

2016 ANNUAL REPORT

WE BELIEVE IN A

FUTURE

FULL OF POSSIBILITIES



中信國際電訊

CITIC TELECOM INTERNATIONAL

STOCK CODE: 1883

# 390TUF

4G 



## ABOUT US

CITIC Telecom International Holdings Limited ("the Company", and together with its subsidiaries "the Group") was established in 1997 in Hong Kong and was listed on The Stock Exchange of Hong Kong Limited on 3 April 2007.

The Group's services cover international telecommunications services (including mobile, Internet, voice and data services), integrated telecoms services (in Macau), and through its wholly-owned subsidiary, CITIC Telecom International CPC Limited ("CPC"), has established numerous PoPs around the world (especially in the Asia-Pacific region) to provide data and telecoms services (including VPN, Cloud, network security, co-location, Internet access, etc.) to multinational corporations. CPC is one of the most trusted partners of leading multinational and business enterprises in the Asia-Pacific region.

The Group holds 99% equity interest in Companhia de Telecomunicações de Macau, S.A.R.L. ("CTM"). CTM is one of the leading integrated telecoms services providers in Macau, and is the only full telecoms services provider in Macau. It has long provided quality telecoms services to the residents, government and enterprises of Macau, and plays an important role in the ongoing development of Macau.

CITIC Group Corporation, one of the largest commercial organisations in the People's Republic of China, is the ultimate holding company of the Company.

## VISION

To become an Internet-oriented telecommunications company; enabling connections anytime and anywhere, among people, among things, and among each other; enhancing the driving force for the advancement of society and a higher quality of life.

## MISSION

- Rooted in Mainland China, taking Hong Kong and Macau as the base and connection, providing communications services with global coverage.
- Customer-oriented, with an acute observation of their needs, continuing to generate new value for our customers.
- Market-oriented, with a vision to industry trends, continuing to deliver top quality services.
- With value as our goal, providing long-term sustainable return for our shareholders.

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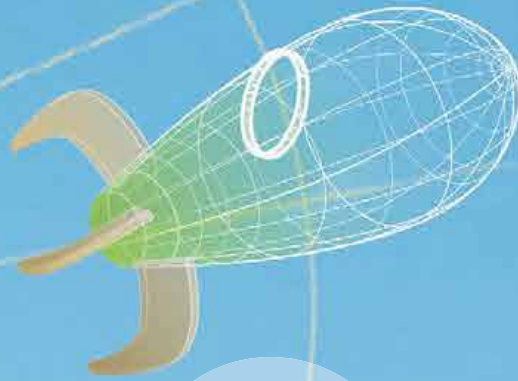
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**ENTERPRISE  
SOLUTIONS**

**INTERNET**

**MOBILE**

**INT'L  
TELECOM**

**FIXED LINE**



**OUR EXCELLENT SERVICES**

**KNOW YOUR NEEDS  
IN THE FUTURE**

# MILESTONES 2016



## JANUARY

- CITIC Telecom International CPC Limited (“CPC”) received the Grand Award and four Product Awards from “Sing Tao Daily IT Square Editors’ Choices 2015” in Hong Kong
  - Grand Award:
    - The Best Integrated ICT Services Partner
  - Four Product Awards:
    - The Best Managed Security Services Provider
    - The Best Cloud Infrastructure Service Provider
    - The Best Cloud Backup Solutions Provider
    - The Best Enterprise Cloud Datacenter Provider
- Companhia de Telecomunicações de Macau, S.A.R.L. (“CTM”) was awarded the management and maintenance services for Telecommunications and Nav aids system at Macau airport
- Commercial private automated branch exchange (PABX) and light-emitting diode (LED) large screen display field support team of CTM obtained ISO 9001 (Quality Management) certificate, ensuring good quality customer service



## MARCH

- Established direct IPX connections to a Taiwan mobile network operator (MNO)
- CPC received “2015 Best IT Candidate Award” from Information Management Association of R.O.C. (IMA) – “The Best Information Security Practitioner”
- CTM completed initial platform development of “Macau Good Hands” and starts to gain practical operational experience for online shopping from internal trial. This project targets to enhance the competitiveness in SME sector by extending business from offline to online and vice versa. It was launched in March 2017
- CTM collaborated with a Hong Kong operator to launch the pioneer 4G+ “City Link Plan (Macau & HK)” Service Plan, which provides convenience in telecoms services for customers, including savings in roaming data and international calls



# MILESTONES 2016



## MARCH

- Through the cooperation with a Hong Kong operator, CTM is able to extend its Wi-Fi hotspots to Hong Kong seamlessly, CTM's customers can access Wi-Fi service at more than 16,000 Wi-Fi hotspots located in both Macau and Hong Kong
- CTM was contracted to provide summer activity registration services to the Macau SAR Government for the 15th consecutive year



## APRIL

- Launched Macau Day Plan for a China MNO
- CTM was continuously awarded "The Best Telecommunication Service and Brand" in "Macau Elite Service Award 2015" as a recognition of its quality services in the industry
- CTM won the phase two and three transmission network projects from the Macau SAR Government
- "WiFi Go" operating team of CTM was awarded ISO 9001:2008 certificate for Quality Management, providing quality service to "WiFi Go" customers



## MAY

- Mobile Virtual Network Operator (MVNO) launched 4G data roaming service in Macau
- CPC won "Platinum Brand 2016 – Cloud Computing Solution" organised by PC3 magazine, Hong Kong
- CTM formed collaborative partnership to launch "CTM JOOX" Music Service in Macau which allows customers to enjoy a new music experience



# MILESTONES 2016

## JUNE

- Established direct IPX connections to a South-East Asia MNO
- Awarded “Best Business Cooperative Partner” from a China operator
- Won “Customer Relationship Excellence (CRE) Award 2015” from Asia Pacific Customer Service Consortium winning categories:
  - China Enterprise ICT Solutions Limited
    - Customer Service Professional of the Year (Network Communications – Service Centre)
    - Customer Service Team Leader of the Year (Network Communications – Contact Centre)
  - CPC
    - Customer Service Manager of the Year (Network Communications – Service Centre)
    - CRM Manager of the Year (Network Communications)
- CPC won “Managed Security Services Provider” at the “Computerworld Hong Kong Awards 2016” for the 5th consecutive year by Computerworld Hong Kong
- CPC won “The Distinguished Salesperson Award (DSA)” from Hong Kong Management Association for the 13th consecutive year
- CPC won “Managed Security Services” at the “Information Management Awards 2016” by NetworkWorld Asia, Singapore
- CTM successfully completed online video broadcasting for International Dragon Boat Races
- Commercial video from Education and Youth Affairs Bureau for International Student Dancing Festival was played in CyberCTM and it was the first commercial video after adding life magazine style contents
- CTM was the first operator to launch 4G VoLTE (Voice over LTE) and ViLTE (Video over LTE) in Macau, this enhances the speed and quality of communications experience for the 4G+ customers
- CTM was awarded the CCTV system from a major gaming enterprise on the Cotai Strip in Macau



## JULY

- CPC won 2 awards:
  - “Cloud Services” of the “Computerworld Malaysia Customer Care Award” by Computerworld Malaysia
  - “Firewall/VPN Solutions” of the “Computerworld Singapore Customer Care Award” by Computerworld Singapore
- CTM cooperated with Tai Fung Bank and Bank of China Credit Card (International) Limited to jointly launch Macau’s first Co-branded Visa Signature Credit Card – Tai Fung CTM Visa Signature Credit Card
- CTM launched 4G+ “City Link” service plan covering mobile service in Macau, Hong Kong and China
- CTM acquired the Extra Low Voltage (ELV) system from a private school in Macau





# MILESTONES 2016



## AUGUST

- CPC won "Taiwan Cloud Service Provider of the Year" of the "2016 Best Practices Award" by Frost & Sullivan
- CTM signed collaboration agreement with Macau Federation of Trade Unions (MFTU) for development of outreach health care service
- CTM provided a live online video streaming for the National Olympic Elite Athlete and Youth event, which was organised by the Education and Youth Affairs Bureau (DSEJ). 4,621 viewers via the DSEJ website was recorded in this one-hour program and 3,183 out of total viewers were from overseas



## SEPTEMBER

- Launched "Thailand SIMN and Day Plan" services for a China MNO
- CPC won 4 awards:
  - "Best Infrastructure-as-a-Service" of the "Cloud Excellence Awards 2016" by Computerworld Hong Kong
  - "Managed Security Services" and "Cloud Backup and Disaster Recovery Solutions" of "The Best SME Partners 2016" organised by Economic Digest in Hong Kong
  - "The Best Enterprise Service – Gold" of the "2016 CAHK STAR Awards" organised by Communications Association of Hong Kong
- CTM completed the surveillance project successfully for a major gaming enterprise on the Cotai Strip in Macau, with compliments received from the customer



# MILESTONES 2016

## OCTOBER

- Acquired the remaining floors of CITIC Telecom Tower, which enjoys geographical advantages as it is located in Kwai Chung. The acquisition will allow the Group to optimise the strategic layout of its data centre network
- Launched Soft SIM service with a major China MVNO



- CPC won 2 awards:
  - “Asia Pacific Managed Services Growth Excellence Leadership Award” of the “2016 Asia Pacific Best Practices Award” by Frost & Sullivan
  - “Cloud Services Provider” of the “Readers’ Choice Product Excellence Awards 2016” by NetworkWorld Asia
- CTM signed collaboration agreement on “Wi-Fi network for Smart City Catering Service” with the largest catering platform in Macau, iFood Macau, to further expand CTM Wi-Fi coverage in more restaurants
- CTM took the lead to introduce the Carrier Aggregation technology to significantly accelerate the CTM 4G+ connection speed to over 200Mbps
- CTM’s data centre obtained ISO 14001 (Environmental Management System), which made CTM being the only data centre service provider in Macau having ISO 20000 (Information Technology Service Management), ISO 27001 (Information Security Management) and ISO 14001 (Environmental Management System) certificates at the same time, which increase customers’ confidence in CTM’s data centre service. This proved CTM’s data centre meets international standards



# MILESTONES 2016

## NOVEMBER

- Acquisition of Acclivis Technologies and Solutions Pte. Ltd. ("Acclivis") was completed on 22 November 2016. Acclivis is a comprehensive trans-regional ICT service provider and operates in Singapore, Thailand, Malaysia and Indonesia
- CPC won 3 awards:
  - Third Quarter of 2016 IT Square Editors' Choices – "Managed Security Services" by Sing Tao Daily
  - SMBWorld Awards 2016 – "Best SMB Cloud Services" and "Best Data Center Services Provider – SMB market" organised by SMBWorld
- CTM launched a brand new E – Card for No. 1 Club members and new bonus point scheme, offering an array of convenient and user-friendly services
- CTM held a live online video streaming for Grand Prix Event which was organised by the Sports Bureau of the Macau SAR Government. In these 4 days, a new record on traffic volume was made



2016  
*Awards*  
SMBWORLD

## DECEMBER

- Launched domestic and international carrier service as well as Mobile Number Portability Platform to a new MVNO in Hong Kong
- Launched PRS Data service for a China MNO in Hong Kong, Macau and Taiwan
- CTM reached a collaboration agreement with New Era to further extend the CTM Wi-Fi service coverage to all public buses in Macau
- CTM was awarded the "2016 Sands Supplier Excellence Awards – Total Quality Management"
- CTM became a member of the "Hand-in-Hand Program" offering customers with enhanced roaming experience along the "One Belt One Road" initiative
- CTM won 2017 management and maintenance services for Telecommunications and Navaid system at the Macau airport
- CTM completed another surveillance project successfully for a major gaming enterprise on the Cotai Strip in Macau, with compliments received from the customer
- CTM supported the Macau Shopping Festival to launch the largest free Wi-Fi service in Macau, providing a comprehensive and high quality Internet service to residents, tourists and merchants

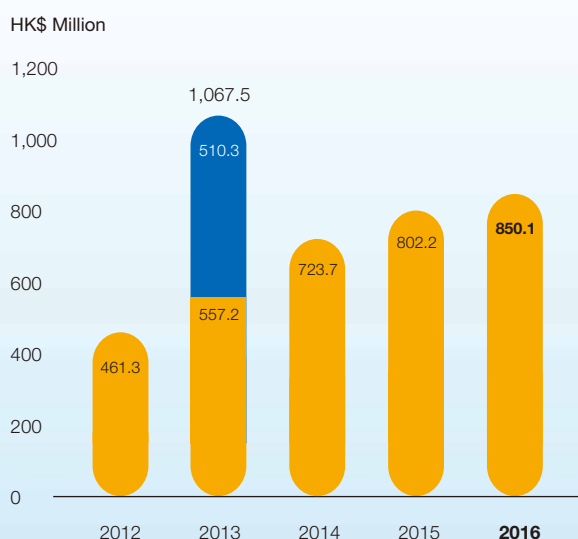




# FINANCIAL HIGHLIGHTS

- Profit attributable to equity shareholders of the Company for the year 2016 amounted to HK\$850.1 million, a year-on-year increase of 6.0%.
- Basic and diluted earnings per share for the year 2016 increased 4.6% and 4.7% respectively.
- Dividends per share for the year 2016 totaled HK13.20 cents, a year-on-year increase of 5.6%.

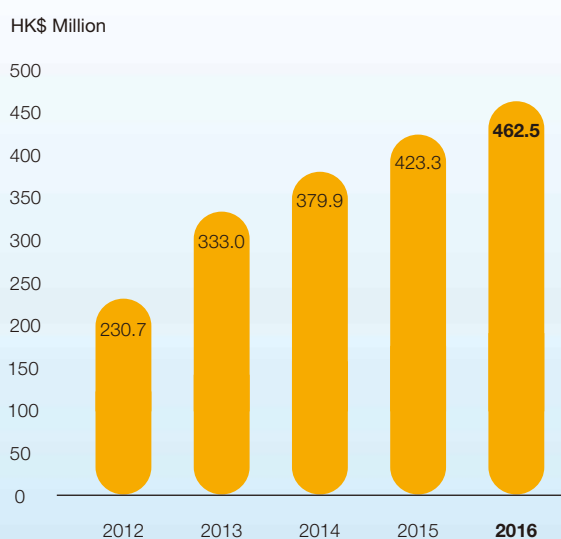
## Profit Attributable to Equity Shareholders of the Company



● Profit attributable to equity shareholders of the Company (excluding exceptional items)      ● Exceptional items

Note: Exceptional items included items such as gain on deemed disposal of equity interest in an associate, transaction costs related to the acquisition of CTM, impairment losses, finance costs incurred prior to completion of the acquisition of CTM and others.

## Dividends Payable to Equity Shareholders of the Company Attributable to the Year



Note: The dividends payable to equity shareholders of the Company for the year ended 31 December 2016 includes final dividend payable based on the number of shares in issue at 31 December 2016 which may differ from the number of shares at the closing date of the register of members.



# FINANCIAL HIGHLIGHTS



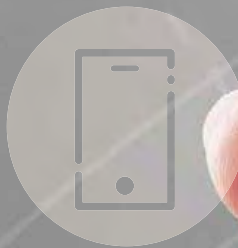
In HK\$ million	2016	2015	
Turnover	<b>7,699.1</b>	8,349.8	Decrease 7.8%
Profit attributable to equity shareholders of the Company	<b>850.1</b>	802.2	Increase 6.0%
Adjusted EBITDA *	<b>2,027.1</b>	2,009.8	Increase 0.9%
Earnings per share (HK cents)			
Basic	<b>24.9</b>	23.8	Increase 4.6%
Diluted	<b>24.7</b>	23.6	Increase 4.7%
Dividends per share (HK cents)			
Interim dividend	<b>2.85</b>	2.80	Increase 1.8%
Final dividend	<b>10.35</b>	9.70	Increase 6.7%
	<b>13.20</b>	12.50	Increase 5.6%
Total assets	<b>18,182.9</b>	16,982.5	Increase 7.1%
Total equity attributable to equity shareholders of the Company	<b>7,870.5</b>	7,029.4	Increase 12.0%
Total bank and other borrowings	<b>7,901.4</b>	7,472.5	Increase 5.7%
Finance lease liabilities	<b>6.0</b>	–	N/A
Total debt	<b>7,907.4</b>	7,472.5	Increase 5.8%
Less: Cash and bank deposits	<b>(1,459.1)</b>	(1,223.0)	Increase 19.3%
Net debt	<b>6,448.3</b>	6,249.5	Increase 3.2%
Net gearing ratio **	<b>45%</b>	47%	Decrease 2.0%

\* Adjusted EBITDA represented earnings before interest, taxes, depreciation and amortisation, and adjusted for any net gains/losses on foreign exchange and disposal of other property, plant and equipment.

\*\* Net gearing ratio =  $\frac{\text{Net debt}}{\text{Total capital}} \times 100\%$   
 Total capital = Total equity attributable to equity shareholders of the Company + Net debt



# CHAIRMAN'S STATEMENT



# CHAIRMAN'S STATEMENT

I am pleased to present the annual results of CITIC Telecom International Holdings Limited (the "Group") for 2016.

Year 2016 has been an extraordinary year for the Group. During the year, the Group has worked vigorously to launch "DataMall自由行" and other innovative Internet-based products and services on top of reinforcing and upgrading its existing businesses, while continuing to develop close cooperation relationships with various carriers. In the meantime, we have also been actively involved in the new market developments and made important breakthroughs in overseas acquisitions. With the successful completion of the acquisition of Acclivis Technologies and Solutions Pte. Ltd. ("Acclivis"), a company headquartered in Singapore, and the announcement of the acquisition of Linx Telecommunications B.V. ("Linx Telecom"), a company headquartered in the Netherlands operating a network across Europe and Asia, we have further broadened our coverage of overseas markets and new business frontiers. Following the successful completion of the acquisition of CITIC Telecom Tower during the year, the Group now claims full ownership interests in CITIC Telecom Tower. With a total gross floor area of 340,000 square feet, the building will provide favourable conditions for the construction of the Group's data centre, providing in turn a solid foundation for its business development in the long run. The Group's strategy of "rooting in the Mainland market while accelerating expansion in and geographic coverage of international markets via Hong Kong and Macau as bases and connections" has been implemented with sound results.

Against the backdrop of complex and volatile global economic developments coupled with the New Normal for China's economic growth, the Group has worked proactively to address market changes and implement the "13th Five-Year Plan" of CITIC Group. In accordance with our stated development strategies, we have made vigorous moves to overcome hurdles and introduce innovative ventures, in a bid to enhance the competitiveness and enlarge the coverage of our various business segments. Record-high operating profit has been reported following a strong effort to drive transformation towards an Internet-based operation and upgrade in services, with a view to serving the real economy and meeting consumers' new requirements for communications.

## I. FINANCIAL RESULTS

The Group has experienced a new advancement in its results in 2016 with profit attributable to equity shareholders of HK\$850.1 million, increasing by 6.0% compared to the corresponding period of the previous year.

