of reportable segment assets and liabilities (continued)

Segment assets include all tangible, intangible assets and 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.

(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.

	2012 \$'000	2011 \$'000
Hong Kong (place of domicile)	3,144,538	2,837,265
Mainland China	82,070	1,712
United States of America	125,359	133,713
Singapore	117,648	115,748
Other countries	140,195	108,315
	3,609,810	3,196,753

4 OTHER REVENUE

	2012 \$'000	2011 \$'000
Interest income from bank deposits	279	180
Other interest income	266	705
Total interest income	545	885
Rental income from operating leases	–	600
	545	1,485

5 OTHER NET (LOSS)/GAIN

	2012 \$'000	2011 \$'000
Net (loss)/gain on disposal of property, plant and equipment	(4,654)	160
Net foreign exchange (loss)/gain	(1,778)	53
	(6,432)	213

Notes to the Financial Statements

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2012 \$'000	2011 \$'000
(a) FINANCE COSTS		
Interest on bank and other borrowings wholly repayable within 5 years	2,530	974
Other finance charges	533	–
	3,063	974
(b) STAFF COSTS (INCLUDING DIRECTORS' REMUNERATION (NOTE 8))		
Contributions to defined contribution retirement plans	15,093	9,167
Equity-settled share-based payment expenses (note 22)	12,800	10,845
Salaries, wages and other benefits	325,110	280,138
	353,003	300,150
(c) OTHER ITEMS		
Network, operations and support expenses	2,527,843	2,214,373
– including operating leases charges in respect of leased circuits	325,564	252,903
Depreciation (note 11(a))	137,391	115,602
Amortisation (note 12)	16,891	11,460
Net impairment loss on trade debtors	5,594	7,286
Auditors' remuneration		
– audit services	3,601	3,271
– non-audit services	4,004	1,885
Transaction costs for acquisition of subsidiaries	2,361	172
Operating lease charges in respect of land and buildings	53,134	44,258

7 INCOME TAX

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

	2012 \$'000	2011 \$'000
Current tax – Hong Kong Profits Tax		
Provision for the year	55,042	44,590
(Over)/under-provision in respect of prior year	(201)	80
	54,841	44,670
Current tax – Overseas		
Provision for the year	1,768	4,118
Under-provision in respect of prior year	33	491
	1,801	4,609
Deferred tax		
Recognition of tax losses not recognised in prior years	(15,806)	–
Origination and reversal of temporary differences	(604)	16,158
	(16,410)	16,158
	40,232	65,437

Notes to the Financial Statements

7 INCOME TAX (CONTINUED)

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

The provision for Hong Kong Profits Tax for 2012 is calculated at 16.5% (2011: 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:

	2012 \$'000	2011 \$'000
Profit before taxation	505,221	523,683
Less: Share of profit of an associate	(158,295)	(148,770)
Share of profit of a jointly controlled entity	(1,179)	(410)
	345,747	374,503
Notional tax on profit before taxation calculated at 16.5% (2011: 16.5%)	57,048	61,793
Tax effect of non-taxable income and non-deductible expenses	109	1,774
Tax effect of unused tax losses not recognised	1,026	2,600
Tax effect of different tax rates of operations in other jurisdictions	(2,050)	(1,205)
(Over)/under-provision in respect of prior years	(168)	571
Recognition of tax losses not recognised in prior years	(15,806)	–
Others	73	(96)
Actual tax expense	40,232	65,437

(b) CURRENT TAXATION IN THE BALANCE SHEETS REPRESENTS:

	The Group 2012 \$'000	2011 \$'000
Hong Kong Profits Tax		
Through acquisition of subsidiaries (note 24(c)(i))	–	2,141
Provision for the year	55,042	44,590
Provisional profits tax paid	(31,377)	(43,696)
	23,665	3,035
Overseas tax		
Provision for the year	1,768	4,118
Profits tax paid	(1,325)	–
Balance of tax provision relating to prior years	15,307	13,652
Exchange adjustments	143	(429)
	15,893	17,341
	39,558	20,376
Representing:		
Current tax recoverable	(3,611)	(5,630)
Current tax payable	43,169	26,006
	39,558	20,376

Notes to the Financial Statements

7 INCOME TAX (CONTINUED)

(c) DEFERRED TAX ASSETS AND LIABILITIES RECOGNISED

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

(i) *The Group*

	Intangible assets arising from business combination \$'000	Depreciation allowances in excess of the related depreciation \$'000	Future benefits of tax losses \$'000	Total \$'000
Deferred tax arising from:				
At 1 January 2011	9,860	45,986	(39,594)	16,252
Through acquisition of subsidiaries (note 24(c)(ii))	8,762	380	–	9,142
(Credited)/charged to profit or loss (note 7(a))	(2,090)	11,780	6,468	16,158
Exchange adjustments	(19)	–	203	184
At 31 December 2011	16,513	58,146	(32,923)	41,736
At 1 January 2012	16,513	58,146	(32,923)	41,736
Through acquisition of a subsidiary (note 24(d))	7,942	–	(4,721)	3,221
(Credited)/charged to profit or loss (note 7(a))	(4,283)	1,880	(14,007)	(16,410)
Exchange adjustments	131	33	(921)	(757)
At 31 December 2012	20,303	60,059	(52,572)	27,790

Notes to the Financial Statements

7 INCOME TAX (CONTINUED)

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

(ii) The Company

	Depreciation in excess of the related depreciation allowances \$'000	Future benefits of tax losses \$'000	Total \$'000
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)
At 1 January 2012	(607)	(947)	(1,554)
(Credited)/charged to profit or loss	(444)	823	379
At 31 December 2012	(1,051)	(124)	(1,175)

(iii) Reconciliation to the balance sheets

	The Group 2012 \$'000	2011 \$'000	The Company 2012 \$'000	2011 \$'000
Net deferred tax assets recognised in balance sheets	(37,451)	(19,902)	(1,175)	(1,554)
Net deferred tax liabilities recognised in balance sheets	65,241	61,638	–	–
	27,790	41,736	(1,175)	(1,554)

(d) DEFERRED TAX ASSETS NOT RECOGNISED

In accordance with the accounting policies set out in note 1(p), the Group has not recognised deferred tax assets in respect of unused tax losses of \$83,863,000 (2011: \$140,688,000) at 31 December 2012 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. \$31,630,000 (2011: \$98,716,000) of the tax losses do not expire under the current tax legislation, and \$52,233,000 (2011: \$41,972,000) of the tax losses will expire after 1 to 20 years.