Basic earnings per share amounted to HK24.9 cents, representing a growth of 4.6% compared to the corresponding period of the previous year.

The Board recommended a final dividend of HK10.35 cents per share for 2016. Together with the 2016 interim dividend of HK2.85 cents per share, total dividends per share for 2016 amounted to HK13.20 cents, representing a 5.6% growth over the previous year.

The Group's total revenue amounted to HK\$7,699.1 million, representing a decline of 7.8% compared to the corresponding period of the previous year. The revenue from the Group's principal operations (excluding sale of equipment and mobile handsets) decreased by 1% compared to the corresponding period of the previous year. The decline in total revenue was mainly attributable to the decline in revenue from the sales of mobile phones and roaming services, as well as adjustments in prices.

## II. REVIEW OF PRINCIPAL OPERATIONS IN 2016

### 1. The Group's advantage in mobile business further enhanced by stronger efforts in 4G+ development.

The Group has strived to upgrade its network quality and service standard. In 2016, the Group reported rapid growth in the number of 4G users, which increased by 15.3 times in total, to claim a 57% market share for this segment as at the end of the year, while running reciprocal LTE roaming services with 94 carriers. The number of the Group's WiFi hotspots in Macau as at the end of December also increased by 122.6% as compared to the beginning of the year following strong efforts to expand its WiFi coverage. The Group has become the first carrier in Macau to offer genuine data-sharing in Mainland China, Hong Kong and Macau with the launch of the "City Link" (Macau, Hong Kong and China), which has been well-received by customers. The Group has also pioneered in the introduction of 4G network services employing dual-frequency carrier aggregation technologies, which has increased the download speed of the Group's 4G+ to 225Mbps and further enhanced its service standard and competitiveness.

# CHAIRMAN'S STATEMENT

## 2. Breakthrough in "DataMall自由行", the first data flow trading platform, with growth in user base.

"DataMall自由行", the first data flow trading platform unveiled by the Group in August 2015, officially went online in 2016. Serving as the offshore data flow platform for "JegoTrip" in cooperation with China Mobile, it was also linked through the Internet to leading OTT platforms, such as Alipay, Baidu Map and Ctrip. Its user base expanded rapidly during the stage of commercial trial with more than one million purchases recorded, underlining its value and customers' approval. Currently, "DataMall自由行" is available at a number of popular origins of outgoing data flow, such as Hong Kong, Macau, Taiwan, Singapore, Thailand and Korea, and its coverage continues to expand. We believe that the platform has enormous potential for development and innovation, given its revolutionary new technologies and models and its advantageous position to capture the immense opportunities present in the global market for outgoing data roaming.

Moreover, the Group continued to further develop its existing businesses using the Internet-based approach of "micro-innovation" and stepped up with the research and development of a range of products underpinned by the Group's inherent strengths while boasting latest Internet-related features, such as YouCLink, an Internet-based corporate and personal phone which has already been launched. Based on customers' demand for upgrades in communications products, we have been making ongoing efforts to develop our voice, SMS and mobile roaming services into Internet-enabled products in terms of users' interface (UI), users' experience (UE) and business model, with a view to offering a brand new experience to carriers, corporations, OTT operators and individual users.

## 3. Substantial growth in customer base of the Group's optical fibre service.

On the Internet front, the Group was making a strong effort to promote its optical fibre broadband service. The Group's optical network in Macau completed 100% coverage during the first quarter of 2016, and the number of customers for the Group's optical service as at the end of the year increased by 74% as compared to the corresponding period of the previous year. The Group is working to further extend the reach of its optical network to building floors, with a view to further shortening the lead-time for installation and assuring the provision of high-speed data service.

## 4. Completion of acquisition of full ownership interests in CITIC Telecom Tower with gross floor area of 340,000 square feet.

In Hong Kong, the base from which we operate our global services, the Group successfully acquired the full ownership interests in CITIC Telecom Tower with gross floor area of 340,000 square feet, which would be utilised for the overall conversion of our premium data centre. Upon full completion of the conversion work, CITIC Telecom Tower will rank at the forefront among the largest data centres in Hong Kong and the largest proprietary data centre in Hong Kong West, which would form a well-positioned trio of data centre marketplace alongside Tseung Kwan O and Island East. The complementary operations of CITIC Telecom Tower with its unique strengths and the Group's other data centres in the Asia Pacific will significantly enhance the Group's competitiveness in the data centre business.

The ownership of a large-scale data centre will not only significantly enhance the Group's strengths and customers' confidence, but will also present opportunities in businesses with immense growth potential in the future, such as disaster recovery services, big data services, cloud services, the Internet of Things, bandwidth and data flow trading, providing a solid foundation for bringing the Group's global synergies into further play.

## 5. Cooperation with major carriers further enhanced while continuing to gain advantage in international telecommunications business.

The Group's strategic cooperation with the three major telecommunications operators in China has been further strengthened with the renewal of a number of important agreements. In the meantime, the Group has also signed up several international carriers as new clients. The Group's competitiveness in 4G international roaming has been enhanced with its execution of agreements or letters of intent for cooperation with several important clients in relation to the MVNO and MVNE businesses and the obtaining of direct IPX links from a number of mobile network operators. The Group continued to lead in the China inbound voice business in terms of market share. In SMS, the A2P (Application to Person) SMS service has become a new niche for growth. Elsewhere, the Group sustained stable growth in the mobile roaming signaling business.



# CHAIRMAN'S STATEMENT

## 6. Phenomenal breakthroughs in enterprise service capability and scope of coverage.

The rapidly growing corporate service sector represents a core business segment of the Group, as well as one of its focuses in future development. In 2016, the Group attained phenomenal breakthroughs in servicing capability and network coverage through overseas mergers and acquisitions, on top of sustaining rapid growth in its existing enterprise service business.

The Group completed the acquisition of a Singapore company, Acclivis, in November 2016. Noted for its technological and servicing capability, Acclivis' clientele in Singapore includes a number of top carriers, large financial institutions and corporations, as well as major government agencies. Apart from providing one-stop services in global procurement – installation – maintenance (GPIM) in relation to a number of top brands for IT equipment, Acclivis also owns Pacific Internet, a well-known veteran Internet service provider in Singapore and Thailand. The successful acquisition of Acclivis in addition to the Group's established servicing capability in Southeast Asia will enable the Group to enhance its involvement in the rapidly growing corporate ICT market with access to various service business segments, such as corporate Internet access service, disaster recovery, systems integration and GPIM, making the Group one of the few suppliers in the Southeast Asian market with the ability to provide cross-regional, one-stop and end-to-end corporate ICT services.

The Group announced the acquisition of Linx Telecom in April 2016 and the acquisition was completed in February 2017. Based in the Netherlands and Estonia, Linx Telecom boasts unique service capability and covers 14 countries in the Eurasian region comprising Central and Eastern Europe, Russia and Central Asia. This acquisition will further expand the global network of the Group to cover Eurasia, an important emerging market, and allow the Group's preemptive move into a strategically advantageous position in the "One Belt One Road" markets, which would enable coverage of the entire region from one single point of access.

## 7. Ongoing improvements in internal control and governance standard.

In 2016, the Group endeavoured to enhance cost control and improve operating efficiency, while making objective assessments on the competitiveness of its service products through systems developed to evaluate the outcomes of its services, so that the Group could accurately determine the future direction for product development. The best investment plan was selected on the basis of cost efficiency, ability to enhance customer service standard and technical feasibility. We have also enhanced management and control over day-to-day operating expenses, customer credit and accounts receivable, and capital investment, achieving notable results in the optimisation of expenses in network operation.

## III. OUTLOOK FOR 2017

Looking to 2017, the Group will continue to grab the business opportunities brought by "One Belt One Road", "Internet Plus" and globalization, and enlarge the research effort and input into the trend of technology in mobile, Internet, Internet of Things, ICT etc. The Group will follow the directions of the markets with its goals of serving the customers, and it will continue to innovate according to the needs of customers with a view of providing better services continuously to them. The Group will also look for opportunities proactively in order to develop new products, grow new customers and enter into new markets. The Group will endeavour to build a world class team and work diligently to strengthen its capabilities and enlarge its scale.

### 1. Enhancing coordination and management of newly acquired projects with a view to increasing contributions to the Group's development.

The Group completed the acquisition of 100% equity interests in Acclivis, a Singapore company, the remaining floors of CITIC Telecom Tower, and 100% equity interests in Linx Telecom, a telecommunications operator in the Netherlands. The Group's overall strengths have been enhanced as a result of these acquisitions, which will not only generate synergies with our existing projects, but will also be conducive to the development of new markets and new customers. We will ensure that these newly acquired companies and projects are properly integrated and closely coordinated with the Group's existing businesses with a view to increasing our competitiveness, energising our corporate regimes and maximising synergies. The Group will also actively explore and implement its philosophy for the management of overseas enterprises, working with its overseas teams to strive for greater progress in the international business and more significant contributions to the Group.

# CHAIRMAN'S STATEMENT

## **2. Improving the Group's servicing capability and standard in a market-oriented and customer-centred manner.**

Currently, the Group's customers can be classified into five major categories: carriers, virtual carriers, corporate customers, Internet companies and mobile phone manufacturers. While developing new customers, we will shift from a technology-centred approach to a customer-centred approach based on customers' requirements and redesign the users' interface (UI) of our existing products, services and technologies based on the requirements of different target customers, so that we can constantly provide customers with brand new users' experience (UE). Network management will also be shifted from the NOC (network operations centre) to the SOC (service operations centre), which means that the focus will be shifted from the quality of equipment and networks to customers' experience of the service.

## **3. Upgrading the work quality and service standard of the Group to increase the core competitiveness of the Group.**

We will safeguard the interests of stakeholders by enhancing the quality of our products and services and further increasing our network speed. A strong emphasis will be placed on assuring the Group's technical ability to provide network protection, seeking to upgrade its engineering technology and further strengthen network safety development and management. Based on the construction of the "three broadbands", we will enhance our research in the Internet of Things and explore pathways for transformation into a data company, in order to consolidate the Group's market dominance and position and increase the core competitiveness of the Group.

## **4. Bringing into full play our unique advantage as provider of cross-regional, one-stop and end-to-end corporate ICT services to expand the Group's services to corporate clients in Southeast Asia.**

Following the completion of the acquisition of 100% equity interests in Acclivis, the Group will be well-positioned to provide better services to customers in the Southeast Asian market. A strong position in the Southeast Asian regional market for corporate services fostered through the provision of one-stop ICT services with distinct advantages will become a new growth driver for the Group, which will endeavor to replicate such unique advantages in other regions to attain greater benefits.

## **5. Expediting transition to an Internet-based operation with data centre as one of the focuses in strategic development.**

As the core hub of an information-driven community and a key facility for big data, the data centre is becoming a marketplace for customers' requirements which is capable of not only generating direct economic benefits, but also providing tailored one-stop ICT services on an ongoing basis.

The completion of the acquisition of CITIC Telecom Tower has perfected the development of the Group's network of data centres and expanded the scale of these data centres, which have become a focus in the Group's strategic development. We will expand the sales regime of our data centre and enhance the development of data-centre products and services. The areas for development will include disaster recovery, security management, bandwidth sales, cloud computing, systems management and business support, etc, as we continue to improve the competitiveness of our products and offer premium data-centre services with special features, with a view to enhancing the overall profitability of the data-centre business.

# CHAIRMAN'S STATEMENT

**6. Ongoing expansion to cover more vendors and search for breakthroughs in scale and business models to develop “DataMall自由行” into a niche for future revenue and profit growth.**

On the basis of sound business development, the Group will continue to expand the scope of “DataMall自由行” to cover more vendors and swiftly enlarge its customer base and business scale to maintain a positive momentum. Meanwhile, we will expedite our research effort to seek breakthroughs in the business and technical models of “DataMall自由行” that would allow unrestricted access to “DataMall自由行” services by global users, such that “DataMall自由行” will grow in size as a result.

**7. Continuing to support the development of 中信網絡有限公司 (CITIC Networks Company Limited) and stepping up with it on business synergy and cooperation.**

Regarding the proposed acquisition of up to 39% equity interest in 中信網絡有限公司 (CITIC Networks Company Limited), according to the Acquisition Arrangement dated 24 August 2015 entered into between the Group and CITIC Group, 30 June 2017 or such later date as CITIC Group and the Group may agree in writing will be the latest date on which completion of the relevant acquisition and subscription should take place. As it cannot be determined at this stage whether the approval process can be completed as contemplated, the proposed acquisition will be automatically terminated as of 30 June 2017 in accordance with the terms of the above-mentioned agreement if no further announcement is made. The Group is continuing to proceed this matter with CITIC Group and the relevant departments. If required, the Group will attend to all necessary arrangements in accordance with the Listing Rules in order to comply with their requirements. Meanwhile, the Group will continue its business synergies and cooperation with 中信網絡有限公司 (CITIC Networks Company Limited).

**8. Ongoing improvement of the Group's risk management standard.**

In order to prevent, control and mitigate risks that might materialise in a complex and volatile business environment, as well as to ensure the fulfilment of the Group's strategic goals and the healthy, stable and sustainable development of its business operations, the Group will continue to enhance management over the institutional, operational and supervisory regimes in relation to risk prevention. Further improvements in the operational regime will be made to enhance our operating efficiency and risk control standard.

In 2017, the Group will celebrate the 10th anniversary of its listing. To mark this corporate milestone, the Group must also aim higher to scale new heights and embrace new challenges. With global vision and an open-minded approach, we will build a first-rate team of diversified talents with international exposures, such that we could enhance our bases and connections with a solid foundation and expedite our expansion in the global markets to foster unique competitive advantages in terms of differentiation.

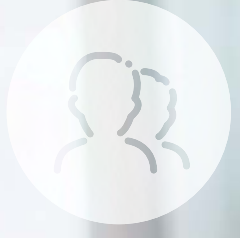
May I take this opportunity to express sincere gratitude to our shareholders for their support of the Group in the past year, and to our management team and employees for their contributions and dedicated efforts.

I am confident that, with the support of our shareholders and customers and the guidance of our directors, the Group will continue to drive transition and innovation in a proactive manner with an ever-stronger sense of mission and responsibility, with a view to adding value for shareholders and making new contributions to the development of the community.

**Xin Yue Jiang**

*Chairman*

Hong Kong, 20 March 2017



**Daddy, any preparation before traveling to Singapore ?**



**BEING THE OWNER OF  
WHOLE BUILDING -  
CITIC TELECOM TOWER**

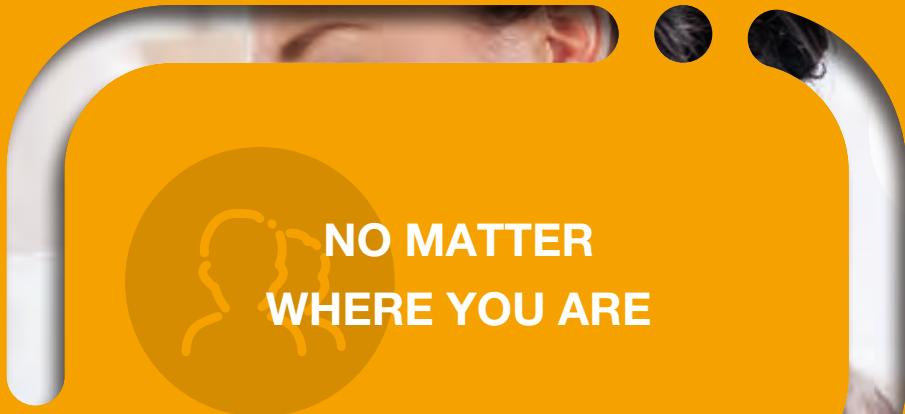
**MORE SPACE  
GREAT POTENTIALS  
FOR IDC**

**A new page to us**

**Data Centre**



**WORLD PLAN**



**NO MATTER  
WHERE YOU ARE**



**DATA CONNECTION  
IS READY FOR YOU**



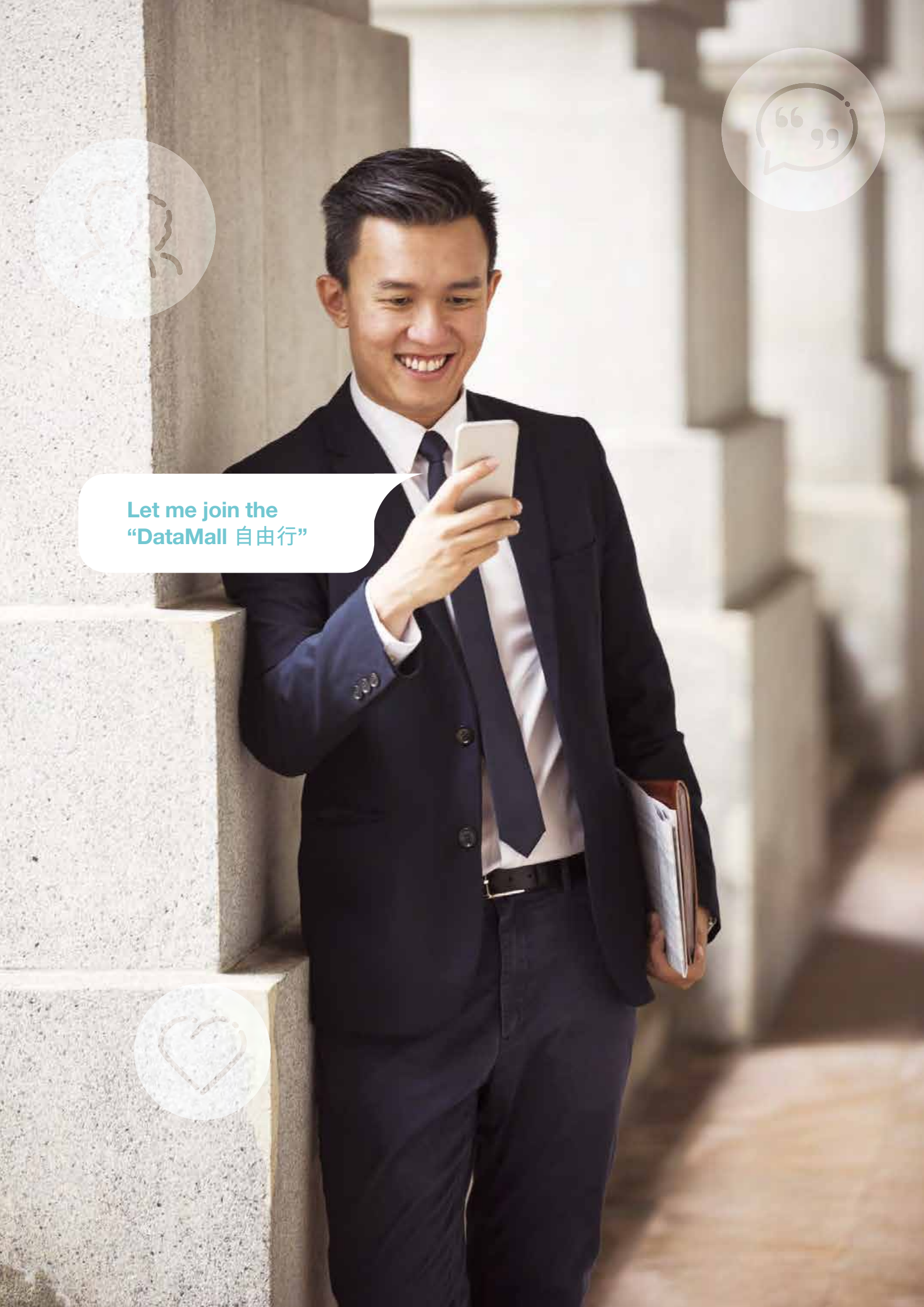
**To have a breakthrough**

# **DataMall**

# **自由行**



**MULTI PLAN**



Let me join the  
“DataMall 自由行”





How are you guys ?  
I'm in Britain now.

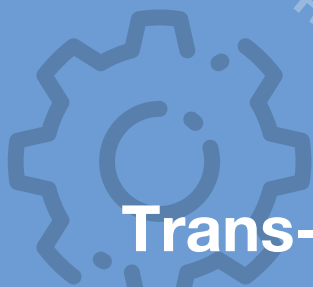






Trans-regional One stop

# End-to-End Services





Our customer

# Everywhere

4G 



wi-fi  
Hotspot



Data Mall  
自由行



chinaone  
3050



TrustCSI™



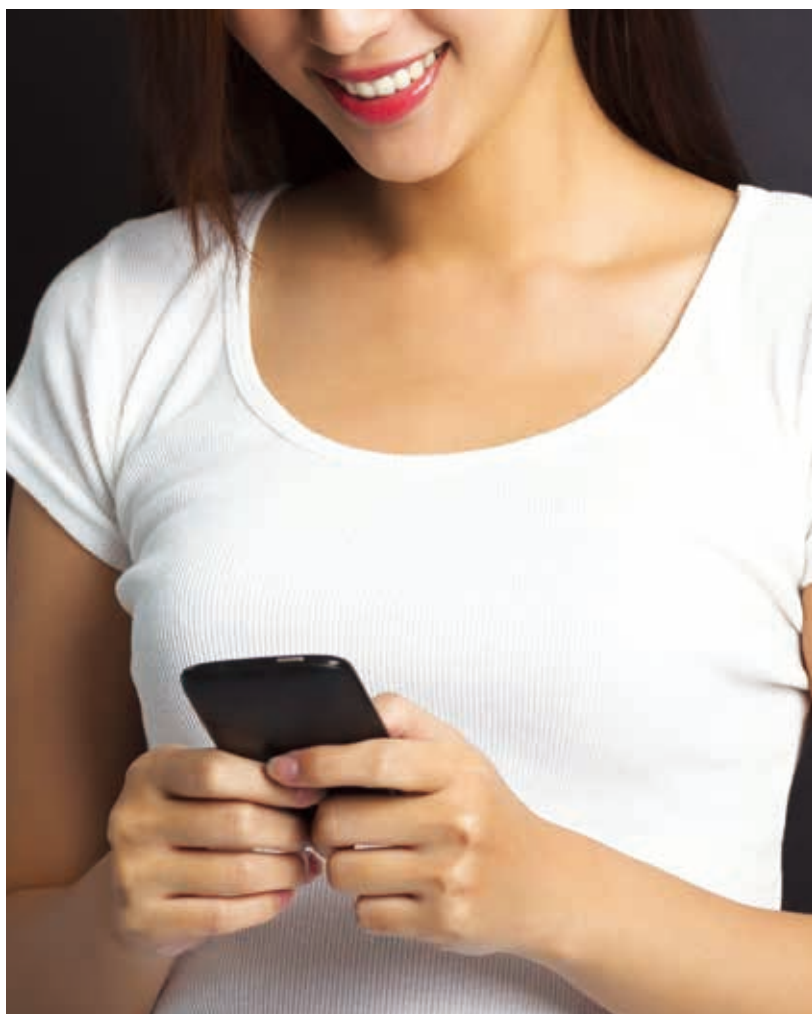
SmartCLOUD

TrueCONNECT™



# BUSINESS REVIEW

## MOBILE SALES & SERVICES



### ENHANCE 4G+ EXPERIENCE UNDERPINNED BY THE LAUNCH OF INNOVATIVE CROSS-BORDER ROAMING PACKAGE

The Group has always been committed to the provision of novel services that would enhance users' experience. In 2016, high-definition VoLTE (voice) and ViLTE (video) services were launched. Meanwhile, through the employment of the FDD carrier aggregation technology, the download speed of network service has been enhanced. In 2017, the download speed of wireless network is expected to reach 400Mbps. The Group has also started to conduct technical tests on 5G and Internet of Things.

In order to provide better service to customers, the Group has also launched the innovative "City Link" roaming service plan for Macau, Hong Kong and China, whereby customers would be able to access more than 4 million WiFi hotspots in Macau, Hong Kong and China in addition to using data in these three areas, and the service has been

# BUSINESS REVIEW

PHOTO  
STREAM



ONLINE  
CHAT



全澳首推

語音 視頻  
VOLTE & VILTE

highly commended by business travelers and tourists. The Group has also launched the “one-day pass” and “multi-day package” for roaming services in major destinations in Asia, Europe and America.

As at the end of 2016, the Group’s 4G market share in Macau reached 57%, maintaining a market leading position, while the number of mobile broadband users had shown a year-on-year growth of 17%.

Nevertheless, the Group reported a substantial decrease in revenue from handset sales, in particular iPhones. Revenue from mobile services also decreased by 6%, reflecting the impact of the setback in Macau’s tourism and gaming industries.

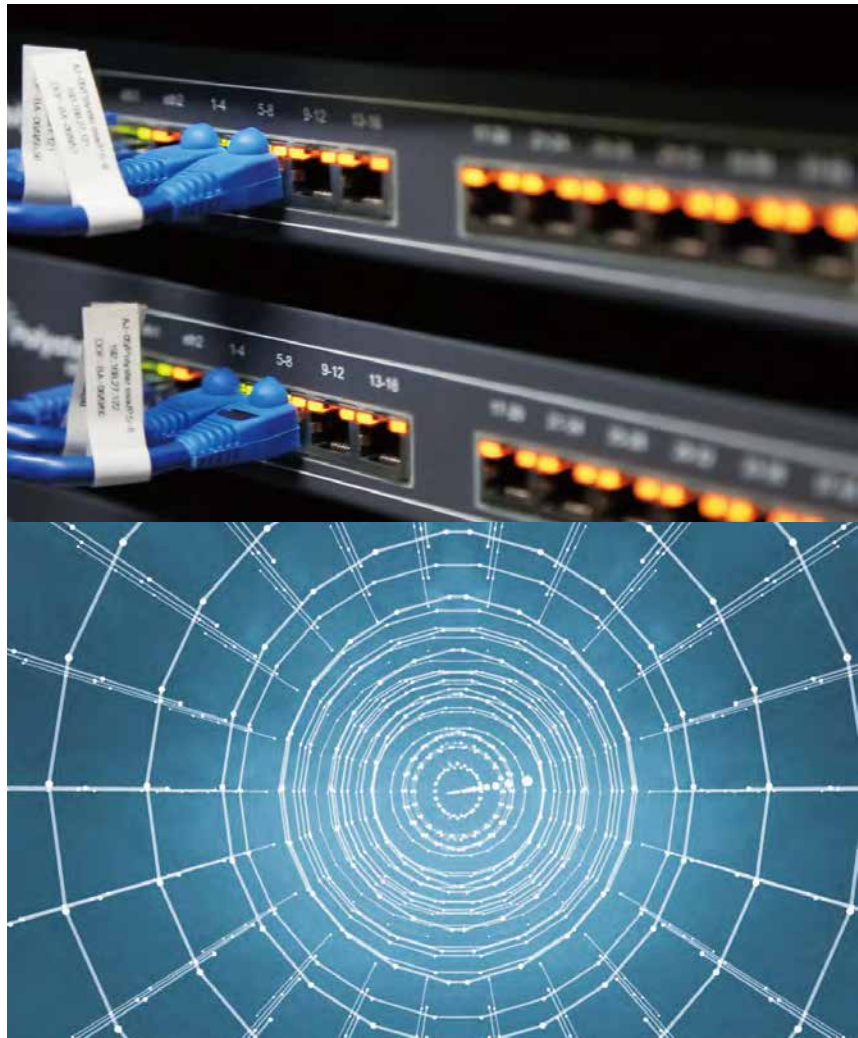
## IMPORTANT BREAKTHROUGHS IN MVNO AND MVNE

Given the early stage of development of China’s MVNO market, many OTT companies and handset manufacturers had been looking to tap international markets in telecommunications services, and such trend had presented opportunities in international business for the Group. In 2016, the Group entered into agreements with a number of mobile carriers to provide mobile roaming signaling services and related new businesses for the overseas MVNO operations of these companies.

In 2016, the Group entered into letters of intent for cooperation in MVNE with the international company of a major carrier in China and a major fixed line carrier in Hong Kong respectively. Initial results have been attained with new opportunities for revenue growth for the Group.

# BUSINESS REVIEW

## INTERNET SERVICES



### FULL COVERAGE OF OPTICAL FIBRE NETWORK IN MACAU, DRIVING SUBSTANTIAL GROWTH IN USER BASE AND REVENUE FOR OPTICAL SERVICE

The full coverage of optical fibre network in Macau has enabled citizens and companies in Macau to access data services at ultra-high speed. To further reward customers and facilitate marketing and promotion, CTM launched a broadband business package in October 2016 with substantial price concessions. In a bid to stay competitive, CTM made substantial adjustments to the prices of local leased lines and international data services in December 2016.

The Group has built a large number of additional WiFi hotspots in Macau. As at the end of December 2016, CTM's WiFi hotspots had shown a growth of more than 100%, covering most commercial centres and major venues in Macau, and providing crucial support for the fulfilment of "Digital Macau".

As at the end of December 2016, the number of users of optical fibre broadband services had shown a year-on-year growth of 74%.

# BUSINESS REVIEW



## ACQUISITION OF CITIC TELECOM TOWER TO DRIVE SCALE DEVELOPMENT OF DATA CENTRE BUSINESS

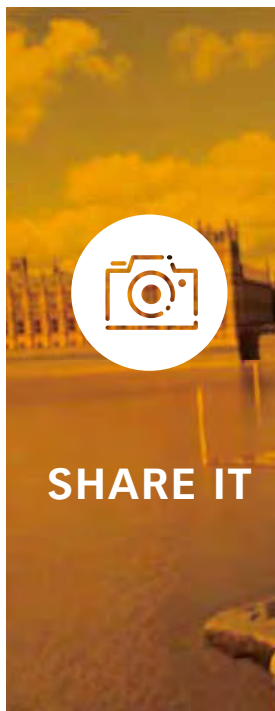
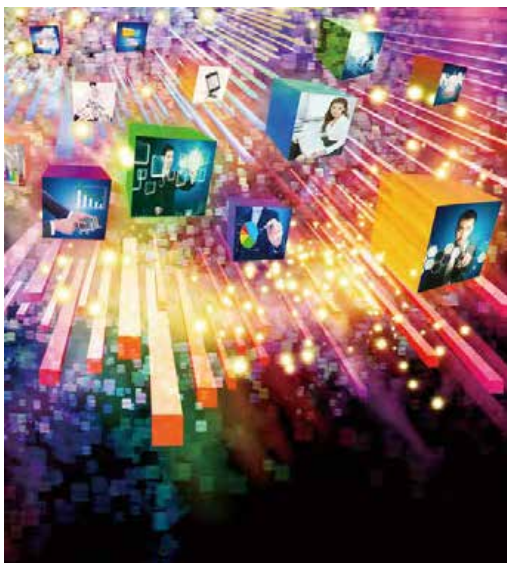
The Group completed the acquisition of all floors of CITIC Telecom Tower in October 2016, which would be utilised for the overall conversion to our premium data centre. Upon completion of the conversion work, CITIC Telecom Tower will be able to provide more than 4,000 racks, which would make it a forerunner among the top large data centres in Hong Kong and the largest proprietary data centre in Hong Kong West. This facility will put the Group in a favourable position to seize opportunities in data centre business with immense growth potential and provide a solid foundation of the Group's global synergies. This project is set to become another important milestone in the Group's development giving a significant boost to its strengths and customers' confidence.

Satisfactory rack sales were reported for our data centres in CITIC Telecom Tower and Ap Lei Chau in Hong Kong, Macau, and Baoshan of Shanghai.

Capitalising on strong synergies of the prestigious position of China Enterprise ICT Solutions Limited ("CEC") in the China market, the Group's cloud services have been enhanced to allow access for corporate clients to premium data centre infrastructure facilities and full-fledged cloud computing services regardless of geographic locations.

## BUSINESS REVIEW

# INTERNATIONAL TELECOMMUNICATIONS SERVICES



### **BREAKTHROUGHS IN BUSINESS AND FAST GROWTH OF USER BASE FOR "DATAMALL自由行" AS LEADING DATA TRAFFIC TRADING PLATFORM**

"DataMall自由行", the leading data traffic trading platform, was officially launched for commercial application in July 2016. Data roaming through this platform does not require changing SIM cards or the purchase of a WiFi device. Customers can complete the order and payment and start usage through an APP. The platform initially covered major outgoing destinations for Mainland Chinese users, such as Hong Kong, Macau and Taiwan. Through strategic cooperation with the largest mobile carrier in China, it was also linked on the Internet to leading OTT platforms such as Alipay, Baidu Map and Ctrip. Its immense popularity in the market has been well-evidenced by the ongoing rapid growth of its user base following fast

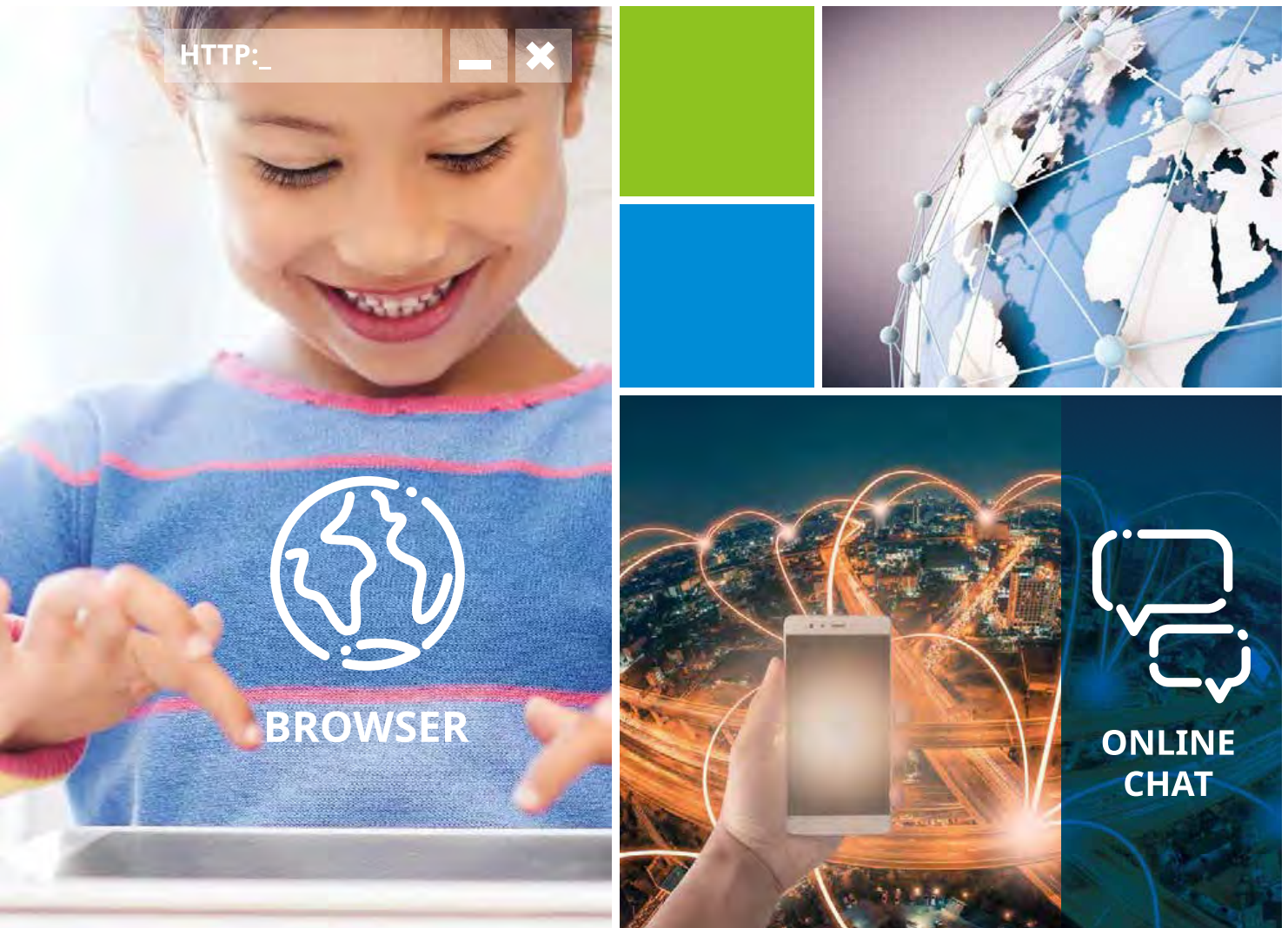
expansion within a short span to achieve a purchase volume of over one million, as well as its leading position in customer satisfaction polls. As at the end of 2016, three popular destinations, namely, Singapore, Thailand and Korea, had been added, while other destinations were under development. User base and business volume would continue to grow which would secure new source of revenue and business opportunities for the Group.

### **THROUGH INTERNET-BASED "MICRO-INNOVATION" TO ENHANCE THE ATTRACTION AND COMPETITIVENESS OF INTERNATIONAL TELECOMMUNICATIONS BUSINESS**

In connection with our voice business, we entered into an outsourcing agreement with the largest mobile carrier in Malaysia in 2016. We continued to account for a dominant



## BUSINESS REVIEW



share of the market for China inbound voice service as we strengthened our position as an important voice hub in Asia.

In connection with our SMS business, our A2P SMS service continued to be a growth engine in 2016, as the Group signed up contracts with an important financial institution and a number of OTT service providers to further increase market penetration. In terms of functionality, the product provides Web-based portals and APIs, while an SMS firewall for mobile carriers has been deployed in Hong Kong to protect our customers' networks from SMS spams and attacks.