Notes to the Financial Statements

8 DIRECTORS' REMUNERATION

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

	2012						
	Directors' fees	Basic salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Sub-total	Share-based payments	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Executive directors							
Xin Yue Jiang	–	3,460	3,052	14	6,526	679	7,205
Yuen Kee Tong	–	3,493	2,747	158	6,398	597	6,995
Chan Tin Wai, David	–	2,339	2,456	14	4,809	516	5,325
Non-executive directors							
Fei Yiping	–	–	–	–	–	–	–
Liu Jifu	–	–	–	–	–	–	–
Independent non-executive directors							
Yang Xianzu	304	–	–	–	304	81	385
Liu Li Qing	304	–	–	–	304	81	385
Kwong Che Keung, Gordon	304	–	–	–	304	81	385
Total	912	9,292	8,255	186	18,645	2,035	20,680

Notes to the Financial Statements

8 DIRECTORS' REMUNERATION (CONTINUED)

	2011						
	Directors' fees	Basic salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Sub-total	Share-based payments	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'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

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 ("CITIC Pacific"), its intermediate holding company. Details of the share option plans are set out in note 22.

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 2012 and 2011, 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.

Notes to the Financial Statements

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2011: three) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other two (2011: two) individuals are as follows:

	2012	2011
	\$'000	\$'000
Salaries and other emoluments	4,125	3,905
Discretionary bonuses	3,595	3,504
Share-based payments	869	758
Retirement scheme contributions	281	271
	8,870	8,438

The emoluments of the two (2011: two) individuals with the highest emoluments are within the following bands:

	2012	2011
	Number of individuals	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 2012 and 2011, 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.

10 EARNINGS PER SHARE

	2012	2011
	\$'000	\$'000
Profit attributable to equity shareholders of the Company	461,283	458,246

The weighted average number of ordinary shares in issue during the year, is calculated as follows:

	Number of shares	
	2012	2011
	'000	'000
Issued ordinary shares at 1 January	2,385,993	2,385,202
Effect of share options exercised	20	739
Weighted average number of ordinary shares at 31 December	2,386,013	2,385,941
Effect of deemed issue of shares under the Company's share option plan	818	–
Weighted average number of ordinary shares (diluted) at 31 December	2,386,831	2,385,941
Basic earnings per share (HK cents)	19.3	19.2
Diluted earnings per share (HK cents)	19.3	19.2

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.

Notes to the Financial Statements

11 PROPERTY, PLANT AND EQUIPMENT

(a) THE GROUP

	Land and building held for own use (note (c)) \$'000	Tele- communications equipment \$'000	Other assets (note (d)) \$'000	Construction in progress \$'000	Total \$'000
Cost:					
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 24(c)(i))	–	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
At 1 January 2012	159,519	1,099,839	152,380	53,730	1,465,468
Exchange adjustments	–	119	366	7	492
Additions					
– through acquisition of a subsidiary (note 24(d))	–	35,360	8,559	–	43,919
– others	1,408	63,019	28,675	80,016	173,118
Disposals	–	(14,512)	(3,442)	–	(17,954)
Reclassification	–	99,707	6,269	(105,976)	–
At 31 December 2012	160,927	1,283,532	192,807	27,777	1,665,043
Accumulated depreciation:					
At 1 January 2011	4,186	627,889	52,992	–	685,067
Exchange adjustments	–	(167)	(75)	–	(242)
Charge for the year (note 6(c))	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
At 1 January 2012	8,418	718,562	69,967	–	796,947
Exchange adjustments	–	(571)	139	–	(432)
Charge for the year (note 6(c))	4,284	110,829	22,278	–	137,391
Written back on disposals	–	(9,979)	(1,260)	–	(11,239)
At 31 December 2012	12,702	818,841	91,124	–	922,667
Net book value:					
At 31 December 2012	148,225	464,691	101,683	27,777	742,376
At 31 December 2011	151,101	381,277	82,413	53,730	668,521

Notes to the Financial Statements

11 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(b) THE COMPANY

	Other assets (note (d)) \$'000
Cost:	
At 1 January 2011	42,335
Additions	1,300
At 31 December 2011	43,635
At 1 January 2012	43,635
Additions	9,138
Disposals	(11)
At 31 December 2012	52,762
Accumulated depreciation:	
At 1 January 2011	23,215
Charge for the year	4,142
At 31 December 2011	27,357
At 1 January 2012	27,357
Charge for the year	4,684
At 31 December 2012	32,041
Net book value:	
At 31 December 2012	20,721
At 31 December 2011	16,278

- (c) Land and building held for own use is held under a medium-term lease in Hong Kong.
- (d) Other assets include electronic data processing equipment, furniture and fixtures, motor vehicles and office equipment.

Notes to the Financial Statements

12 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 2011	61,639	8,690	–	5,160	626	76,115
Additions through acquisition of subsidiaries (note 24(c)(ii))	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
At 1 January 2012	88,253	8,690	13,400	17,960	626	128,929
Additions through acquisition of a subsidiary (note 24(d))	12,829	–	5,132	13,806	–	31,767
Disposals	–	(8,690)	–	–	–	(8,690)
Exchange adjustments	1,374	–	48	129	–	1,551
At 31 December 2012	102,456	–	18,580	31,895	626	153,557
Accumulated amortisation:						
At 1 January 2011	17,711	8,690	–	1,039	313	27,753
Exchange adjustments	(172)	–	–	–	–	(172)
Charge for the year (note 6(c))	9,469	–	1,240	648	103	11,460
At 31 December 2011	27,008	8,690	1,240	1,687	416	39,041
At 1 January 2012	27,008	8,690	1,240	1,687	416	39,041
Exchange adjustments	488	–	1	1	–	490
Charge for the year (note 6(c))	12,020	–	3,323	1,445	103	16,891
Written back on disposals	–	(8,690)	–	–	–	(8,690)
At 31 December 2012	39,516	–	4,564	3,133	519	47,732
Net book value:						
At 31 December 2012	62,940	–	14,016	28,762	107	105,825
At 31 December 2011	61,245	–	12,160	16,273	210	89,888