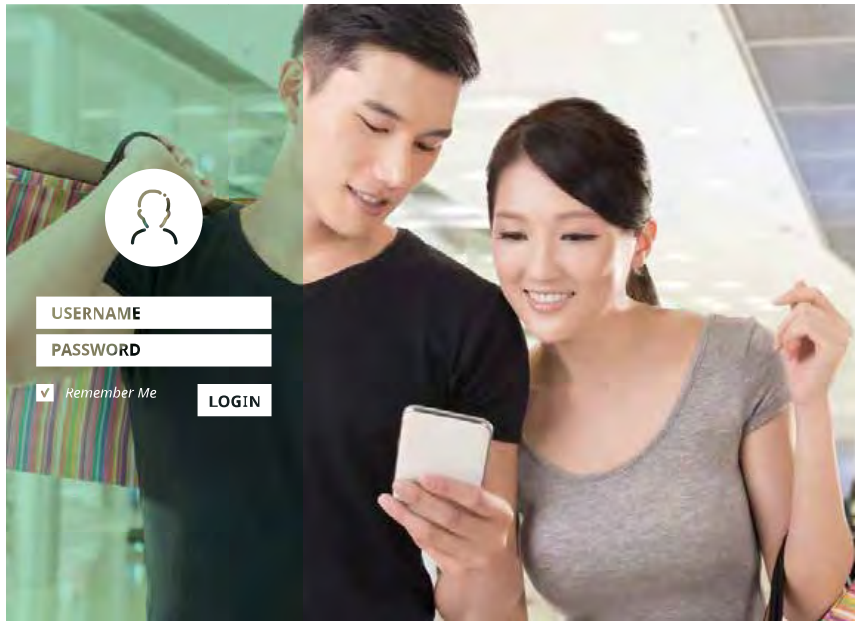
In view of the global trend of declining traditional businesses, the Group sought to offer brand new experiences desired by customers through the Internet-based approach of "micro-innovation" on the back of

its technological strengths in voice and SMS developed over the years. These included YouCLink, a voice service application, as well CloudSMS, an Internet-based SMS service platform. As a new-generation desktop phone that also supports the customer-end of smart phones and a PC version, YouCLink is set to provide SMEs with more flexibility and convenience in business communications.

The overall operating revenue for our international telecommunication business for 2016 was HK\$1.34 billion, which represented a 14% decline compared to 2015, as the segment continued to face the impact of the Internet and OTT as alternative channels.

# BUSINESS REVIEW

## ENTERPRISE SOLUTIONS



### ENTERPRISE SOLUTIONS SUSTAINED GROWTH IN SALES

The Group provided one-stop services to enterprise customers in cloud computing, information security, network and data centre which had been widely acclaimed by medium and large enterprises. We have also contributed numerous classical cases for the industry in “Internet+” and “Big Data” applications which have enabled clients to reduce operating costs, focus on the development of core businesses, and enhance their competitiveness and market value.

TrueCONNECT™ MPLS-VPN, the virtual private network service of the Group, currently covers more than 120 countries and regions in the world with more than 100 PoPs. It completed the deployment of new PoPs in Seoul, Taichung, Urumqi and Yangzhou in 2016 and intends to further expand its network in the future.

In 2016, the Group built new cloud computing service centres in Tokyo, Taichung, Frankfurt and Los Angeles respectively, taking the total number of cloud computing service centres to 12, spanning across the Greater China region, Singapore, Japan and reaching out to North America and Europe. Meanwhile, expansion and upgrade projects were being carried out in respect of its networks and cloud computing facilities to enhance its servicing capability.

The Group continued to engage in ongoing initiatives to broaden its product line in enterprise solutions. While launching a diverse range of solutions in cooperation with several advanced technologies partners, vigorous efforts were also being made to optimise its existing products and services with a view to enhancing product competitiveness. These included the TrustCSI™ ATP solution – Advanced Threat Protection (ATP) service that helps secure companies against advanced persistent threats.

The Group also continued to enhance cooperation with 中信網絡有限公司 (CITIC Networks Company Limited) (“CITIC Networks”). Based on CITIC Networks’ optical fibre backbone network (China Express Network) and its Ethernet technologies equipment in Mainland China, the Group has developed the EtherCONNECT services which aim to provide enterprise customers with high bandwidth, inter-provincial point-to-point connection services via Ethernet. Further, the Group also successfully developed businesses with data centre service providers and inter-city large bandwidth connection services for high-end companies in Northern China and Eastern China, meeting their high bandwidth requirements. Currently, EtherCONNECT PoPs have been built in 16 domestic cities and expansion of the network is ongoing.

# BUSINESS REVIEW

**Linx Telecom:**

**GLOBAL 14 countries**

**POPS ACROSS 24 Points**

**Business:**  
Maintains Growth in Sales and Acquires Telecom Business in Eurasia Region

- Telecommunications infrastructure and business operations that Linx Telecom has built to serve customers in 14 countries with 24 points of presence (POPs) across Western Europe, Central and Eastern Europe, as well as Central Asia

**CITIC TELECOM INTERNATIONAL**  
中國國際電訊

**ACCLIVIS**  
Technologies and Solutions

**Pacific Internet**  
Pacific Internet

## ACQUISITION OF EURASIAN TELECOMS BUSINESS AND EXPANDING GLOBAL NETWORK COVERAGE

In April 2016, the Group announced the acquisition of the telecommunications business of Linx Telecommunications B.V. (“Linx Telecom”), a Europe-based company with network coverage of 24 PoPs in 14 countries across Central and Eastern Europe, the Baltic Sea region, Russia and Central Asia. Upon completion of the acquisition, the Group will be able to extend its services to numerous regions in tandem with its active business expansion in Central and Eastern Europe, including markets with enormous potential such as the “Stan” countries. Well-positioned to seize opportunities brought by the “One Belt One Road” initiative and foster synergies, the acquisition substantially will bolster CITIC Telecom International CPC Limited (“CPC”)’s overall competitiveness in the region, broaden the scope of its products, target market and customer base and increase the source of its revenue. The acquisition was completed in February 2017.

## FEATURED INFORMATION: LINX TELECOM

Linx Telecom and its subsidiaries are specialising in the provision of data networks across Western and Eastern Europe. It started its operations in Russia, the Baltic nations (Lithuania, Latvia and Estonia) and Poland with these countries as its principal markets. Subsequently, it invested in a submarine cable system spanning “Sweden – Finland – Estonia”, thereby expanding its business to Hungary, Germany, Ukraine and Georgia. Since recent years, it has been developing markets in Kazakhstan and other “Stan” countries. Linx Telecom is headquartered in the Netherlands, while its sales operations and technical and network maintenance centre for the Baltic nations are based in Estonia.



# BUSINESS REVIEW

## ACQUISITION OF ACCLIVIS IN SINGAPORE TO DRIVE BUSINESS GROWTH IN SOUTHEAST ASIA

As part of the Group's expansion to enhance its strength in the Southeast



Asian region, the Group announced the acquisition of 100% equity interests in Acclivis Technologies and Solutions Pte. Ltd. ("Acclivis"), a subsidiary of DeClout Limited (SGX code: 5UZ) of Singapore, on 12 October 2016. Acclivis is the leading system integrator and cloud service provider headquartered in Singapore. It owns a comprehensive cloud and managed services operation in Singapore, Thailand, Indonesia and Malaysia. Together with Pacific Internet, a well-known Internet service provider in Singapore and Thailand, Acclivis delivers a seamless combination of technology and connectivity to enterprise customers. The transaction, which was completed in November 2016, would further expand the Group's coverage of the Southeast Asian market and foster further strategic synergies with the Group's existing subsidiaries in terms of product, business and customer service which would strengthen cross-selling to corporate clients. Following the consolidation of Acclivis, the Group will become one of the few cross-regional "one-stop" ICT service providers in Southeast Asia capable of delivering mobile, voice, Internet, system integration (SI), disaster recovery (DR) and cloud services under one roof.

### FEATURED INFORMATION: ACCLIVIS

Incorporated in 2009, Acclivis is a cross-regional ICT service provider with three main lines of business – Internet access (ISP), cloud and managed services and system integration. Serving the enterprise markets in Singapore, Malaysia, Indonesia and Thailand, Acclivis operates comprehensive cloud facilities as well as Internet connectivity via Pacific Internet.

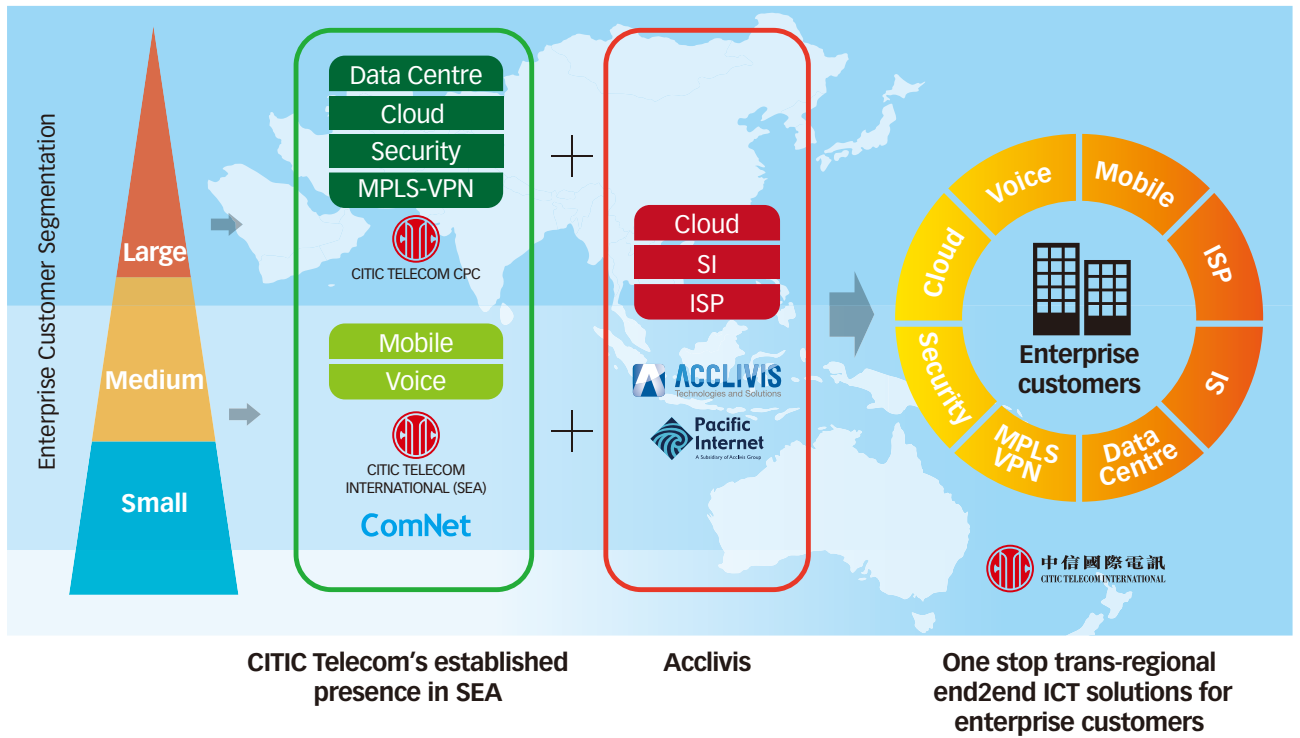
Following the completion of the acquisition of Acclivis, the Group will own numerous operating entities in Southeast Asia, including the Southeast Asian companies of CITIC Telecom, CPC, Acclivis and Pacific Internet. With Acclivis on board, the Group will provide a regional integrated corporate ICT services ranging from voice, mobile communication and Internet

access to system integration, cloud services and other technology services, making it a unique provider in the market with cross-regional, one-stop and end-to-end ICT capabilities.

### SERVICES CURRENTLY AVAILABLE FROM CITIC TELECOM IN SOUTHEAST ASIA INCLUDE:

- Cloud:** Acclivis provides 5 major types of cloud services to enterprise and midmarket customers in both public and private sectors. Acclivis also provides managed cloud services in adherence to stringent service level agreements (SLA) and Information Technology Infrastructure Library (ITIL) based standards. Enterprise entrust Acclivis with their IT assets knowing that certified and experts engineers are there to make sure operations stay up and running 24/7. Since October 2016, Acclivis has been providing disaster recovery services through Equinix-Acclivis Business Resiliency Centre (EABRC), a joint label operated in collaboration with Equinix. CPC also provides cloud computing (SmartCLOUD™) and data centre (DataHOUSE) services in the region.
- System integration (SI):** As a premium partner of IBM, Dell, HP, Lenovo, VMWare, Huawei, etc., Acclivis offers expert system integration services with the option of one-stop GPIM (global procurement – installation – maintenance) turnkey service which facilitates swift implementation of cross-regional operations for large-scale users.
- Internet access (ISP) – Pacific Internet:** An Internet access provider with over 30 years' experience providing high performance and low latency connectivity to midmarket and enterprise customers.
- MPLS-VPN:** CPC provides quality MPLS-VPN services for thousands of multinational corporations in the Asia-Pacific and Greater China regions.
- Mobile:** Providing mobile services to corporate clients and well-trusted for its customised services.
- Voice:** Providing local call and IDD solutions with high quality.

# BUSINESS REVIEW



## THE GROUP’S ENTERPRISE SERVICES CONTINUED TO PLAY CRUCIAL ROLE IN “DIGITAL MACAU”

In 2016, the Group won a lot of important projects from the Macau Government, casinos and Macau airport.

In 2016, the Group also provided support in communication services to several trade exhibitions and campaigns held in Macau, such as the 12th Asia-Pacific Telecommunication and ICT Development Forum, the 63rd Macau Grand Prix, the Forum for Economic and Trade Cooperation between China and Portuguese-speaking Countries, and the 6th Spring Food and Macau Shopping Expo.

# FIXED LINE SERVICES

## CONTINUOUS DECLINE IN FIXED LINE VOICE BUSINESS

As at the end of 2016, the number of the Group’s fixed telephone lines users in Macau had shown a 8% decrease. Minutes of international calls via the fixed network also declined by more than 20%, in line with the changes brought by the development of the global communications business.



# FINANCIAL REVIEW

## OVERVIEW

The Group's turnover decreased by 7.8% from HK\$8,349.8 million for the year ended 31 December 2015 to HK\$7,699.1 million for the year ended 31 December 2016. While the Group recorded growth in both Internet services and enterprise solutions, the weak mobile handset sales and the continued decline in revenue from traditional telecommunications services has resulted in an overall decrease in turnover.

Profit attributable to equity shareholders and basic EPS amounted to HK\$850.1 million and HK24.9 cents respectively which represented a year-on-year increase of 6.0% and 4.6% when compared with 2015.

## Summary of Financial Results

In HK\$ million	Year ended 31 December		Increase/(Decrease)	
	2016	2015		
Turnover	<b>7,699.1</b>	8,349.8	(650.7)	(7.8%)
Other revenue and net (loss)/gain	<b>(10.1)</b>	20.7	N/A	N/A
Cost of sales and services	<b>(4,229.1)</b>	(4,941.8)	(712.7)	(14.4%)
Depreciation and amortisation	<b>(656.4)</b>	(674.0)	(17.6)	(2.6%)
Staff costs	<b>(851.0)</b>	(801.6)	49.4	6.2%
Other operating expenses	<b>(598.4)</b>	(596.1)	2.3	0.4%
<b>Profit from consolidated activities</b>	<b>1,354.1</b>	1,357.0	(2.9)	(0.2%)
Share of joint venture results	<b>1.7</b>	(0.5)	N/A	N/A
Finance costs	<b>(327.7)</b>	(346.1)	(18.4)	(5.3%)
Income tax	<b>(165.4)</b>	(195.6)	(30.2)	(15.4%)
<b>Profit for the year</b>	<b>862.7</b>	814.8	47.9	5.9%
Less: Non-controlling interests	<b>(12.6)</b>	(12.6)	–	–
<b>Profit attributable to equity shareholders of the Company</b>	<b>850.1</b>	802.2	47.9	6.0%
<b>Adjusted EBITDA*</b>	<b>2,027.1</b>	2,009.8	17.3	0.9%

\* Adjusted EBITDA represents earnings before interest, taxes, depreciation and amortisation, and adjusted for any net gains/losses on foreign exchange and disposal of other property, plant and equipment.

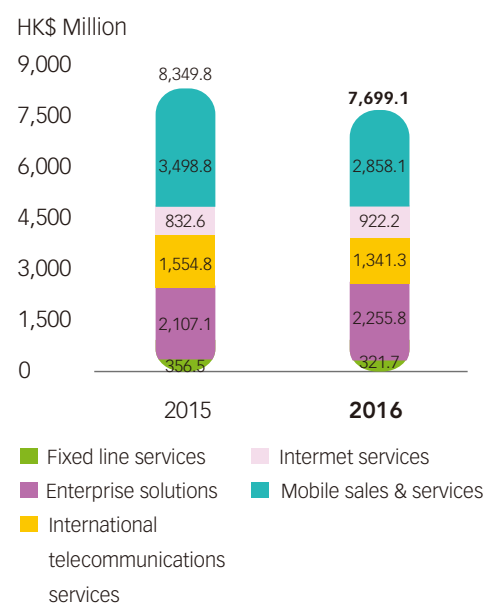
# FINANCIAL REVIEW

## Profit Attributable to Equity Shareholders of the Company



\* Corporate expenses included staff costs for corporate functions, equity-settled share-based payment expenses, listing fee and others.

## Turnover by Services



Profit attributable to equity shareholders of the Company for the year ended 31 December 2016 amounted to HK\$850.1 million, an increase of HK\$47.9 million or 6.0% as compared to 2015. The increase was mainly contributed by the strong growth in Internet services and enterprise solutions revenue, and the reduction in finance costs.

### Acquisitions during the year

On 28 October 2016, the Group acquired the entire share capital of Neostar Investment Limited ("Neostar"), and its outstanding loan due to a fellow subsidiary for a total consideration of HK\$813.2 million. In accordance with the sales and purchase agreement, HK\$427.8 million of the consideration was satisfied in cash and the remainder being settled by the issuance of shares of the Company. Neostar is principally engaged in holding partial portion of CITIC Telecom Tower in Hong Kong.

On 22 November 2016, the Group acquired the entire equity interests in Acclivis Technologies and Solutions Pte. Ltd. ("Acclivis") for a total consideration of SGD75.0 million (approximately HK\$418.2 million), subject to adjustments as set out in the relevant sale and purchase agreement. Acclivis is engaged in the provision of system integration, data and Internet access and cloud services to enterprise customers.

The financial results of both Neostar and Acclivis had been consolidated into the Group's financial results subsequent to the acquisitions.

### Turnover by Services

The Group provides a large spectrum of services which are classified into five major categories: mobile sales & services, Internet services, international telecommunications services, enterprise solutions and fixed line services.

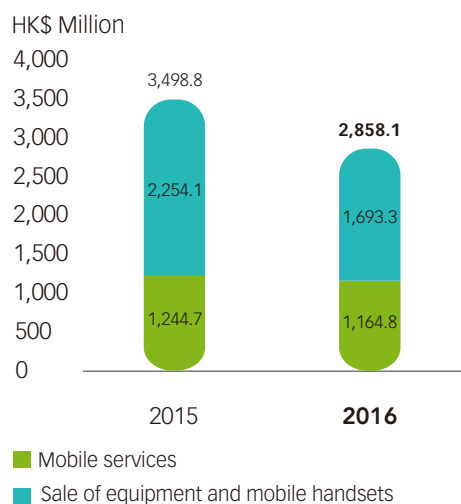
The Group experienced solid growth in both Internet services and enterprise solutions during the year which contributed to an increase of HK\$238.3 million in revenue for the year. The increase was offset by the drop in equipment and mobile handset sales and the decrease in traditional telecommunications services such as international telecommunications services and fixed line services, resulting in the decrease of 7.8% in total revenue to HK\$7,699.1 million for the year ended 31 December 2016.

Revenue from Internet services increased by 10.8% or HK\$89.6 million to HK\$922.2 million as a result of the increase in the number of subscribers, good fibre broadband uptake and the increase in data centre revenue. The Group's enterprise solutions revenue continued to record stable growth in the China market but was partly offset by the decrease in enterprise solutions in Macau resulting from slow down of new project completion. In addition, the Group had completed the acquisition of Acclivis in November 2016. In summary, the Group's enterprise solutions revenue increased HK\$148.7 million or 7.1% for the year.

Moreover, the Group had recorded significant decrease in equipment and mobile handset sales of HK\$560.8 million, down from HK\$2,254.1 million in 2015 to HK\$1,693.3 million in 2016, which has adversely impacted on the Group's total turnover.

# FINANCIAL REVIEW

## Turnover — Mobile Sales & Services



### Mobile sales & services

Mobile sales & services revenue includes the revenue from equipment and mobile handsets sales, mobile roaming services, and other mobile value-added services. Total mobile sales & services revenue amounted to HK\$2,858.1 million for the year ended 31 December 2016, a decrease of 18.3% when compared to last year. The decrease was mainly due to the drop in mobile handsets sales, price reduction in local mobile services and roaming rates, as well as higher rebates for customer acquisition and retention.

Postpaid ARPU (excluding inbound roaming and rebates adjustment) increased slightly to HK\$236.2 when compared with the first half of 2016 and corresponding period of last year as a result of growth in mobile data revenue and 4G uptake. Prepaid ARPU was up 7.9% when compared with the first half of 2016 but dropped by 22.0% to HK\$10.9 for the year ended 31 December 2016 when compared with last year mainly due to the intense price competition in mobile voice revenue, which has offset the growth in mobile data revenue. The overall number of subscribers at 31 December 2016 increased by 4.3% as compared to 31 December 2015 to around 857,000 subscribers, of which 60.1% were 4G subscribers. The Group's mobile market share in Macau was around 43.5% at 31 December 2016 (31 December 2015: 43.3%), while the Group had 57.0% market share in the 4G subscribers of Macau mobile market (31 December 2015: 65.0%).

### Internet services

Internet services revenue including the Group's data centre revenue amounted to HK\$922.2 million for the year which represented an increase of HK\$89.6 million or 10.8% when compared with 2015. The increase was mainly due to higher revenue from the good uptake of fibre broadband service and increase in data centre revenue, which had countered the impact from the Group's tariff reduction of an average of 24% in Macau since October 2016. Overall broadband ARPU for 2016 was approximately HK\$330 which was similar to 2015. The total number of broadband subscribers increased by 3.6% from 169,000 subscribers in December 2015 to around 175,000 subscribers in December 2016. The Group's Internet market share in Macau was around 98.2% (December 2015: 99.4%) while broadband market penetration rate in Macau was around 90.1% in December 2016 (December 2015: 86.4%).



# FINANCIAL REVIEW

## *International telecommunications services*

The Group's international telecommunications services mainly comprised of voice and SMS services.

Voice services revenue decreased by HK\$124.3 million or 10.0% to HK\$1,113.2 million for the year ended 31 December 2016 over the same period in 2015, which is in-line with the global trend in decreasing tariffs and traffic volume for wholesale voice market. Total traffic of 4.4 billion minutes was handled by the Group, representing a 7.6% reduction compared with 2015. Total China inbound and outbound traffic for the year has decreased by 8.1% and total international traffic dropped by 6.2% when compared to 2015. Despite the intensely competitive market conditions, the Group has continued to focus its efforts in regions with higher profit margins and has managed to maintain the average revenue per minute for both 2016 and 2015 at around HK\$0.26 per minute.

Overall the SMS market has continued to be adversely impacted by the increasing popularity of social networking applications. SMS services revenue totaled HK\$211.8 million and average revenue per SMS was HK\$0.14, representing a decrease of 33% for both revenue and revenue per message when compared with 2015.

With the launch of our "DataMall 自由行" service in 2015, the Group achieved promising results with revenue reaching HK\$16.3 million for the year ended 31 December 2016.

## *Enterprise solutions*

Enterprise solutions revenue increased by 7.1% from HK\$2,107.1 million in 2015 to HK\$2,255.8 million for the year ended 31 December 2016. The increase was mainly contributed by the continuing popularity of VPN services, steady growth in both cloud computing services and information security services and the acquisition of Acclivis in November 2016. Acclivis is principally engaged in the provision of system integration, data and Internet access and cloud services to enterprise customers primarily in Singapore, Thailand and Indonesia. Acclivis contributed HK\$79.4 million to the Group's revenue post acquisition.

There was also growth in leased line revenue driven by higher demand from telecoms and corporate customers which was largely offset by the average 37% tariff reduction for leased line services in Macau which commenced on 1 December 2016.

In 2016 around 49% and 35% of the enterprise solutions revenue were derived in Mainland China and in Macau (2015: 50% and 40%) respectively.

The Group continued to expand its Points-of-Presence ("PoPs") for VPN services. The Group has global coverage with over 100 PoPs, including new PoPs established in 2016 which are located in Seoul, Taichung, Urumqi and Yangzhou.

# FINANCIAL REVIEW

## ***Fixed line services***

Fixed line services revenue was HK\$321.7 million for 2016 which represented a decrease of 9.8% when compared to 2015. The decrease was in-line with the worldwide trends of declining fixed IDD traffic volumes and the decrease in fixed residential lines as they are gradually being replaced by mobile services.

## **Profit for the year**

The Group achieved HK\$862.7 million in profit for the year, an increase of HK\$47.9 million when compared with 2015. The increase was mainly due to the combined impact of the following factors:

## ***Turnover***

Turnover for the year decreased by HK\$650.7 million or 7.8% when compared with the same period of last year, largely due to the decrease in mobile sales & services, international telecommunications services and fixed line services. Internet services and enterprise solutions revenue have sustained solid growth during the year and have substantially offset the decrease in revenue for international telecommunications services and fixed line services.

## ***Cost of sales and services***

Cost of sales and services included costs of goods sold, and network, operations and support expenses. Consistent with the decrease in turnover, cost of sales and services amounted to HK\$4,229.1 million, a decrease of HK\$712.7 million when compared with 2015. As the Group has stepped up its efforts in achieving greater cost efficiency, therefore the decrease in cost of sales and services was greater than the decrease in turnover.

## ***Staff costs***

Staff costs for the year increased by 6.2% to HK\$851.0 million compared with 2015. The increase was mainly due to the increase in headcount and incentive bonuses which was in-line with the expansion of the Group's businesses. The increase was partly reduced by the decrease in equity-settled share-based payment expenses of HK\$7.9 million when compared with the HK\$28.1 million incurred last year.

## ***Depreciation and amortisation***

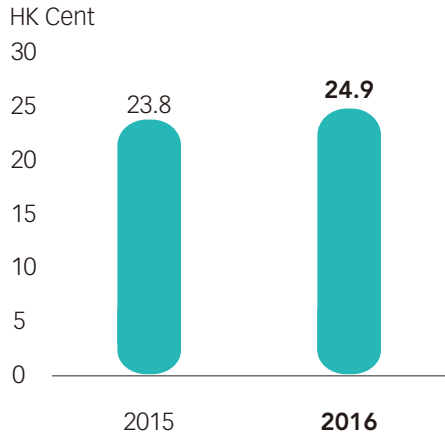
Depreciation and amortisation expenses were similar to last year at HK\$656.4 million (2015: HK\$674.0 million). The slight decrease was due to certain aged networks and equipment being fully depreciated in 2015 and 2016.

## ***Other operating expenses***

With the Group's continued success in costs saving initiatives, other operating expenses for the year was similar to last year at around HK\$598.4 million, despite the increase in utilities charges and repairs and maintenance expenses for the year as a result of the business expansion.

# FINANCIAL REVIEW

## Basic Earnings per Share



### Finance costs

Finance costs for the year decreased by 5.3% or HK\$18.4 million to HK\$327.7 million when compared with 2015. If we exclude the one-off write-off of the prepaid front end fee of HK\$23.4 million (2015: HK\$10.1 million) in relation to the loans that were refinanced during the year, recurring finance costs has dropped by HK\$31.7 million or 9.4% as a result of the refinanced bank borrowings.

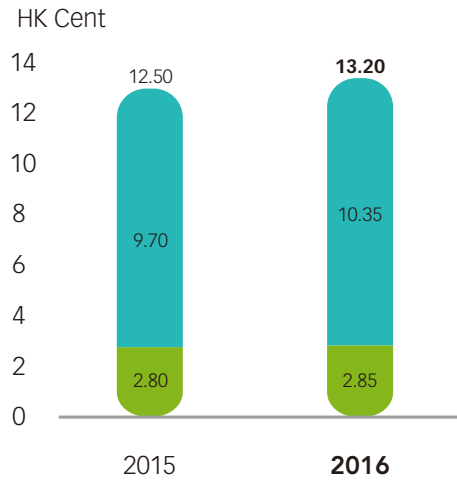
### Income tax

Income tax for the year amounted to HK\$165.4 million, a decrease of HK\$30.2 million or 15.4% when compared with the same period of 2015. The decrease was mainly due to the reversal of the over-provision of tax of HK\$22.4 million (2015: HK\$1.5 million) in 2016. If non-taxable/non-deductible items and unrecognised temporary differences were excluded, the effective tax rate for both years ended 31 December 2016 and 2015 would be around 13%.

### Earnings per share ("EPS")

Basic EPS and diluted EPS amounted to HK24.9 cents and HK24.7 cents respectively, both representing an increase of around 5% when compared with last year.

## Dividends per Share



### Dividends per share

Final dividend of HK10.35 cents per share is proposed for the year ended 31 December 2016.

- Interim Dividend
- Final Dividend

# FINANCIAL REVIEW

## Cash flows

In HK\$ million	Year ended 31 December		Increase/(Decrease)	
	2016	2015		
<i>Source of cash:</i>				
Cash inflows from business operations	<b>1,882.6</b>	1,775.8	106.8	6.0%
Net cash inflows from borrowings	<b>82.7</b>	–	82.7	N/A
Other cash inflows	<b>30.8</b>	57.9	(27.1)	(46.8%)
<b>Sub-total</b>	<b>1,996.1</b>	1,833.7	162.4	8.9%
<i>Use of cash:</i>				
Net capital expenditure*	<b>(608.1)</b>	(734.2)	(126.1)	(17.2%)
Dividends paid to equity shareholders and non-controlling interests	<b>(436.5)</b>	(394.9)	41.6	10.5%
Acquisitions of subsidiaries	<b>(681.9)</b>	–	681.9	N/A
Net cash outflows from borrowings	–	(870.5)	(870.5)	N/A
Other cash outflows	<b>(56.1)</b>	(146.1)	(90.0)	(61.6%)
<b>Sub-total</b>	<b>(1,782.6)</b>	(2,145.7)	(363.1)	(16.9%)
<b>Net increase/(decrease) in cash</b>	<b>213.5</b>	(312.0)	N/A	N/A

\* Included in the amounts are payments for purchase of other property, plant and equipment in respect of both current year additions and prior year unsettled purchases, and proceed from sales of other property, plant and equipment and others.

Profit before taxation amounted to HK\$1,028.1 million for the year ended 31 December 2016. The Group maintained a strong cash position, where HK\$1,882.6 million cash inflow was generated from operations, an increase of HK\$106.8 million or 6.0% when compared with 2015. The use of cash comprised capital expenditure, acquisitions of subsidiaries, loans and repayments, dividends distribution to equity shareholders and non-controlling interests and various other payments. In total, the Group generated net cash inflow of HK\$213.5 million for the year ended 31 December 2016.

# FINANCIAL REVIEW

## Capital expenditure

In-line with the Group's long term plan, the Group has continued to expand its data centres whereby HK\$9.4 million of fitting-out costs were incurred during the year ended 31 December 2016.

The Group's total capital expenditure for the year amounted to HK\$496.5 million. Excluding the capital expenditure on data centres, the capital expenditure for the year amounted to HK\$487.1 million, representing a decrease of 39.0% when compared with 2015. The significant decrease was due to a number of network development and upgrade projects were completed in 2015.

## Net debt

At 31 December 2016, total debt and net debt of the Group were as follows:

In HK\$ million	31 December 2016	31 December 2015
Total bank and other borrowings	7,901.4	7,472.5
Finance lease liabilities	6.0	–
<b>Total debt</b>	<b>7,907.4</b>	7,472.5
Less: Cash and bank deposits	<b>(1,459.1)</b>	(1,223.0)
<b>Net debt</b>	<b>6,448.3</b>	6,249.5

As the Group has drawn new bank loans for payments for the acquisitions of subsidiaries, the Group's net debt increased from HK\$6,249.5 million at 31 December 2015 to HK\$6,448.3 million at 31 December 2016.

## Capital commitments

At 31 December 2016, the Group had outstanding capital commitments of HK\$258.4 million, mainly for the acquisition of the entire equity interest in Linx Telecommunications B.V., the purchase of telecommunications equipment which had yet to be delivered to the Group and construction costs of the networks. Of these commitments, HK\$218.4 million were outstanding contractual capital commitments and HK\$40.0 million were capital commitments authorised but for which contracts had yet to be entered into.

# RISK MANAGEMENT

In accordance with the Board's instruction, the Group has established a risk management system covering all the business segments to monitor, assess and manage various risks in the Group's business activities.

The risk management system of the Group comprises "Four Levels" and "Three Lines of Defence" based on the corporate governance structure. The "Four Levels" are the (i) board of directors, (ii) corporate management, (iii) function management and business units of the Group, and (iv) responsible positions under function management and business units. The "Three Lines of Defence" are the (i) first line of defence comprised by function management and business units of the Group, (ii) second line of defence comprised by the risk management functions of the Group, and (iii) third line of defence comprised by the internal audit functions of the Group.

## FINANCIAL RISK

Managing financial risks to which the Group exposed is one of the primary responsibilities of the Group's treasury function. To balance the high degree of financial control and cash management efficiency, each business unit within the Group is responsible for its own cash management which is closely monitored by the headquarters. In addition, the decision of financing activities is centralised at head office level.

### 1. Debt and leverage

As the Group has arranged new bank loans for payments for the acquisitions of subsidiaries, the Group's net debt increased to HK\$6,448.3 million. Benefits from the increase in the total capital which amounted to HK\$14,318.8 million, the net gearing ratio decreased from 47% at 31 December 2015 to 45% at 31 December 2016.

At 31 December 2016, total debt and net debt of the Group were as follows:

In HK\$ million equivalents	Denomination						Total
	HKD	USD	SGD	MOP	RMB	Others	
Total bank and other borrowings	4,092.8	3,483.8	324.8	–	–	–	<b>7,901.4</b>
Finance lease liabilities	–	–	6.0	–	–	–	<b>6.0</b>
<b>Total debt</b>	4,092.8	3,483.8	330.8	–	–	–	<b>7,907.4</b>
Less: Cash and bank deposits	(298.7)	(284.8)	(82.0)	(523.0)	(220.4)	(50.2)	<b>(1,459.1)</b>
<b>Net debt/(cash)</b>	<b>3,794.1</b>	<b>3,199.0</b>	<b>248.8</b>	<b>(523.0)</b>	<b>(220.4)</b>	<b>(50.2)</b>	<b>6,448.3</b>

At 31 December 2016, the Group's net gearing ratio was as follows:

In HK\$ million	31 December 2016	31 December 2015
Total bank and other borrowings	<b>7,901.4</b>	7,472.5
Finance lease liabilities	<b>6.0</b>	–
<b>Total debt</b>	<b>7,907.4</b>	7,472.5
Less: Cash and bank deposits	<b>(1,459.1)</b>	(1,223.0)
<b>Net debt</b>	<b>6,448.3</b>	6,249.5
Total equity attributable to equity shareholders of the Company	<b>7,870.5</b>	7,029.4
<b>Total capital</b>	<b>14,318.8</b>	13,278.9
<b>Net gearing ratio</b>	<b>45%</b>	47%

# RISK MANAGEMENT

At 31 December 2016, the principal of total debt amounted to HK\$7,971.5 million, of which HK\$46.7 million will mature in the coming year, against cash and bank deposits of HK\$1,459.1 million.

The maturity profile of the Group's total debt in principal amount at 31 December 2016 was as follows:

In HK\$ million	2017	2018	2019	2020	2021	2022 & beyond	Total
Bank and other borrowings	43.7	313.1	580.7	3,118.0	400.0	–	4,455.5
Finance lease liabilities	3.0	1.4	0.9	0.7	–	–	6.0
US\$450 million 6.1% guaranteed bonds	–	–	–	–	–	3,510.0	3,510.0
	<b>46.7</b>	<b>314.5</b>	<b>581.6</b>	<b>3,118.7</b>	<b>400.0</b>	<b>3,510.0</b>	<b>7,971.5</b>

Note: For illustrative purpose, the above analysis is based on the principal amount of total bank and other borrowings, rather than the carrying amount adopted in the consolidated financial statements.

To equilibrate the Group's debt portfolio denominated in Hong Kong dollars and United States dollars and reduce the cost of funding, the Group entered into a facility agreement with a group of banks in aggregate amount of HK\$3,430.0 million in December 2015 to refinance the borrowings under a facility agreement entered in 2013 (the "US\$540.0 million facility").

In 2015, the Group early repaid US\$100.0 million (approximately HK\$780.0 million), being part of the US\$540.0 million facility from its surplus cash, and refinanced part of the US\$540.0 million facility for the sum of US\$116.0 million (approximately HK\$904.8 million). During the year, the Group refinanced the remaining part of the US\$540.0 million facility, which amounted to US\$324.0 million (approximately HK\$2,527.2 million).

During the year, the Group has arranged a SGD49.1 million (approximately HK\$263.2 million) new bank loan for the payment for the acquisition of Acclivis Technologies and Solutions Pte. Ltd. and its subsidiaries, which headquarters is in Singapore. Other than the above-mentioned loan, the balance of the SGD borrowings of the Group at 31 December 2016 was used to support the liquidity requirements of the Group's operation in Singapore.