Notes to the Financial Statements

13 GOODWILL

(a) THE GROUP

	2012 \$'000	2011 \$'000
Cost and carrying amount:		
At 1 January	363,549	281,465
Additions through acquisition of subsidiaries (note 24)	35,803	82,710
Exchange adjustments	3,104	(626)
At 31 December	402,456	363,549

(b) IMPAIRMENT TESTS FOR CASH-GENERATING UNITS CONTAINING GOODWILL

Goodwill is allocated to the Group's cash generating unit identified as follows:

	2012 \$'000	2011 \$'000
Telecommunications services	402,456	363,549

The recoverable amount of the cash generating unit 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:

	2012 %	2011 %
Long term growth rate	5	5
Discount rate	13	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

14 INTERESTS IN SUBSIDIARIES

(a) THE COMPANY

	2012 \$'000	2011 \$'000
Unlisted shares, at cost	4,071	4,071
Amounts due from subsidiaries (note 17)	1,581,037	1,307,530
	1,585,108	1,311,601
Amounts due to subsidiaries (note 19)	(76,277)	(70,610)
	1,508,831	1,240,991

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

(c) At 31 December 2012, 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	Proportion of ownership interest		Particulars of issued and fully paid-up capital
			Held by the Company	Held by a subsidiary	
Asia Pacific Internet Exchange Limited	Hong Kong	Provision of financial and operational support to HKIX (note (i))	–	75%	HK\$100,000*
China Enterprise Netcom Corporation Limited	Hong Kong	Provision of telecommunications leasing and technology services	–	100%	HK\$100*
中企網絡通信技術有限公司 (China Enterprise Communications Ltd.) ("CEC-BJ")	PRC	Provision of value-added telecommunications services	–	49% (note (ii))	Renminbi ("RMB") 84,620,000
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	–	100%	HK\$2*
CITIC Media 1616 Limited	Hong Kong	Provision of content services to licensed telecoms operators	–	100%	HK\$1*
CITIC Telecom International (Concept) Limited	Hong Kong	Provision of systems integration services	–	100%	HK\$2*

Notes to the Financial Statements

14 INTERESTS IN SUBSIDIARIES (CONTINUED)

- (c) At 31 December 2012, 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: (Continued)

Name of company	Place of incorporation/ operation	Principal activity	Proportion of ownership interest		Particulars of issued and fully paid-up capital
			Held by the Company	Held by a subsidiary	
CITIC Telecom International (Data) Limited	Hong Kong	Provision of data and other telecommunications services	–	100%	HK\$2*
CITIC Telecom International Limited	Hong Kong	Provision of telecommunications services	100%	–	HK\$2*
CITIC Telecom International (Japan) Ltd. (formerly known as CITIC Telecom International (Japan) K.K.) (formerly known as ComNet (Japan) K.K.)	Japan	Provision of telecommunications services	–	100%	Japanese Yen ("JPY") 10,000,000*
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%	Singaporean dollars ("SG\$") 2,000,000*
CITIC Telecom International CPC 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.	Republic of Singapore	Provision of telecommunications services	–	100%	SG\$19,233,002*
ComNet Investment Limited	Hong Kong	Property investment	–	100%	HK\$2*
ComNet Telecom (Canada) Ltd.	Canada	Provision of telecommunications services	–	100%	Canadian dollars ("CAD") 100** and 1 common share without par value ^Δ
ComNet Telecom (HK) Limited	Hong Kong	Provision of telecommunications services	–	100%	HK\$2*

Notes to the Financial Statements

14 INTERESTS IN SUBSIDIARIES (CONTINUED)

- (c) At 31 December 2012, 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: (Continued)

Name of company	Place of incorporation/ operation	Principal activity	Proportion of ownership interest		Particulars of issued and fully paid-up capital
			Held by the Company	Held by a subsidiary	
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:

(i) Hong Kong Internet eXchange (“HKIX”) is an exchange point providing mainly interconnection amongst internet access providers in Hong Kong.

(ii) The Group has consolidated the results of CEC-BJ as the Group can control the financial and operating policies of CEC-BJ.

* Represents ordinary shares.

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.

△ 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 dollars (“USD”) 10,000.

Notes to the Financial Statements

15 INTEREST IN AN ASSOCIATE

(a) THE GROUP

	2012 \$'000	2011 \$'000
Share of net assets		
At 1 January	654,164	671,132
Share of profit for the year	158,295	148,770
Dividend received during the year	(179,596)	(156,666)
Share of reserve	(1,175)	(9,072)
At 31 December	631,688	654,164
Goodwill	818,250	818,250
	1,449,938	1,472,414

(b) THE COMPANY

	2012 \$'000	2011 \$'000
Unlisted shares, at cost	1,400,268	1,400,268

(c) PARTICULARS OF THE ASSOCIATE

Name of associate	Place of incorporation/ operation	Particulars of 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. ("CTM")	Macau	150,000 shares of Macau Pataca ("MOP") 1,000 each	20%	20%	Provision of telecommunications services

Notes to the Financial Statements

15 INTEREST IN AN ASSOCIATE (CONTINUED)

(d) SUMMARY OF FINANCIAL INFORMATION OF THE ASSOCIATE:

	At 31 December 2012			Year ended 31 December 2012	
	Assets \$'000	Liabilities \$'000	Equity \$'000	Revenue \$'000	Profit \$'000
100 per cent (note)	4,368,150	1,209,712	3,158,438	4,742,532	791,475
Group's effective interest	873,630	241,942	631,688	948,506	158,295

	At 31 December 2011			Year ended 31 December 2011	
	Assets \$'000	Liabilities \$'000	Equity \$'000	Revenue \$'000	Profit \$'000
100 per cent (note)	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

Note: The balances include the fair value adjustments together with their respective tax effect on acquisition by the Group.

- (e) The loans from an associate at 31 December 2012 and 2011 bear interest at the prevailing market rate, and are unsecured and repayable on 28 March 2013 and 30 March 2012 respectively.

16 INTEREST IN A JOINTLY CONTROLLED ENTITY

(a) THE GROUP

	2012 \$'000	2011 \$'000
Share of net assets		
At 1 January	14,259	–
Additions through acquisition (note (b))	–	13,849
Share of profit for the year	1,179	410
Exchange adjustments	537	–
At 31 December	15,975	14,259
Goodwill	29,975	28,917
	45,950	43,176

Notes to the Financial Statements

16 INTEREST IN A JOINTLY CONTROLLED ENTITY (CONTINUED)

- (b) 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.

(c) PARTICULARS OF THE JOINTLY CONTROLLED ENTITY

Name of jointly controlled entity	Place of incorporation/ operation	Particulars of 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

(d) SUMMARY OF FINANCIAL INFORMATION OF THE JOINTLY CONTROLLED ENTITY – GROUP'S EFFECTIVE INTEREST

	2012 \$'000	2011 \$'000
Non-current assets	13,540	14,051
Current assets	14,085	9,043
Non-current liabilities	(2,032)	(2,292)
Current liabilities	(9,618)	(6,543)
Net assets	15,975	14,259
Income	35,107	2,803
Expenses	(33,928)	(2,393)
Profit for the year	1,179	410

Note: The balances include the Group's effective interest of the fair value adjustments together with their respective tax effect on acquisition by the Group.

Notes to the Financial Statements

17 TRADE RECEIVABLES, OTHER RECEIVABLES AND DEPOSITS

	The Group		The Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Trade debtors	1,282,678	1,098,564	–	–
Less: allowance for doubtful debts	(40,898)	(28,635)	–	–
	1,241,780	1,069,929	–	–
Other receivables and deposits	296,155	260,916	7,087	6,682
Amount due from a fellow subsidiary	–	86,538	–	–
Amounts due from subsidiaries (note 14)	–	–	1,581,037	1,307,530
	1,537,935	1,417,383	1,588,124	1,314,212
Represented by:				
Non-current portion	174,352	109,347	–	–
Current portion	1,363,583	1,308,036	1,588,124	1,314,212
	1,537,935	1,417,383	1,588,124	1,314,212

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 2012 of the Group and the Company amounted to \$36,315,000 (2011: \$30,552,000) and \$986,000 (2011: \$4,340,000) respectively which will not be recovered within a year.

At 31 December 2012 and 2011, included in the other receivables and deposits were the following:

- (i) net deferred expenditure of \$5,070,000 (2011: \$7,020,000) 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 \$84,702,000 (2011: \$91,273,000) 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) an advance payment for the acquisition of the remaining equity interest in a subsidiary of \$76,442,000 (2011: \$Nil), please refer to note 24(a) for details of the transaction.

Notes to the Financial Statements

17 TRADE RECEIVABLES, OTHER RECEIVABLES AND DEPOSITS (CONTINUED)**(a) AGEING ANALYSIS**

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	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Within 1 year	1,164,022	1,044,958	–	–
Over 1 year	118,656	53,606	–	–
	1,282,678	1,098,564	–	–

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 25(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)(i)).

The movement in the allowance for doubtful debts during the year is as follows:

	The Group		The Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
At 1 January	28,635	19,690	–	–
Through acquisition of subsidiaries	7,559	7,300	–	–
Impairment loss recognised	6,808	13,720	–	–
Impairment loss reversed	(1,214)	(6,434)	–	–
Uncollectible amounts written off	(897)	(5,666)	–	–
Exchange adjustments	7	25	–	–
At 31 December	40,898	28,635	–	–

At 31 December 2012, the Group's trade debtors of \$135,832,000 (2011: \$76,456,000) 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 \$40,898,000 (2011: \$28,635,000) were recognised by the Group. The Group does not hold any collateral over these balances.

Notes to the Financial Statements

17 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	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Within 1 year	1,067,399	987,556	–	–
Over 1 year	79,447	34,552	–	–
	1,146,846	1,022,108	–	–

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.

18 CASH AND CASH EQUIVALENTS

(a) CASH AND CASH EQUIVALENTS COMPRISE:

	The Group		The Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Cash at bank and in hand	267,892	186,473	9,015	10,609
Time deposits with banks	86,924	70,550	20,000	30,420
Cash and bank deposits (note (b))	354,816	257,023	29,015	41,029
Less: pledged deposits (note (c))	(3,808)	(3,697)		
Cash and cash equivalents	351,008	253,326		

(b) Included in cash and bank deposits were \$27,098,000 (2011: \$21,312,000) 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.

(c) At 31 December 2012 and 2011, certain bank deposits were pledged to secure the general banking facilities provided to the Group.

Notes to the Financial Statements

18 CASH AND CASH EQUIVALENTS (CONTINUED)

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

	2012 \$'000	2011 \$'000
Profit before taxation	505,221	523,683
Adjustments for:		
Depreciation and amortisation	154,282	127,062
Net loss/(gain) on disposal of property, plant and equipment	4,654	(160)
Share of profit of an associate	(158,295)	(148,770)
Share of profit of a jointly controlled entity	(1,179)	(410)
Transaction costs for acquisition of subsidiaries	2,361	172
Finance costs	3,063	974
Interest income	(545)	(885)
Equity-settled share-based payment expenses	12,800	10,845
Foreign exchange gain	(1,559)	(665)
	520,803	511,846
Changes in working capital:		
Decrease/(increase) in trade receivables, other receivables and deposits	11,895	(65,165)
Decrease in trade and other payables	(203,947)	(57,266)
Decrease in amount due from a fellow subsidiary	–	8,074
Cash generated from operations	328,751	397,489

19 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Trade creditors	605,168	642,600	–	–
Other payables and accruals	283,888	304,788	31,467	25,569
Amounts due to subsidiaries (note 14)	–	–	76,277	70,610
	889,056	947,388	107,744	96,179
Represented by:				
Non-current portion	87,808	95,192	–	–
Current portion	801,248	852,196	107,744	96,179
	889,056	947,388	107,744	96,179

At 31 December 2012, other payables included a deferred revenue of \$95,192,000 (2011: \$102,576,000) for an amount received from a customer for the provision of certain telecommunications services. Such amount has been deferred and amortised on a straight-line basis over the underlying service period of 15 years.