## **Available sources of financing**

The Group aims to maintain the cash balance and undrawn banking facilities at a reasonable level to meet the debt repayments and capital expenditure requirement in the coming year.

The Group's cash balance at 31 December 2016 are more than sufficient to cover the repayments of principal amount of total debt of HK\$46.7 million in the coming year and contractual capital commitments of HK\$218.4 million at 31 December 2016.

At 31 December 2016, the Group had available trade facilities of approximately HK\$719.8 million. Approximately HK\$354.8 million was utilised as guarantees for performance to customers/the Macau Government, costs payable to telecoms operators and others, and to secure loans drawn by a fellow subsidiary by commercial banks under the offshore-security-onshore-loan arrangements. Around HK\$169.8 million of these utilised facilities were required to be secured by pledged deposits or fixed assets.

# RISK MANAGEMENT

At 31 December 2016, the type of facilities of the Group was summarised as follows:

In HK\$ million	Total available facilities	Amount utilised	Amount unutilised
<b>Bank and other loans</b>			
– <b>Committed facilities:</b>			
Term loans	4,575.8	4,436.7	139.1
– <b>Uncommitted facilities:</b>			
Short-term facilities	366.2	18.8	347.4
	4,942.0	4,455.5	486.5
<b>Finance lease liabilities – Committed facilities</b>	6.0	6.0	–
<b>Guaranteed bonds – Committed facility</b>			
US\$450 million 6.1% guaranteed bonds	3,510.0	3,510.0	–
<b>Trade facilities – Uncommitted facilities</b>	719.8	354.8	365.0
<b>Total</b>	<b>9,177.8</b>	<b>8,326.3</b>	<b>851.5</b>

## 2. Liquidity risk management

Each business unit within the Group is responsible for its own cash management, including predetermined short term investment of its cash surpluses. The raising of loans to cover its expected cash demand must be approved by the finance committee or the board of the Company. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, 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.

To minimise refinancing risk, the Group arranged long-term borrowings from the capital market, and the term loan with repayment by instalment to meet the funding needs. This ensures that the Group can apply a prudent liquidity risk management approach.

Cash flow is well-planned and reviewed regularly by the management of the Group, so that the Group can meet its funding needs. The strong cash flow from the Group's operating activities can meet its liquidity requirements in the short and longer term.

## 3. Loan covenants

Committed banking facilities contain certain covenants, undertaking, financial covenants, change in control clause and/or events of default customary, which are commonly found in lending arrangement with financial institutions. If the Group were to breach the covenants or in any case of an event of default, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. At 31 December 2016, the Group was in compliance with the relevant requirements.



# RISK MANAGEMENT

## 4. Contingent liabilities

At 31 December 2016, the Group had no significant contingent liabilities.

## 5. Performance bonds, guarantees and pledged assets

At 31 December 2016, performance bonds provided to the Macau Government and other customers for which no provision has been made in the consolidated financial statements amounted to approximately HK\$90.0 million.

At 31 December 2016, the Company has provided guarantee to its subsidiary in an amount of HK\$34.4 million to support its performance under a construction contract.

At 31 December 2016, guarantees of HK\$260.9 million were issued by the Group to secure the bank loans drawn by a fellow subsidiary from the commercial banks under the offshore-security-onshore-loan arrangements, of which, HK\$152.5 million were required to be secured by pledged deposits of HK\$171.3 million. In addition, bank deposits of approximately HK\$4.1 million and fixed assets of approximately HK\$6.2 million were pledged to secure parts of the facilities of the Group.

On 5 March 2013, CITIC Telecom International Finance Limited, a wholly-owned subsidiary of the Company, issued US\$450 million (approximately HK\$3,510.0 million) guaranteed bonds with a maturity of twelve years due on 5 March 2025 and the bonds bore interest at 6.1% per annum. The bonds were unconditionally and irrevocably guaranteed by the Company.

At 31 December 2016, the Company has issued guarantees for its subsidiaries in respect of the bank and other loans in an amount of HK\$325.3 million and finance lease liabilities in an amount of HK\$3.3 million.

Certain other property, plant and equipment of Companhia de Telecomunicações de Macau, S.A.R.L. ("CTM") are designated for the provision of basic infrastructure of public telecommunications services. They may need to be shared with other licensed telecommunications operators or the Macau Government with fair compensation, or, upon termination of the concession agreement, assigned in favour of the Macau Government.

## 6. Interest rate risk

The Group's interest rate risk arises primarily from long-term borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group manages its interest rate risk exposures in accordance with defined policies and regular review to achieve a balance between minimising the Group's overall cost of fund and managing large interest rate movements, as well as having regard to the floating/fixed rate mix appropriate to its current business portfolio.

Interest rate risk is managed by borrowing fixed rate or through use of interest rate swap, if necessary. At 31 December 2016, approximately 55.8% of the Group's borrowings in principal were linked to floating interest rates. During the year, the Group did not enter into any interest rate swap arrangement.

### *Average borrowing costs*

At 31 December 2016, the average borrowing costs, which is after the inclusion of amortisation of transaction costs, was approximately 4.0%.

# RISK MANAGEMENT

## 7. Foreign currency risk

The major places of operating companies within the Group are located in Hong Kong and Macau, whose functional currency is Hong Kong dollar or Macau Pataca. The Group is exposed to currency risk primarily from currencies other than the functional currency of the operations to which the transactions relate.

A substantial portion of the Group's turnover and cost of sales and services are denominated in United States dollars, Macau Patacas and Hong Kong dollars. The majority of the Group's current assets, current liabilities and transactions are denominated in United States dollars, Macau Patacas and Hong Kong dollars. As the Hong Kong dollar is linked to the United States dollar and the Macau Pataca is pegged to the Hong Kong dollar, it will not pose significant foreign currency risk to the Group. However, the exchange linkages between these currencies are subject to potential changes due to, among other things, changes in governmental policies and international economic and political developments. Although 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 the necessary hedging arrangement to mitigate risk from any significant fluctuation in foreign exchange rates.

## 8. 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.

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. Trade debtors are due within 7 to 180 days from the date of billing. Impairment losses are recorded for those overdue balances where there is objective evidence of impairment.

The Group has certain concentration risk in respect of trade debtors due from the Group's five largest customers who accounted for approximately 43.9% and 39.3% of the Group's total trade debtors at 31 December 2016 and 31 December 2015 respectively. The credit risk exposure to trade debtors balance has been and will continue to be monitored by the Group on an ongoing basis.

## 9. Counterparty risk

At 31 December 2016, the Group had a significant balance of cash at various financial institutions. To minimise the risk of non-recovery of cash deposits, the Group mainly deals with financial institutions which have good credit ratings with prestigious credit ratings companies (such as Moody's Investors Service, Standard & Poor's and Fitch Group), or the note issuing banks in Hong Kong, Macau and Mainland China, or group companies. At 31 December 2016, the Group has approximately HK\$1,454.4 million cash balance in the above-mentioned financial institutions, representing approximately 99.7% of the total cash and bank deposits of the Group. Management does not expect any losses from non-recovery from our financial counterparties.

## ECONOMIC ENVIRONMENT

The Group's primary facilities and operations are located in Hong Kong and Macau and the majority of its turnover is derived from Hong Kong, Macau and Mainland China respectively. The Group's results of operations and financial condition therefore depend on the economies of Hong Kong, Macau and Mainland China. The economies of Hong Kong and Macau are significantly affected by the developments in Mainland China and the Asia-Pacific region. Mainland China's economy may experience negative growth, and other regional economies may also deteriorate. Any reduction in telephone calls into and out of Mainland China as a result of diminishing business activities and, to a lesser extent, reduced international travel resulting in a decline in the provision of roaming services, have had and may continue to have a negative impact on the Group's results of operations and financial condition. As tourism and gaming industries are the backbone of Macau's economy, the setback in those industries may have negative impact on the mobile services performance of CTM.

# RISK MANAGEMENT

The Group also has significant operations across the Asia-Pacific region and part of its growth strategy is to expand into new regions, in particular emerging markets such as Latin America, the Middle East and Africa. However, these regions have also been adversely affected by the global economic slowdown and any continued slowdown may have an adverse effect on the Group's existing operations in, and planned expansion into, these regions.

## OPERATIONAL RISK

The Group provides interoperable interconnections, mobile VAS and data services that are critical to the operations of its customers. The Group's system architecture is integral to its ability to process a high volume of transactions in a timely and effective manner. CTM provides mobile, fixed line and broadband services that are dependent on the performance of its network.

The Group may experience failures or interruptions of its systems and services, or other problems in connection with its operations as a result of, amongst others:

- damage to or failure of its computer software or hardware or its infrastructure and connections;
- data processing errors by its systems;
- computer viruses or software defects;
- physical or electronic break-ins, sabotage, vandalism and similar events; and
- the failure to adapt to rapid technological changes in the telecoms industry.

If the Group cannot adequately ensure the ability of its network services to perform consistently at a high level or otherwise fails to meet its customers' expectations:

- it may experience damage to its reputation, which may adversely affect its ability to attract or retain customers for its existing services, and may also make it more difficult for the Group to market its existing or future services;
- it may be subject to significant damages or customer liability claims, under its contracts or otherwise, including the requirement to pay penalties relating to service level requirements in its contracts;
- it may, in the case of CTM, be subject to penalties imposed by the Macau regulators;
- its operating expenses or capital expenditures may increase as a result of corrective efforts that it must perform;
- its customers may reduce their use of its services; or
- one or more of its significant contracts may be terminated early, or may not be renewed.

These or other consequences would adversely affect the Group's revenues and performance.

# RISK MANAGEMENT

## SECURITY OR PRIVACY BREACHES

The Group's systems may be vulnerable to physical break-ins, computer viruses, attacks by computer hackers or similar disruptive problems. If unauthorised users gain access to the Group's databases, they may be able to embezzle, publish, delete or modify sensitive information that is stored or transmitted on the Group's networks and which the Group is required by its contracts to keep confidential. A security or privacy breach could result in an interruption of service or a reduced quality of service. Confidential internal information to the Group may also be disclosed to unauthorised personnel who may use such information in a manner adverse to the interests of the Group. The Group may therefore be required to make significant expenditures in connection with corresponding corrective or preventive measures. In addition, a security or privacy breach may harm the Group's reputation and cause its customers to reduce their use of such services, which could harm the Group's revenues and business prospects.

In addition, the Group's revenue may be adversely affected by un-captured usage, in the event that the Group's systems are "hacked" into, resulting in transmissions that may not be detected by its billing system. Further, the increase in traffic as a result of such unauthorised "hacking" may slow or overload the Group's transmission networks, thereby adversely affecting the overall quality of services which the Group provides to its paying customers.

## COMPETITIVE MARKETS

The Group operates in highly competitive markets. Failure to compete in terms of product specifications, service quality, reliability or price may have an adverse impact on the Group.

- Increasing liberalisation of the telecoms industry in Hong Kong and China may continue to attract new local and foreign entrants and broaden the variety of telecoms services available in the market, thereby increasing the overall level of competition in the industry.
- The fixed telecoms market in Macau is in the process of liberalisation. Moreover, CTM secured 4G network operating licence from the Macau Government, but the 4G network operating licences were also granted to other territory's mobile network operators. It is expected that competition may increase from both existing and new market players. Increased competition may have an adverse effect on the operating performance of CTM and hence affect the value of the business.
- Rapid changes in technology and business models from other telecommunications services providers may increase competition and render the Group's technologies, products or services obsolete or cause the Group to lose market share.
- Rapid development of new technologies, new services and products, and new business models, including Over-the-top products such as instant voice and messaging services, may have a material adverse effect on our business, financial condition and results of operations.

Intensification of competition might result in lower product prices, narrower profit margins as well as loss of market share for the Group.

# RISK MANAGEMENT

## OTHER EXTERNAL RISKS AND UNCERTAINTIES

### 1. Impact of laws and regulations

The Group faces local business risks in different countries and regions. Such risks might have significant impacts on the financial condition, operations and business prospects of the Group in the relevant markets. The investments of the Group in countries and regions across the world might at present or in future be affected by changes in local, national or international political, social, legal, tax, regulatory and environmental requirements from time to time. In addition, new government policies or measures, if introducing changes in fiscal, tax, regulatory, environmental or other aspects that may affect competitiveness, could result in an additional or unforeseen increase in operating expenses and capital expenditures, produce risks to the overall return on investments of the Group, and delay or impede its business operations and hence adversely affect revenues and profits.

### 2. Impact of new accounting standards

The Hong Kong Institute of Certified Public Accountants (“HKICPA”) issues new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) from time to time. As the accounting standards continue to evolve, HKICPA might further issue new and revised HKFRSs in the future. The new accounting policies, if required to be adopted by the Group, could have a significant impact on its financial condition and results of operations.

### 3. Natural disasters or events and terrorism

The integrity of the Group’s data centres and infrastructure, in particular in relation to the Group’s PoPs, submarine cable connections, international private lease lines, local lease lines, switches or other circuits connecting the Group with its customers, are important to the Group’s provision of services. The Group may not have sufficient backup systems or facilities to allow it to receive, process and/or transmit data in the event of a loss of, or damage to, any of its data centres or infrastructure. Such loss or damage may be caused by power loss, natural disasters such as fires, earthquakes, severe storms, heavy rainfall, floods and typhoons, network software flaws, vandalism, telecoms failures such as transmission cable disruptions or other similar events that could adversely affect its customers’ ability to access the Group’s hub.

In the event of such loss or damage, the Group may be required to make significant expenditures to repair or replace a data centre and/or its other infrastructure. Any interruption to the Group’s operations due to the loss of, or damage to, a data centre and/or its other infrastructure could harm the Group’s reputation and cause its customers to reduce their use of the Group’s services, which could harm the Group’s revenues and business prospects.

The entire Group is committed to constantly improving its risk monitoring and management mechanism in order to promote risk identification and assessment at all levels; strengthen risk assessment and monitoring of major projects and key businesses; and manage counterparty credit risks. The Group stays fully informed of the operations, financial condition and major business progresses of its subsidiaries through off-site monitoring, on-site inspections and other means to assess the risks that may arise. Through risk reports on weaknesses and potential risks, the Group supervises and implements risk management and control measures to improve its comprehensive risk management practices and initiatives across the Group.

# FIVE YEAR SUMMARY

	At 31 December				
	2012 HK\$'000	2013 HK\$'000	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000
<b>Assets and liabilities</b>					
Investment property	–	–	–	–	<b>635,328</b>
Other property, plant and equipment	742,376	1,884,339	2,105,909	2,404,952	<b>2,553,923</b>
Intangible assets	105,825	2,342,878	2,167,628	2,005,221	<b>1,878,846</b>
Goodwill	402,456	9,283,688	9,281,625	9,276,511	<b>9,596,599</b>
Interest in an associate	1,449,938	–	–	–	–
Interest in a joint venture	45,950	6,264	6,265	5,541	<b>7,367</b>
Non-current other receivables and deposits	174,352	164,974	215,612	163,862	<b>198,920</b>
Deferred tax assets	37,451	33,011	33,141	33,227	<b>85,764</b>
Net current assets	615,725	552,947	1,109,669	983,496	<b>1,243,178</b>
Non-current interest-bearing borrowings and obligations under finance leases	–	(7,616,565)	(7,867,586)	(7,372,492)	<b>(7,860,743)</b>
Non-current other payables	(87,808)	(80,424)	(73,040)	(65,656)	<b>(77,594)</b>
Net defined benefit retirement obligation	–	(72,302)	(103,729)	(117,307)	<b>(112,878)</b>
Deferred tax liabilities	(65,241)	(310,859)	(281,218)	(260,297)	<b>(249,024)</b>
<b>NET ASSETS</b>	<b>3,421,024</b>	<b>6,187,951</b>	<b>6,594,276</b>	<b>7,057,058</b>	<b>7,899,686</b>
<b>Capital and reserves</b>					
Share capital and other statutory capital reserves (note)	1,827,687	3,697,638	3,780,941	3,848,565	<b>4,262,457</b>
Other reserves (note)	1,605,016	2,465,633	2,787,417	3,180,822	<b>3,608,047</b>
<b>Total equity attributable to equity shareholders of the Company</b>	<b>3,432,703</b>	<b>6,163,271</b>	<b>6,568,358</b>	<b>7,029,387</b>	<b>7,870,504</b>
<b>Non-controlling interests</b>	<b>(11,679)</b>	<b>24,680</b>	<b>25,918</b>	<b>27,671</b>	<b>29,182</b>
<b>TOTAL EQUITY</b>	<b>3,421,024</b>	<b>6,187,951</b>	<b>6,594,276</b>	<b>7,057,058</b>	<b>7,899,686</b>
	For the year ended 31 December				
	2012 HK\$'000	2013 HK\$'000	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000
<b>Results</b>					
Turnover	3,609,810	6,018,543	8,183,607	8,349,811	<b>7,699,147</b>
Profit before taxation	505,221	1,201,125	914,294	1,010,443	<b>1,028,089</b>
Income tax	(40,232)	(130,826)	(179,339)	(195,611)	<b>(165,368)</b>
Profit for the year	464,989	1,070,299	734,955	814,832	<b>862,721</b>
Attributable to:					
Equity shareholders of the Company	461,283	1,067,506	723,734	802,213	<b>850,088</b>
Non-controlling interests	3,706	2,793	11,221	12,619	<b>12,633</b>
Profit for the year	464,989	1,070,299	734,955	814,832	<b>862,721</b>
Basic earnings per share (HK cents)	19.3	36.5	21.7	23.8	<b>24.9</b>
Diluted earnings per share (HK cents)	19.3	36.2	21.5	23.6	<b>24.7</b>
Dividends per share					
Interim dividend (HK cents)	2.40	2.40	2.70	2.80	<b>2.85</b>
Final dividend (HK cents)	7.20	7.60	8.60	9.70	<b>10.35</b>
	9.60	10.00	11.30	12.50	<b>13.20</b>

Note: As the term "share capital" includes share premium and capital redemption reserve from the commencement date of the new Hong Kong Companies Ordinance of 3 March 2014, but not before that date, presentation of "capital and reserves" has been revised in order to be consistent with the new terminology.