Notes to the Financial Statements

19 TRADE AND OTHER PAYABLES (CONTINUED)

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, based on the invoice date, at the balance sheet date:

	The Group		The Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Within 1 year	462,358	554,576	–	–
Over 1 year	142,810	88,024	–	–
	605,168	642,600	–	–

20 BANK LOANS

The loans are uncommitted revolving loans repayable within one year, which are unsecured and bear interest at prevailing market rates.

21 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 employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contribution to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of \$25,000 (\$20,000 prior to June 2012). Contributions to the plan vest immediately.

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.

22 EQUITY SHARE-BASED TRANSACTIONS

(a) SHARE OPTION PLAN OF AN INTERMEDIATE HOLDING COMPANY

(i) CITIC Pacific Share Incentive Plan 2000

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.

Notes to the Financial Statements

22 EQUITY SHARE-BASED TRANSACTIONS (CONTINUED)**(a) SHARE OPTION PLAN OF AN INTERMEDIATE HOLDING COMPANY (CONTINUED)***(i) CITIC Pacific Share Incentive Plan 2000 (continued)*

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 2012 and 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 2012 and 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 2012 and 2011, as the share options granted to the Group's directors are in respect of their services to CITIC Pacific and its subsidiaries ("CITIC Pacific group") as a whole and their services to the Group only occupy an insignificant amount of their time.

(ii) 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 2012.

Notes to the Financial Statements

22 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 were exercisable until 22 May 2012. The exercise price was \$3.26 per share, being the closing price of the Company's ordinary shares on the date of grant of the First Lot. The First Lot expired at the close of business on 22 May 2012.

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.

Details of the fair value of the share options and assumptions are set out in note 22(b)(iii).

Notes to the Financial Statements

22 EQUITY SHARE-BASED TRANSACTIONS (CONTINUED)

(b) SHARE OPTION PLAN OF THE COMPANY (CONTINUED)

(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 per share	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	Expired 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	Fully vested on 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	Expired 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	Fully vested on 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		

Notes to the Financial Statements

22 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:

	2012		2011	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	\$1.98	92,444,000	\$2.46	47,258,000
Granted during the year	–	–	\$1.54	48,455,000
Exercised during the year (note 23(b))	\$1.54	(682,500)	\$2.10	(791,000)
Cancelled during the year	–	–	\$1.54	(200,000)
Lapsed during the year	\$3.08	(16,255,500)	\$2.49	(2,278,000)
Outstanding at the end of the year	\$1.75	75,506,000	\$1.98	92,444,000
Exercisable at the end of the year	\$1.85	51,801,000	\$2.47	44,189,000

During the year ended 31 December 2012, options for 682,500 (2011: 791,000) shares were exercised, options for 16,255,500 (2011: 2,278,000) shares have lapsed, but no option (2011: 200,000 shares) has been cancelled. The value of vested options lapsed during the year ended 31 December 2012 was \$10,785,000 (2011: \$1,014,000) 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 \$1.99 (2011: \$2.69). The options outstanding at 31 December 2012 had a weighted average exercise price of \$1.75 (2011: \$1.98) per share and a weighted average remaining contractual life of 4.21 (2011: 4.05) 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

22 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 2012 in respect of the grant of the aforesaid 48,455,000 options is \$12,800,000 (2011: \$5,918,000).

- (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 2012 in respect of the grant of the aforesaid 35,825,000 options is \$Nil (2011: \$4,927,000).

- (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.

Notes to the Financial Statements

23 CAPITAL, RESERVES AND DIVIDENDS

(a) DIVIDENDS

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

	2012 \$'000	2011 \$'000
Interim dividend declared and paid of 2.4 cents (2011: 2.4 cents) per share	57,264	57,264
Final dividend proposed after the end of the balance sheet date of 7.2 cents (2011: 7.2 cents) per share	171,841	171,791
	229,105	229,055

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

(ii) *Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year*

	2012 \$'000	2011 \$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 7.2 cents (2011: 7.1 cents) per share	171,791	169,405

(b) SHARE CAPITAL

	2012		2011	
	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))	2,385,992,870	238,599	2,385,201,870	238,520
Shares issued under share option plan (note (ii))	682,500	69	791,000	79
At 31 December (note (i))	2,386,675,370	238,668	2,385,992,870	238,599

Notes to the Financial Statements**23 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)****(b) SHARE CAPITAL (CONTINUED)**

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) During the year ended 31 December 2012, 682,500 (2011: 791,000) ordinary shares were issued at a weighted average exercise price of \$1.54 (2011: \$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.

(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 represents the portion of the grant date fair value of the actual or estimated number of unexercised share options granted to directors or employees of the Company under the Company's share option plan that has been recognised in accordance with the accounting policies adopted for share-based payments set out 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 operations outside Hong Kong. The reserve is dealt with in accordance with the accounting policies set out in note 1(s).

(f) DISTRIBUTABILITY OF RESERVES

At 31 December 2012, the aggregate amount of reserves available for distribution to equity shareholders of the Company, as calculated under the provisions of section 79B of the Hong Kong Companies Ordinance, was \$912,606,000 (2011: \$761,275,000). After the balance sheet date, the directors proposed a final dividend of 7.2 cents (2011: 7.2 cents) per share, amounting to \$171,841,000 (2011: \$171,791,000). This dividend has not been recognised as a liability at the balance sheet date.

Notes to the Financial Statements

23 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(g) PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of \$11,995,000 (2011: \$6,815,000) for the year ended 31 December 2012 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:

	2012	2011
	\$'000	\$'000
Amount of consolidated loss attributable to equity shareholders dealt with in the Company's financial statements	(11,995)	(6,815)
Interim/final dividends from subsidiaries and an associate attributable to the profits of the current/previous financial year, approved and paid during the year	381,596	462,005
Company's profit for the year	369,601	455,190

(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 shareholders of the Company, comprising share capital and reserves as disclosed in the consolidated financial statements. At 31 December 2012 and 2011, 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.