# CORPORATE GOVERNANCE

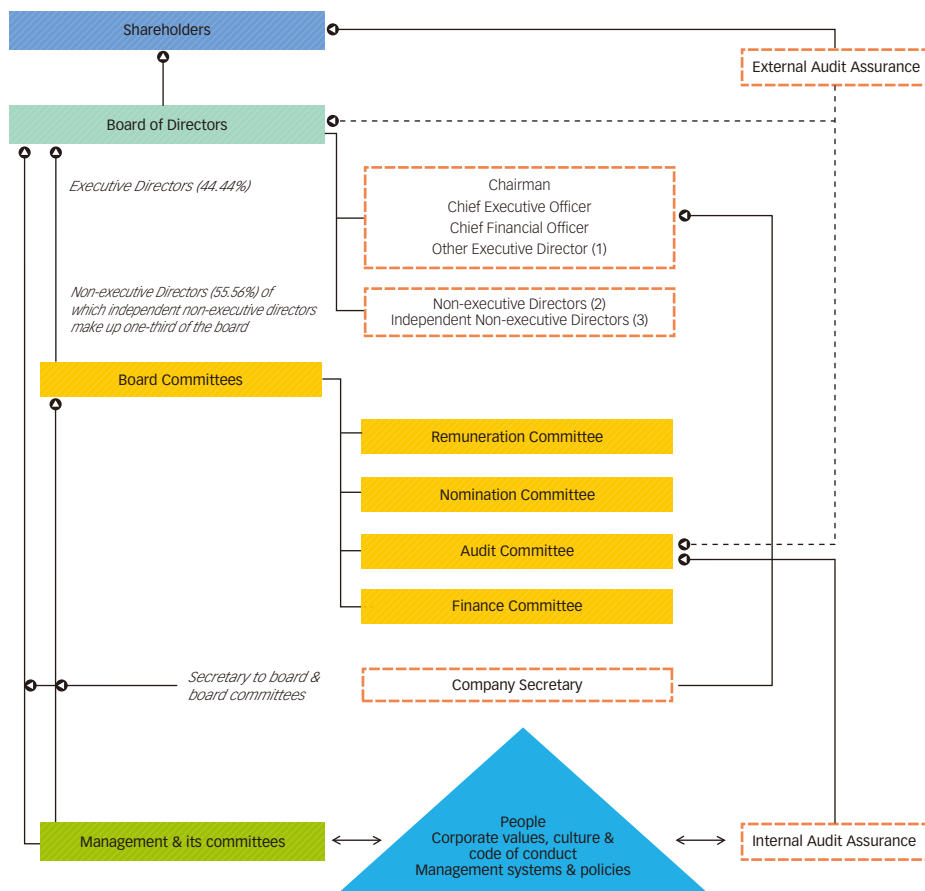
## CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standards of corporate governance. The board of directors of the Company (the "Board") believes that good corporate governance practices are important to promote investor confidence and protect the interest of our shareholders. At CITIC Telecom, 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 with the applicable code provisions in the Corporate Governance Code (the "Code") 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") throughout the year of 2016. In respect of the code provision A.6.7 of the Code, Messrs. Luo Ning, Liu Li Qing and Zuo Xunsheng were unable to attend the general meetings of the Company held on 16 May 2016 and on 21 October 2016 as they had other engagements.

Looking ahead, we will keep our governance practices under continual review to ensure their consistent application and will continue to improve our practices having regard to the latest developments.

## 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 skill, care and diligence to a standard in accordance with the statutory requirements.

During the year, the Board has performed a self-evaluation of its performance and reviewed the contribution required from a director to perform his responsibilities. The Board is of the view that all directors have given sufficient time and attention to the Group's affairs and the Board operates effectively as a whole.

### Board Composition

The Board currently comprises four executive and five non-executive directors of whom three are independent as defined in the Listing Rules. Brief biographical particulars of the directors are set out on pages 68 to 70.

Independent non-executive directors constitute 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.

Each director has entered into an appointment letter with the Company. Under the Articles of Association of the Company, any director appointed by the Board either to fill a casual vacancy or as an additional director is subject to re-election at the next general meeting of the Company. Also, one-third of the directors for the time being, 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. Thus, every director, including the non-executive directors, shall be subject to retirement by rotation at least once every three years. These directors are eligible for re-election. Their re-election is subject to a vote of the shareholders and separate resolutions are proposed for the election of each director.

Mr. Fei Yiping was appointed by the Board as a non-executive director of the Company subsequent to the last annual general meeting of the Company. Pursuant to the Articles of Association of the Company, he will hold office until the forthcoming annual general meeting and shall then be eligible for re-election. Thereafter, he will be subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company.

Mr. Gordon Kwong Che Keung, an independent non-executive director of the Company, shall retire in the forthcoming annual general meeting. Due to other commitment, Mr. Kwong will not seek for re-election. The nomination committee has recommended to the Board to appoint Mr. Lam Yiu Kin as an independent non-executive director of the Company to fill the vacancy created by the retirement of Mr. Gordon Kwong Che Keung and an ordinary resolution for the appointment of Mr. Lam Yiu Kin will be put forward for shareholders' approval at the forthcoming annual general meeting.

### 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 Group. Day-to-day management of the Group 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 Group, including reports and recommendations on significant matters. All Board members are provided with monthly management updates of the business operations of the Group. Should separate independent professional advice be considered necessary by the directors, independent professional services would be made available to the directors upon request.



# CORPORATE GOVERNANCE

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, changes to 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.

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 57 to 60.

## Board Meetings and Attendance

The Board meets regularly to review the financial and operating performance of the Group and to discuss future strategy. Four regular Board meetings were held in 2016. At the Board meetings, the Board reviewed significant matters including, inter alia, the Group's annual and interim financial statements, annual budget, proposals for final and interim dividends, annual report and interim report, connected transactions, the risk management policy and the revised code of conduct. 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 also held a meeting with the non-executive directors (including the independent non-executive directors) without the presence of executive directors.

The attendance record of each director at the Board meetings and general meetings in 2016 is set out below:

Directors	Attendance/Number of Meetings	
	Board Meeting	General Meeting
<b>Executive Directors</b>		
Mr. Xin Yue Jiang – <i>Chairman</i>	4/4	2/2
Dr. Lin Zhenhui – <i>Chief Executive Officer</i>	4/4	2/2
Mr. Luo Ning	3/4	0/2
Dr. David Chan Tin Wai – <i>Chief Financial Officer</i>	4/4	2/2
<b>Non-executive Directors</b>		
Mr. Liu Jifu	4/4	2/2
Mr. Fei Yiping (appointed on 1 June 2016)	1/2	1/1
<b>Independent Non-executive Directors</b>		
Mr. Liu Li Qing	4/4	0/2
Mr. Gordon Kwong Che Keung	4/4	2/2
Mr. Zuo Xunsheng	4/4	0/2

The Company's external auditor also attended the 2016 annual general meeting.

# CORPORATE GOVERNANCE

## Chairman and Chief Executive Officer

Mr. Xin Yue Jiang serves as the Chairman of the Company and Dr. Lin Zhenhui as the Chief Executive Officer of the Company. The Chairman and Chief Executive Officer have separate defined responsibilities whereby the Chairman is primarily responsible for leadership and effective functioning of the Board, ensuring all key and appropriate issues are addressed by the Board in a timely manner, as well as providing strategic direction of the Group, 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 Group 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.

## 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 Group'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 Group'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. The training and continuous professional development of directors and senior management during the year has been reviewed by the Board.

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 relating to reformation of the Hong Kong stock market and the international financial reporting standards.

According to the record of the directors' participation in the continuous professional development programme kept by the Company, a summary of training received by the directors during the year is as follows:

Directors	Type of continuous professional development programme
<b>Executive Directors</b>	
Mr. Xin Yue Jiang	A, B
Dr. Lin Zhenhui	A, B
Mr. Luo Ning	A, B
Dr. David Chan Tin Wai	A, B
<b>Non-executive Directors</b>	
Mr. Liu Jifu	A, B
Mr. Fei Yiping	A, B
<b>Independent Non-executive Directors</b>	
Mr. Liu Li Qing	A, B
Mr. Gordon Kwong Che Keung	A, B
Mr. Zuo Xunsheng	A, B

Notes:

A: attending briefings and/or seminars

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

# CORPORATE GOVERNANCE

## 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. Liu Li Qing, 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](http://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:

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

A meeting was held during the year. The remuneration committee has reviewed the remuneration policies and approved, inter alia, 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 Sustainability Report on page 97, and directors' emoluments and retirement benefits are disclosed on pages 148 to 149 and 167 to 171. Share options granted under the Company's share option plan are disclosed on pages 82 to 86.

# CORPORATE GOVERNANCE

The remuneration paid to the directors of the Company, by name, for the year ended 31 December 2016 is set out in note 8 to the financial statements. The remuneration paid to the senior management, by band, for the year ended 31 December 2016 is set out below:

## *Remuneration of senior management other than directors for the full year of 2016*

<b>Total Remuneration Bands</b>	<b>Number of Executives</b>
HK\$3,000,000 or below	1
HK\$3,000,001 – HK\$6,000,000	2
HK\$6,000,001 – HK\$9,000,000	1
HK\$9,000,001 – HK\$12,000,000	1

## **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 systems of risk management and internal controls, including the internal audit function as well as arrangements for concerns raised by the staff on financial reporting and other matters. The Board also delegated certain corporate governance functions to the audit committee, including, inter alia, the review and monitoring of the Company's policies and practices on compliance with legal and regulatory requirement, the code of conduct of the Company and the Company's policies and practices on corporate governance and its compliance with the Code and disclosures in the Corporate Governance Report, etc.. The terms of reference setting out the committee's authority and its role and responsibilities are available on the Company's website ([www.citictel.com](http://www.citictel.com)) and the Stock Exchange's website.

The audit committee currently consists of a non-executive director and three independent non-executive directors 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 of the Company 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 once a year in separate private session with the external auditor and internal auditor without the presence of management.

The audit committee held two meetings in 2016 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 of the Company 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.

# CORPORATE GOVERNANCE

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

<b>Membership and Attendance</b>	
<b>Members</b>	<b>Attendance/ Number of Meetings</b>
<b>Independent Non-executive Directors</b>	
Mr. Gordon Kwong Che Keung – <i>Chairman</i>	2/2
Mr. Liu Li Qing	2/2
Mr. Zuo Xunsheng	2/2
<b>Non-executive Director</b>	
Mr. Fei Yiping (appointed on 1 June 2016)	1/1

During 2016, 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; reviewed the risk management policy and the amendments to the code of conduct before submitting to the Board for approval. The audit committee recommended the Board to adopt the interim and annual financial statements for 2016. The audit committee has also performed the corporate governance duties as set out in its terms of reference.

## Nomination Committee

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 diversity of the Board. The full terms of reference are available on the Company's website ([www.citictel.com](http://www.citictel.com)) and the Stock Exchange's website.

The board diversity policy of the Company sets out the approach to achieve diversity in the Board which will include and make good use of the differences in skills, experience and background, geographical and industry experience, ethnicity, gender, knowledge and length of service and other qualities of the members of the Board. These differences will be considered in determining the optimum composition of the Board and all Board appointments will be based on merit, having due regard to the overall effective functioning of the Board as a whole. The ultimate decision will be based on merit against objective criteria and with due regard for the benefits of diversity on the Board. The Company believes that diversity can strengthen the performance of the Board, promote effective decision-making and better corporate governance and monitoring. The nomination committee also monitors the implementation of this policy and reports to the Board on the achievement of the measurable objectives for achieving diversity under this policy.

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.

# CORPORATE GOVERNANCE

Two meetings were held and a resolution in writing was passed in 2016. The composition of the nomination committee during the year as well as the meeting attendance of the committee members are as follows:

<b>Membership and Attendance</b>	
<b>Members</b>	<b>Attendance/ Number of Meetings</b>
<b>Executive Director</b>	
Mr. Xin Yue Jiang – <i>Chairman</i>	2/2
<b>Non-executive Director</b>	
Mr. Liu Jifu	2/2
<b>Independent Non-executive Directors</b>	
Mr. Liu Li Qing	2/2
Mr. Gordon Kwong Che Keung	2/2
Mr. Zuo Xunsheng	2/2

In 2016, the nomination committee reviewed the policy for the nomination of directors and recommended the appointment of an additional non-executive director of the Company for approval by the Board. The nomination committee has also made recommendations to the Board on the re-election of the directors retiring at the annual general meeting and reviewed the structure, size and diversity of the Board and discussed the measurable objectives, including knowledge, appropriate professional qualifications, relevant business background and experience, skills, related management expertise and independence of directors and agreed that these measurable objectives were achieved for the diversity on the Board which contributed to the corporate strategy and the business development of the Company.

## Finance Committee

The finance committee is delegated the powers of 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 three executive directors, namely, Mr. Xin Yue Jiang, Dr. Lin Zhenhui and Dr. David Chan Tin Wai. In 2016, a number of resolutions in writing were passed by the finance committee to approve opening of bank accounts and other financial transactions such as acceptance of banking facilities.

## ACCOUNTABILITY AND AUDIT

### Financial Reporting

The Board recognises the importance of integrity of financial information and acknowledges its responsibility for preparing 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 (Chapter 622 of the laws of Hong Kong) (the "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 Group'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 amended financial reporting standards has not had a significant impact on the Group's financial statements, details of which are disclosed in notes 1(a) and 1(c) to the financial statements.

# CORPORATE GOVERNANCE

The responsibilities of the external auditor with respect to the financial statements for the year ended 31 December 2016 are set out in the Independent Auditor's Report on pages 113 to 119.

## **External Auditor 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\$5,310,000. In addition, approximately HK\$2,181,000 was charged by KPMG for non-audit services. The non-audit services mainly consist of taxation services, interim review, special audit, advisory and other professional services. The fees charged by other auditors of the Group for audit services and non-audit services during the year amounted to approximately HK\$596,000 and HK\$54,000 respectively.

## **Risk Management and Internal Control**

Risk management and internal control are essential parts of corporate governance. The Board has overall responsibility for maintaining an adequate system of risk management and internal control and reviewing its effectiveness, while management ensures sufficient and effective operational controls over the key business processes are properly implemented with regular reviews and updates.

The risk management and internal control system is designed to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorized 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.

### ***Risk management and internal control system features***

The risk management and internal control system of the Group is established along the core concepts of Enterprise Risk Management – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and the Basic Standard for Enterprise Internal Control jointly issued by ministries and commissions (Ministry of Finance, China Securities Regulatory Commission, National Audit Office, China Banking Regulatory Commission and China Insurance Regulatory Commission) in 2008 as well as the relevant guidelines and government policies.

Group's risk management facilitates business development and operation of the Group by setting the appropriate risk appetite, maintaining an optimal risk level and most importantly, proactively managing risks. Business units across the Group embrace the Enterprise Risk Management framework that underpins their day-to-day business activities. The framework provides a simple and effective management process to identify and review risks across all business units of the organization, and prioritize resources to manage those risks that arise.

### ***Management process for significant risks***

The Group takes proactive measures to identify, evaluate and manage significant risks arising from its recurrent and growth businesses and from the constantly changing business environment. Various risk management strategies have been established by management to identify, assess and mitigate risks, including in the areas of strategy, market, finance, legal and operation risks.

# CORPORATE GOVERNANCE

The Group established “Risk Management Policy” which provides guidance and procedures to business units and corporate departments of the Group for implementing risk management and internal control practices. All risks are ranked and their treatment is determined by a combination of likelihood and consequence, which takes account of risk appetite. Each risk is evaluated by the likelihood of the identified risk and the consequences of the risk events taking into consideration the control measures in place. Business units establish their own arrangements for implementing a risk management process complied with the Risk Management Policy and capture identified risks in risk registers which are reviewed regularly.

Overall business risks of the Group are reviewed and assessed regularly. Management is required to submit a written report on the risk review exercised half-yearly. Besides, report on the effectiveness of the Group’s risk management and internal control system will be submitted annually.

Moreover, an early risk flagging mechanism is established which enables the Group to proactively identify and assess emerging risks and broad areas of changes, emanating from both internal and external factors, and act on them in a timely manner. Risk owners have to flag and report immediately to the corresponding risk oversight parties when a potential risk is perceived and significant impact is expected in any business areas.

The Group’s significant risks can be found in the “Risk Management” section on pages 44 to 51 of this Annual Report.

## ***Monitoring the effectiveness of risk management and internal control system***

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks that the Group is willing to take in achieving its strategic objectives, and ensuring that the Group establishes and maintains appropriate and effective risk management system. The audit committee supports the Board in monitoring the Group’s risk exposures, the design and operating effectiveness of the underlying risk management system.

During the year, the audit committee assessed the effectiveness of the risk management and internal control system on behalf of the Board. The main internal control reviews were as follows:

- The management assessed and considered the adequacy of the resources, qualifications and experience of employees in the internal audit, risk management, accounting and financial reporting functions, as well as the sufficiency of training sessions and related budgets.
- The management regularly assessed the risks and internal controls with reference to the five components of the COSO Enterprise Risk Management – Integrated Framework. The result of the review has been summarized and reported to the audit committee and the Board.
- The audit committee regularly reviewed the internal audit findings and opinions on the effectiveness of the Group’s risk management and internal control system and reports to the Board on such reviews.

The Board and the management will establish sufficient and effective management and controls through the risk management and internal control framework of the Group, which will ensure compliance with the Listing Rules and other legal or regulatory requirements of the jurisdictions in which the Group operates, in order to improve the risk management and internal control system.



# CORPORATE GOVERNANCE

## Internal Audit

The Group has continued to engage the Internal Audit Department of CITIC Pacific Limited 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. During the year, the internal audit of a major subsidiary of the Group was completed on a co-sourcing basis with a leading professional accounting firm to increase the internal audit value.

## 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. Some housekeeping amendments were made to the code of conduct during the year. A set of the revised Code of Conduct would be distributed to employees and can be accessed through the Company's intranet. The audit committee receives reports on the execution of the Code of Conduct and its compliance at least once a year.

### *Whistle-blowing policy*

The Group 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 established a whistle-blowing policy setting out principles and procedures for guiding the directors and employees of the Group 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) Chairman or Chief Executive Officer, (ii) Chairman of the audit committee, (iii) Head of Human Resources & Administration Department, (iv) Head of Finance Department, (v) Head of Internal Control and Compliance 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. Member of corporate management and the above department heads will handle the investigation and directly report to the Chairman of the Group. Those who have conflict of interest will not be included.

## Inside Information/Price-Sensitive Information

With respect to the procedures and internal controls for the handling and dissemination of inside information/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.

## 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 2016. The interests held by individual directors in the Company's securities at 31 December 2016 are set out in the Directors' Report on page 87.

# CORPORATE GOVERNANCE

## COMMUNICATION WITH SHAREHOLDERS

The Company considers effective communication with shareholders essential to enable them to have a clear assessment of the Group's performance as well as accountability of the Board. 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](http://www.citictel.com) where important information about the Group's activities and corporate matters such as annual reports and interim reports to shareholders, announcements, business development and operations, corporate governance practices and other information is available for review by shareholders and other stakeholders.

During 2016, the Company has issued announcements in respect of, inter alia, a discloseable and some connected transactions which can be viewed on the Company's website ([www.citictel.com](http://www.citictel.com)).

### General Meetings with Shareholders

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

### Voting by Poll

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

### Investor Relations

The Company recognises its responsibility to explain its activities to those with a legitimate interest and to respond to their questions. Investors are received and visited at appropriate times to explain the Group's business. In addition, questions received from the general public and individual shareholders are answered promptly. In all cases great care is taken to ensure that price-sensitive information is not disclosed selectively. When announcements are made through the Stock Exchange, the same information will be made available on the Company's website ([www.citictel.com](http://www.citictel.com)).