Notes to the Financial Statements

24 ACQUISITION OF SUBSIDIARIES

(a) On 2 September 2010, the Group entered into a framework agreement (the "Framework Agreement") with CITIC Group Corporation, CE-SCM Network Technology Co., Ltd. ("CE-SCM"), Information Centre of State-owned Assets Supervision & Administration Commission of the State Council ("SASAC") and CEC-BJ, 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-BJ from CE-SCM;
- (ii) 8.23% equity interest in CEC-BJ from CITIC Group Corporation together with a purchase right (the "Purchase Right") to acquire the remaining 45.09% equity interest in CEC-BJ 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-BJ under the then prevailing PRC laws and regulations; and
- (iii) all the issued shares of China Enterprise Netcom Corporation Limited ("CEC-HK") held by China Enterprise Communications Technology (Holding) Limited, a wholly-owned subsidiary of CEC-BJ.

Pursuant to the Framework Agreement, the Group completed the acquisition of CEC-HK and CEC-BJ on 29 July 2011 and 6 September 2012 respectively.

The aggregate consideration paid by the Group is approximately \$281,528,000 comprising:

- (i) RMB93,286,000 (approximately \$111,403,000) paid to CE-SCM by instalments;
- (ii) RMB80,818,000 (approximately \$98,956,000) paid to CITIC Group Corporation, out of which RMB61,987,000 (approximately \$75,820,000) was paid as advance payment for the acquisition of the remaining 45.09% equity interest in CEC-BJ 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.

CEC-HK is engaged in the provision of telecommunications leasing and technology services and CEC-BJ is engaged in the provision of value-added telecommunications services.

(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.

Notes to the Financial Statements

24 ACQUISITION OF SUBSIDIARIES (CONTINUED)

- (c) For the year ended 31 December 2011, 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.

- (i) 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 11)	3,826	–	3,826
Intangible assets (note 12)	–	53,100	53,100
Trade receivables, other receivables and deposits	27,668	–	27,668
Amount due from a fellow subsidiary (note 17)	86,538	–	86,538
Cash and bank deposits	265	–	265
Trade and other payables (note (ii))	(91,022)	–	(91,022)
Current tax payable (note 7(b))	(2,141)	–	(2,141)
Bank borrowings (note (iii))	(30,000)	–	(30,000)
Deferred tax liabilities (note 7(c)(i))	(380)	(8,762)	(9,142)
Net identifiable assets and liabilities	(5,246)	44,338	39,092
Goodwill on acquisition (note (e) and note 13(a))			82,710
			121,802
Satisfied by:			
Deposit for acquisition of subsidiaries (note (a))			65,931
Cash paid			7,699
Other payables (note (f))			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 (note (f))			(7,434)

Notes to the Financial Statements

24 ACQUISITION OF SUBSIDIARIES (CONTINUED)

(c) (CONTINUED)

(iii) 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 2011.

(iii) The Group has wholly repaid the bank borrowings during 2011.

- (d) For the year ended 31 December 2012, CEC-BJ contributed an aggregate revenue of \$82,070,000 and aggregate net gain of \$8,101,000 to the Group's profit for the period from the date of acquisition to 31 December 2012. The effect on revenue and loss of CEC-BJ as if the acquisition had occurred at the beginning of the year ended 31 December 2012 to the Group were \$235,207,000 and \$8,423,000 respectively.

These amounts have been calculated using the Group's accounting policies and by adjusting the result of the relevant subsidiary to reflect the additional amortisation that would have been charged assuming the fair value adjustments to intangible assets had been applied from 1 January 2012 together with the consequential tax effects.

The acquisition 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 11)	43,919	–	43,919
Intangible assets (note 12)	–	31,767	31,767
Trade receivables, other receivables and deposits	53,530	–	53,530
Cash and bank deposits	25,162	–	25,162
Trade and other payables	(181,704)	–	(181,704)
Net deferred tax liabilities (note 7(c)(i))	–	(3,221)	(3,221)
Net identifiable assets and liabilities	<u>(59,093)</u>	<u>28,546</u>	<u>(30,547)</u>
Non-controlling interests arising from acquisition of a subsidiary			15,579
Goodwill on acquisition (note (e) and note 13(a))			<u>35,803</u>
			<u>20,835</u>
Satisfied by:			
Cash paid			<u>20,835</u>
Cash and cash equivalents acquired			25,162
Cash consideration paid			<u>(20,835)</u>
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiary (note (f))			<u>4,327</u>

Notes to the Financial Statements

24 ACQUISITION OF SUBSIDIARIES (CONTINUED)

(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) Payment for acquisition of subsidiaries (net of cash and cash equivalents acquired):

	2012	2011
	\$'000	\$'000
Net cash (inflow)/outflow (notes (d) and (c)(i))	(4,327)	7,434
Payment for settle the other payables in relation to acquisition of subsidiaries (note (c)(i))	48,172	–
	43,845	7,434

25 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 evaluations 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 2012, the balance due from these PRC customers amounted to \$654,905,000 (2011: \$520,482,000). 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 allowance for doubtful debts have been within management's expectations.

Notes to the Financial Statements

25 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:

	2012	2011
	%	%
Due from the Group's largest customer	44	26
Due from the Group's five largest customers	57	54

Financial guarantee given by the Group and the maximum exposure to credit risk in respect of financial guarantees at the balance sheet date is disclosed in note 27.

(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 \$1,106,285,000 (2011: \$1,001,530,000) and \$207,744,000 (2011: \$96,179,000) respectively.

Notes to the Financial Statements

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(c) INTEREST RATE RISK

The Group is exposed to cashflow interest rate risk arising from the Group's holding of cash and bank deposits, bank loans and the loans from an associate, which are interest-bearing at floating rates. The management monitors interest rate exposures and will consider hedging significant interest rate risk should the need arise. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's and the Company's interest-earning financial assets, bank loans and loans from an associate at the balance sheet date:

	The Group				The Company			
	2012		2011		2012		2011	
	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	0.09	354,816	0.06	257,023	0.40	29,015	0.16	41,029
Bank loans	1.52	(100,000)	-	-	1.52	(100,000)	-	-
Loans from an associate	1.87	(161,868)	2.03	(123,328)	-	-	-	-
		<u>92,948</u>		<u>133,695</u>		<u>(70,985)</u>		<u>41,029</u>

(ii) Sensitivity analysis

At 31 December 2012, it is estimated that interest rates will not decrease and a general increase of 50 (2011: 50) 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 \$465,000 (2011: \$668,000). Other components of consolidated equity would not be affected (2011: \$Nil) by the changes in interest rates.

The sensitivity analysis above indicates the Group's exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group 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 2011.

(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.

Notes to the Financial Statements

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(d) CURRENCY RISK (CONTINUED)

(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.

The Group

	Exposure to foreign currencies (expressed in HKD)			
	2012			
	USD '000	RMB '000	Euros '000	MOP '000
Trade receivables, other receivables and deposits	1,189,359	142,403	3,704	1,322
Cash and bank deposits	148,371	11,273	3,211	–
Trade and other payables	(516,294)	(3,639)	(7,667)	(6)
Loan from an associate	–	–	–	(161,868)
	821,436	150,037	(752)	(160,552)

	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)
Loan from an associate	–	–	–	(123,328)
	467,404	136,141	(11,966)	(122,894)

The Company

	Exposure to foreign currencies (expressed in HKD)	
	2012	2011
	USD '000	USD '000
Cash and bank deposits	1,425	31,771

Notes to the Financial Statements

25 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 (2011: \$Nil) by the changes in the foreign exchange rates.

The Group

	2012		2011	
	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	2%	2,543	1%	1,138
Euros	10%	(10)	10%	(937)
MOP	1%	(1,608)	1%	(1,230)

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 2011.

(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 2012 and 2011.

Notes to the Financial Statements

26 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	
	2012	2011
	\$'000	\$'000
Contracted for		
– capital expenditure	20,954	43,776
– investments in subsidiaries	2,434	21,100
	23,388	64,876
Authorised but not contracted for		
– capital expenditure	35,414	66,414

The Company had no capital commitments at 31 December 2012 and 2011.

(b) COMMITMENTS UNDER OPERATING LEASES

(i) The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Land and buildings				
Within 1 year	30,510	30,999	1,472	11,764
After 1 year but within 5 years	33,038	12,378	1,615	–
After 5 years	29	–	–	–
	63,577	43,377	3,087	11,764
Leased circuits				
Within 1 year	37,967	48,602	–	–
After 1 year but within 5 years	4,741	27,715	–	–
After 5 years	118	235	–	–
	42,826	76,552	–	–

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

26 COMMITMENTS (CONTINUED)

(b) COMMITMENTS UNDER OPERATING LEASES (CONTINUED)

- (ii) The Group leases out a number of leased circuits under operating leases. The Group's total future minimum lease payments under non-cancellable operating leases are receivables as follows:

	The Group	
	2012	2011
	\$'000	\$'000
Within 1 year	15,261	17,125
After 1 year but within 5 years	–	15,261
	15,261	32,386

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 COMMITMENT

At 31 December 2011, the Group had a commitment in respect of an advance payment for the acquisition of the remaining equity interest in a subsidiary of RMB61,987,000 (approximately \$76,511,000). Please refer to note 24(a) for details of the transaction.

27 FINANCIAL GUARANTEE ISSUED

At 31 December 2012, 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 2012, 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 \$161,868,000 (2011: \$123,328,000).

Notes to the Financial Statements

28 MATERIAL RELATED PARTY TRANSACTIONS**(a) TRANSACTIONS WITH THE AFFILIATES OF THE GROUP AND ITS HOLDING COMPANIES***(i) Recurring transactions*

	2012	2011
	\$'000	\$'000
Telecommunications services and related income received/receivable from an associate	13,503	14,969
Telecommunications services and related expenses paid/payable to an associate	9,161	6,720
Telecommunications services and related expenses paid/payable to a fellow subsidiary	101,524	138,663
Professional fees paid/payable to an intermediate holding company for the provision of internal audit and company secretarial services	3,500	3,200
Operating lease charges, building management fees and air conditioning charges paid/payable to an affiliated company	15,656	16,057
Building management fees and air conditioning charges paid/payable to a fellow subsidiary	4,962	4,436
Operating lease charges, building management fees, air conditioning charges and car parking spaces rental paid/payable to a fellow subsidiary	2,164	–
Operating lease charges, building management fees paid/payable to a fellow subsidiary	1,634	–

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

28 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(a) TRANSACTIONS WITH THE AFFILIATES OF THE GROUP AND ITS HOLDING COMPANIES (CONTINUED)

(ii) Non-recurring transactions

	2012 \$'000	2011 \$'000
Interest paid/payable for loans from an associate	1,551	914
Removal, relocation and reinstallation works provided by a fellow subsidiary	4,600	–
Mechanical ventilation and air-conditioning installation works provided by a fellow subsidiary	7,943	5,380

During the years ended 31 December 2012 and 2011, the Group completed the acquisition of the equity interests of CEC-BJ and of CEC-HK respectively from the affiliates of the Group. Please refer to note 24 for details.

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

	2012 \$'000	2011 \$'000
Amount due (to)/from an associate included in		
– Trade receivables, other receivables and deposits	5,404	4,525
– Trade and other payables	(5,764)	(2,947)
	(360)	1,578
Amount due to a fellow subsidiary included in		
– Trade and other payables	418	1,002
Amounts due from a fellow subsidiary included in		
– Trade receivables, other receivables and deposits	–	86,538

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

(iv) Loans from an associate

	2012 \$'000	2011 \$'000
Loans from an associate (note 15(e))	161,868	123,328

Details of new loan and loan repaid during the year are disclosed in the consolidated cash flow statement.

Notes to the Financial Statements

28 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)**(a) TRANSACTIONS WITH THE AFFILIATES OF THE GROUP AND ITS HOLDING COMPANIES (CONTINUED)***(v) Capital commitment to a fellow subsidiary*

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

	2012	2011
	\$'000	\$'000
Contracted for	–	–
Authorised but not contracted for	–	8,108

The capital commitment was related to the fellow subsidiary for providing mechanical ventilate and air-conditioning installation works to the Group and is included in note 26(a).

(vi) Commitments under operating leases payable to an affiliate

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

	2012	2011
	\$'000	\$'000
Within 1 year	6,923	11,764
After 1 year but within 5 years	6,058	–
	12,981	11,764

The leases related to the affiliate typically run for an initial period of 2 to 3 years and the related commitments are included in note 26(b)(i).

(vii) Commitment under operating lease payable to a fellow subsidiary

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

	2012	2011
	\$'000	\$'000
Within 1 year	8,079	–
After 1 year but within 5 years	13,044	–
	21,123	–

The lease related to the fellow subsidiary runs for an initial period of 3 years and the related commitments are included in note 26(b)(i).

Notes to the Financial Statements

28 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(b) 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 organisation (collectively referred to as "government-related entities").

Apart from transactions with the affiliates of the Group 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

	2012 \$'000	2011 \$'000
Interest income from bank deposits	95	41
Fees received/receivable from provision of telecommunications services	1,351,394	1,280,598
Fees paid/payable for network, operations and support services	(836,218)	(725,759)

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

	2012 \$'000	2011 \$'000
Bank deposits	38,272	52,236
Trade debtors	737,563	608,226
Trade creditors	(66,880)	(178,781)

Notes to the Financial Statements

28 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)**(b) TRANSACTIONS WITH OTHER GOVERNMENT-RELATED ENTITIES (CONTINUED)***(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:

	2012	2011
	\$'000	\$'000
Within 1 year	12,608	931

The leases related to the other government-related entities typically run for an initial period of 1 year and the related commitments are included in note 26(b)(i).

(c) KEY MANAGEMENT PERSONNEL REMUNERATION

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

	2012	2011
	\$'000	\$'000
Short-term employee benefits	26,179	25,241
Share-based payments	2,904	2,545
Post-employment benefits	467	445
	29,550	28,231

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

29 NON-ADJUSTING POST BALANCE SHEET EVENTS**(a) ACQUISITION OF 79% INTEREST IN CTM**

On 13 January 2013, the Company entered into two sale and purchase agreements with Sable Holding Limited (a wholly-owned subsidiary of Cable & Wireless Communications Plc) and Portugal Telecom, SGPS, S.A., PT Participações SGPS, S.A. and PT Comunicações, S.A. respectively to acquire their entire interests in CTM (being a total of 79% interest), for a total cash consideration of USD1,161,300,000 (approximately \$9,058,100,000), subject to adjustments as set out in the relevant sale and purchase agreements (together referred to as the "Acquisitions"). Upon completion of the Acquisitions, the Company will hold a 99% interest in CTM, which will then become a subsidiary of the Company. The completion of the Acquisitions will be subject to the terms and conditions as set out in the relevant sale and purchase agreements.

(b) PROPOSAL OF A FINAL DIVIDEND

After the balance sheet date the directors proposed a final dividend. Further details are disclosed in note 23(a).

Notes to the Financial Statements

30 IMMEDIATE PARENT AND ULTIMATE CONTROLLING PARTY

At 31 December 2012, 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 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2012

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2012 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, <i>Consolidated financial statements</i>	1 January 2013
HKFRS 11, <i>Joint arrangements</i>	1 January 2013
HKFRS 12, <i>Disclosure of interests in other entities</i>	1 January 2013
HKAS 28, <i>Investments in associates and joint ventures</i>	1 January 2013

The Group is in the process of making an assessment of what the impact of these development 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 consolidated financial statements except for the following:

(a) HKFRS 10, CONSOLIDATED FINANCIAL STATEMENTS

HKFRS 10 replaces the requirements in HKAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and HK-SIC 12 *Consolidation – Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

The application of HKFRS 10 is not expected to change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013. However, it may in the future result in investees being consolidated which would not have been consolidated under the Group's existing policies or vice versa.

Notes to the Financial Statements**31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2012 (CONTINUED)****(b) HKFRS 11, JOINT ARRANGEMENTS**

HKFRS 11, which replaces HKAS 31, *Interests in joint ventures*, divides joint arrangements into joint operations and joint ventures. Entities are required to determine the type of an arrangement by considering the structure, legal form, contractual terms and other facts and circumstances relevant to their rights and obligations under the arrangement. Joint arrangements which are classified as joint operations under HKFRS 11 are recognised on a line-by-line basis to the extent of the joint operator's interest in the joint operation. All other joint arrangements are classified as joint ventures under HKFRS 11 and are required to be accounted for using the equity method. Proportionate consolidation is no longer allowed as an accounting policy choice.

The application of HKFRS 11 is not expected to change the Group's accounting for its jointly controlled entity which is currently accounted for using the equity method.

(c) HKFRS 12, DISCLOSURE OF INTERESTS IN OTHER ENTITIES

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required in HKFRS 12 are generally more extensive than those required in the current standards. The Group may have to make additional disclosures about its interests in other entities when the standard is adopted for the first time in 2013.

Glossary

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
LTE	long-term evolution, marketed as 4G LTE, is a standard for wireless communication of high-speed data for mobile phones and data terminals
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
MVNO	A mobile virtual network operator (MVNO) is a wireless communications services provider that does not own the radio spectrum or wireless network infrastructure over which the MVNO provides services to its customers
mVoIP	Mobile VoIP or simply mVoIP is an extension of mobility to a Voice over IP network
OTT	“over-the-top” refers to the delivery of content and/or services over an infrastructure that is not under the same administrative control as the content or service provider
POP(s)	Point(s) of Presence, connection facilities co-located in the data centers of other telecoms operators that consist primarily of transmission equipment with which calls and data are routed to and from the Group’s hub
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

Glossary

USSD	A Mobile VAS which enables a mobile customer to reverse a roaming originating call to a roaming terminating call by initiating a call, and then wait for a call back to his mobile phone instead of making a call directly, thereby benefiting from the general service charge difference between roaming originating calls and roaming terminating calls
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
WiFi	Wi-Fi is a popular technology that allows an electronic device to exchange data wirelessly (using radio waves) over a computer network, including high-speed Internet connections. The Wi-Fi Alliance defines Wi-Fi as any "wireless local area network (WLAN) products that are based on the Institute of Electrical and Electronics Engineers' (IEEE) 802.11 standards"

Corporate Information

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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: 10 April 2013 to 12 April 2013 and
18 April 2013 to 22 April 2013

Annual General Meeting: 12 April 2013, 10:30 a.m.
Salon 6, JW Marriott Ballroom, Level 3,
JW Marriott Hotel Hong Kong,
Pacific Place, 88 Queensway,
Hong Kong

Final Dividend Payable: 30 April 2013

ANNUAL REPORT 2012

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.

www.citictel.com



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CITIC TELECOM INTERNATIONAL

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