### 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 the Code:

#### *Convening of general meeting*

Shareholder(s) representing at least 5% of the total voting rights of all shareholders having a right to vote at general meetings can make a request to call a general meeting pursuant to Section 566 of the Companies Ordinance.

The request –

- (a) must state the general nature of the business to be dealt with at the meeting;
- (b) may include the text of a resolution that may properly be moved and is intended to be moved at the meeting;
- (c) may consist of several documents in like form;

# CORPORATE GOVERNANCE

- (d) may be sent in hard copy form or in electronic form to the company secretary at the Company's registered office (25th Floor, CITIC Telecom Tower, 93 Kwai Fuk Road, Kwai Chung, New Territories, Hong Kong) or via email at [contact@citictel.com](mailto:contact@citictel.com); and
- (e) must be authenticated by the person or persons making it.

Pursuant to Section 567 of the Companies Ordinance, directors must call a general meeting within 21 days after the date on which they become subject to the requirement and the meeting so called must be held on a date not more than 28 days after the date of the notice convening the meeting. If the directors do not do so, the shareholders who requested the meeting, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a general meeting pursuant to Section 568 of the Companies Ordinance, but the meeting must be called for a date not more than 3 months after the date on which the directors become subject to the requirement to call a general meeting.

### ***Procedures for directing shareholders' enquiries to the Board***

Shareholders may at any time send their enquiries and concerns to the Board in writing through the company secretary of the Company 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](mailto:contact@citictel.com)  
 Tel No.: +852 2377 8888  
 Fax No.: +852 2918 4838

The company secretary of the Company shall forward the shareholders' enquiries and concerns to the Board and/or relevant Board committees of the Company, where appropriate, to answer the shareholders' questions.

### ***Procedures for putting forward proposals at general meetings by shareholders***

- **Circulating a resolution for an AGM**  
 Shareholder(s) can make a request to circulate a resolution for an AGM pursuant to Section 615 of the Companies Ordinance if they –
  - (a) represent at least 2.5% of the total voting rights of all shareholders who have a right to vote on the resolution at the AGM to which the request relates; or
  - (b) at least 50 shareholders who have a right to vote on the resolution at the AGM to which the request relates.

The request –

- (a) may be sent in hard copy form or in electronic form to the company secretary at the Company's registered office (25th Floor, CITIC Telecom Tower, 93 Kwai Fuk Road, Kwai Chung, New Territories, Hong Kong) or via email at [contact@citictel.com](mailto:contact@citictel.com);
- (b) must identify the resolution of which notice is to be given;
- (c) must be authenticated by the person or persons making it; and
- (d) must be received by the Company not later than 6 weeks before the AGM to which the request relates or if later, the time at which notice is given of that AGM.

# CORPORATE GOVERNANCE

- **Circulating a statement at an AGM or at a general meeting**

Shareholder(s) can pursuant to Section 580 of the Companies Ordinance request the Company to circulate to shareholders entitled to receive notice of a general meeting, a statement of not more than 1,000 words with respect to a matter mentioned in a proposed resolution to be dealt with at that meeting or other business to be dealt with at that meeting, if such shareholder(s) –

- (a) represent at least 2.5% of the total voting rights of all shareholders who have a relevant right to vote; or
- (b) at least 50 shareholders who have a relevant right to vote (as defined in section 580(4) of the Companies Ordinance).

The request –

- (a) may be sent in hard copy form or in electronic form to the company secretary at the Company's registered office (25th Floor, CITIC Telecom Tower, 93 Kwai Fuk Road, Kwai Chung, New Territories, Hong Kong) or via email at [contact@citictel.com](mailto:contact@citictel.com);
  - (b) must identify the statement to be circulated;
  - (c) must be authenticated by the person or persons making it; and
  - (d) must be received by the Company at least 7 days before the meeting to which it relates.
- **Proposing a candidate for election as a Director**

Article 108 of the Company's Articles of Association provides that no person (other than a retiring director) shall, unless recommended by the Board for election, be eligible for election to the office of director at any general meeting, unless a shareholder shall have given a notice in writing of the intention to propose that person for election as a director and 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 such 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.

## Constitutional Documents

There are no changes in the constitutional documents of the Company in 2016.

# CORPORATE GOVERNANCE

## Non-Competition Undertaking

CITIC Limited 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 Limited and/or its associates are regarded as a controlling shareholder of the Company under the Listing Rules, (i) CITIC Limited will not engage and will procure its subsidiaries 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 Limited to invest in any independent third party’s business engaging in the Restricted Activity, CITIC Limited 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 Limited has reviewed its business and businesses of its subsidiaries 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 Limited to invest in any independent third party which was engaged in the Restricted Activity. CITIC Limited 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 Limited has made the compliance.

# DIRECTORS AND SENIOR MANAGEMENT

## DIRECTORS

### EXECUTIVE DIRECTORS

#^ **Mr. Xin Yue Jiang**, aged 68, 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 is also the Chairman of Companhia de Telecomunicações de Macau, S.A.R.L. (“CTM”) and CITIC Telecom International CPC Limited (“CPC”), both being subsidiaries of the Company. 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 participated 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.

^ **Dr. Lin Zhenhui**, aged 54, has been an executive director and the Chief Executive Officer (the “CEO”) of the Company since 1 January 2015. Dr. Lin is also the Vice Chairman of CTM and China Enterprise ICT Solutions Limited (“CEC”, a subsidiary of the Company), and a director of CPC. Dr. Lin is a professorate senior engineer. He obtained a Bachelor degree of Engineering from the Beijing University of Post and Telecommunications, a Master degree of Business Administration from the Australian National University and a Doctor degree of Business Administration from The Hong Kong Polytechnic University. Dr. Lin was formerly the Deputy Managing Director of Guangdong China Mobile Co., Ltd.<sup>®</sup> (廣東移動有限責任公司) and Chairman and General Manager of China Mobile Group Yunnan Company Limited. Before joining the Company, Dr. Lin was the Chairman of China Mobile Hong Kong Company Limited and the Chairman and CEO of China Mobile International Limited. Dr. Lin has been conferred the national science and technology progress award (second class) and China provincial management innovation award (first class). Dr. Lin is also a director of Hong Kong Applied Science and Technology Research Institute Company Limited.

**Mr. Luo Ning**, aged 58, was appointed as a non-executive director of the Company in February 2013 and has been re-designated as an executive director of the Company since April 2014. Mr. Luo is currently an assistant president of CITIC Group Corporation (“CITIC Group”, the ultimate holding company of the Company), CITIC Limited (listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the controlling shareholder of the Company and a subsidiary of CITIC Group) and CITIC Corporation Limited (a wholly-owned subsidiary of CITIC Limited and holds certain interests of the Company indirectly), a Vice Chairman of CITIC Guoan Group Co. Ltd., the Chairman of 中信網絡有限公司 (CITIC Networks Company Limited) and CEC. He is also the Chairman of CITIC Guoan Information Industry Company Limited (listed on the Shenzhen Stock Exchange in the PRC). He is also the Deputy Chairman and executive director of Frontier Services Group Limited, a non-executive director of Asia Satellite Telecommunications Holdings Limited and Lajin Entertainment Network Group Limited (all of which are listed on the Stock Exchange). Mr. Luo is also a director of Baiyin Nonferrous Group Co., Ltd. (listed on the Shanghai Stock Exchange in the PRC on 15 February 2017). He also holds directorships in several other subsidiaries of CITIC Group. Mr. Luo has extensive experience in telecommunications business and holds a bachelor degree in Communication Speciality from The Wuhan People’s Liberation Army Institute of Communication Command (武漢解放軍通信指揮學院). He graduated from the Party School of the Central Committee of the Communist Party of China (中共中央黨校) as a professional postgraduate of the modern history of the PRC.

# DIRECTORS AND SENIOR MANAGEMENT

^ **Dr. Chan Tin Wai, David**, aged 52, is the Chief Financial Officer of the Company and he joined the Company in June 2006. Dr. Chan is also a director of CTM, CEC and CPC. 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 Limited during the period from 1994 to 2000. He had worked in several multi-national and Hong Kong blue chip companies and has over 28 years of experience in overseeing corporate finance, merger and acquisition activities, accounting, company secretarial, administration, human resources and legal matters. Dr. Chan was awarded the “Best Investor Relations by CFO” for mid-cap enterprise by the Hong Kong Investor Relations Association in 2016.

## NON-EXECUTIVE DIRECTORS

△# **Mr. Liu Jifu**, aged 73, has been a director of the Company since November 2010. He is also the Chairman of the Supervisory Board of CTM. Mr. Liu is a director of CITIC Pacific Limited (“CITIC Pacific”, a controlling shareholder of the Company), CITIC Hong Kong (Holdings) Limited (“CITIC HK”) and CITIC International Financial Holdings Limited (all of these three companies are subsidiaries of CITIC Group). Mr. Liu previously served as an executive director of CITIC Limited. He was with the Financial and Economics Research Institute in the Chinese Academy of Social Sciences, an executive director of China Everbright Group Limited, and the Chairman of China Everbright Travel Inc and China PINGHE Import & Export Co., Ltd.

\***Mr. Fei Yiping**, aged 53, has been a director of the Company since June 2016. He is also a director and the chief financial officer of CITIC Pacific, a director and the chief financial officer of CITIC HK, a director of CITIC Pacific China Holdings Limited, a non-executive director of Dah Chong Hong Holdings Limited (a fellow subsidiary of the Company and listed on the Stock Exchange), a director of CTM, and also a director of certain member companies of CITIC Limited involved in iron ore mining and property, and of certain member companies of CITIC Pacific involved in special steel, property and energy. Mr. Fei was also a non-executive director of the Company during the period from January 2010 to February 2013. Mr. Fei is a graduate from Beijing Science and Technology University and received a Master in Business Administration from the University of Edinburgh in the United Kingdom. Mr. Fei is a FCPA of CPA Australia. He has over 21 years experience in accounting and financial management. He has been with CITIC Group 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 CITIC Group in New York. When he returned to China in 2008, he became deputy director-general of the finance department of CITIC Group.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

\*△# **Mr. Liu Li Qing**, aged 76, 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 previously served as the Deputy Director of the Committee for Economic Affairs of the Tenth National Committee of the Chinese People’s Political Consultative Conference as well as the Chairman of China Association of Communications Enterprises and now is the Honorary Chairman of China Association of Communications Enterprises.

# DIRECTORS AND SENIOR MANAGEMENT

\*△# **Mr. Kwong Che Keung, Gordon**, aged 67, joined the Company as an independent non-executive director in March 2007. Mr. Kwong is also an independent non-executive director of a number of companies listed on the Stock Exchange, including NWS Holdings Limited, OP Financial Investments Limited, Global Digital Creations Holdings Limited, China Power International Development Limited, Henderson Land Development Company Limited, Henderson Investment Limited, Agile Group Holdings Limited (formerly known as Agile Property Holdings Limited), COSCO SHIPPING Holdings Co., Ltd. (formerly known as China COSCO Holdings Company Limited), Chow Tai Fook Jewellery Group Limited and FSE Engineering Holdings 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.

\*△# **Mr. Zuo Xunsheng**, aged 66, joined the Company as an independent non-executive director in April 2014. He obtained an EMBA degree from Guanghua School of Management of Peking University in 2004. From July 1993 to October 1997, Mr. Zuo served as the Director of the former Bureau of Telecommunications of Jinan City, Shandong Province. From October 1997 to May 2000, he served as the Director of the former Posts and Telecommunications Bureau of Shandong Province. He was the President of the former Shandong Telecommunications Company from May 2000 to April 2002.

Mr. Zuo served as the Vice President of China Network Communications Group Corporation from April 2002 to May 2008. He was the Senior Vice President of China Netcom Group Corporation (Hong Kong) Limited ("CNC HK") since July 2004; Chief Operating Officer of CNC HK since December 2005; an Executive Director and CEO of CNC HK from May 2006 to October 2008 and Chairman of CNC HK from May 2008 to October 2008. From October 2008 to March 2011, Mr. Zuo was the Vice Chairman and Vice President of China United Network Communications Group Company Limited; Director and Senior Vice President of China United Network Communications Corporation Limited; and Director of China United Network Communications Limited (listed on the Shanghai Stock Exchange in the PRC). Mr. Zuo also served as an Executive Director of China Unicom (Hong Kong) Limited (listed on the Stock Exchange) from October 2008 to March 2011.

In addition, Mr. Zuo served as a Non-Executive Director and Deputy Chairman of PCCW Limited (listed on the Stock Exchange) from July 2007 to November 2011. Mr. Zuo is well experienced in telecommunications operations and has rich management experience.

- \* Member of the Audit Committee
- △ Member of the Remuneration Committee
- # Member of the Nomination Committee
- ^ Member of the Finance Committee

⊙ *for identification purpose only*



# DIRECTORS AND SENIOR MANAGEMENT

## SENIOR MANAGEMENT

**Mr. Poon Fuk Hei**, aged 51, is the Vice President of the Company and CEO and Chairman of the Executive Committee of CTM, which became a subsidiary of the Group since June 2013. Mr. Poon has joined CTM for 30 years. With the extensive experience in managing the operation in the telecoms industry, Mr. Poon became the CEO of CTM from 2007 and has been playing a pivotal role for the sustainable development of CTM.

Mr. Poon is committed to innovation and the development of “Digital Macau”, under Mr. Poon’s leadership, CTM has been consolidating the leadership position in the local telecoms arena in a rapidly changing market. In 2007, CTM was the pioneer to introduce 3G service to Macau. In October 2015, CTM took the lead again to launch 4G+ service integrating with cutting-edge technology and diversified services, ushering the Macau community into a new era of telecommunications. At the end of the same year, CTM achieved the goal of 100% full fibre network coverage across Macau, making Macau became one of the few advanced cities in the world which achieved full fibre network coverage.

Meanwhile, Mr. Poon is also committed to popularizing the application of information technology in various aspects of people’s daily life. With the leadership of Mr. Poon, CTM is actively expanding its efforts in e-health, e-government and other information technology application services, aiming towards the goal of developing “Digital Macau”.

Led by Mr. Poon, CTM signed the “Macau Public Telecommunications Services Mid-term Review Notarization Contract” with the MSAR Government in 2009 and successfully have it renewed till 2021, which further ensures the long-term and stable development of the Company. CTM will continue its contribution to the development of the local telecommunications industry and the overall economic development of the Macau community.

**Mr. Ho Wai Chung, Stephen**, aged 58, is the Vice President of the Company and CEO of CPC. He joined CITIC Pacific Communications Limited, a wholly-owned subsidiary of CITIC Limited, as Executive Vice President in April 2001. Mr. Ho was appointed CEO of CPC in 2002 and was transferred to the Group in 2007 when CPC was acquired by the Group. Mr. Ho was also appointed as President of CEC in 2010. Mr. Ho holds an Honor Bachelor Degree in Electrical Engineering specialising in digital communications from McGill University of Canada. Prior to joining the CITIC Limited 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. He served as the President and Chair on the Board of Governors of the US Pacific Telecommunications Council (PTC) for 2014 & 2015. Mr. Ho has been the Chairman of the Communications Association of Hong Kong (CAHK) since 2012 and the Vice-Chairman of IT Management Club of The Hong Kong Management Association since 2015. In 2016, he also served as a Founding Board Member of the Smart City Consortium (SCC), one of the Government Appointed Directors of the Hong Kong Internet Registration Corporation Limited (HKIRC), one of the members of the McGill University’s Advisory Group in Asia, and also a member of the Advisory Board of the Department of Electronic and Computer Engineering (ECE) of the Hong Kong University of Science and Technology (HKUST).

# DIRECTORS AND SENIOR MANAGEMENT

**Mr. Cheung Yuet Pun**, aged 44, is the Vice President of the Company. He joined the Company in February 2002 and was responsible in areas such as product marketing, development and management and was appointed to be the Chief Technology Officer of the head office in 2008. 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 License 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 21 years of operational experience in the telecoms industry.

He is the President of Internet Service & Content Provider Group of Communications Association of Hong Kong (CAHK), the Consultative and Advisory Panel (CAP) member of Hong Kong Internet Registration Corporation Limited (HKIRC) and a member of the Telecommunications Regulatory Affairs Advisory Committee (TRAAC) of Office of the Communications Authority (OFCA). 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 was also a member in the Steering Committee of i3 Forum, which comprised fixed and mobile operators representing a combined retail base in excess of two billion customers in over 100 countries. Previously, he was a committee member of the Cyberport IncuTrain Centre Vetting Committee.

**Mr. Wong Ching Wa**, aged 42, is the Vice President of the Company. Mr. Wong joined the Company in January 2008 as director of China business department and was responsible for China market and business development of the head office. Mr. Wong is a director of CEC. Mr. Wong obtained a Bachelor degree of Telecom Engineering Management 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 20 years experience in the telecoms industry.

**Mr. Cai Dawei**, aged 39, is the Vice President of the Company. Mr. Cai joined the Company in August of 2009. Since then, Mr. Cai has led team to accomplish development, upgrade, integration of BSS for Voice, SMS, Mobile and retail services, and implementation of Business Intelligent system (BI) and Enterprise Resources Planning system (ERP), which facilitate company management, business operation and service innovation. Since the year of 2012, Mr. Cai has been responsible for Data Centre business of the head office, where he successfully promoted the development of Data Centre resources and business, and established cooperation with customers from various industries, such as Finance, Internet and Telecom Carriers, etc. From June 2013, Mr. Cai has been acted as director of CTM and he actively participated in development planning, quality improvement, and governmental liaison of CTM. Mr. Cai obtained a bachelor degree in Telecom Engineering from Beijing University of Posts and Telecommunications in 1998, and received a Master degree in Business Administration from the University of International Business and Economics in 2005. Previously he held various positions within China Telecommunications Corporation, China Netcom Corporation during 1998 to 2009, responsible for network operations, resources management, business support and Secretariat of Board of Directors, and he was Vice President of China Netcom (Hong Kong) Operations Limited. To date, Mr. Cai has about 18 years' experience in technical development, business innovation and network management in the telecoms industry.

# DIRECTORS' REPORT

The directors have pleasure in submitting their Annual Report together with the audited financial statements for the year ended 31 December 2016.

## 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 AND BUSINESS REVIEW

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 to the financial statements. A fair review of the business of the Company and further discussion and analysis of the Group's activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group, important events affecting the Group occurred since the end of the financial year 2016, if any, and indication of likely future developments of the Group's business, can be found in the Chairman's Statement, the Business Review, the Financial Review and the Risk Management set out on pages 12 to 17, pages 26 to 35, pages 36 to 43 and pages 44 to 51 of this Annual Report respectively. This discussion forms part of this Directors' Report.

The environmental, employees, customers and suppliers matters and compliance with relevant laws and regulations that have a significant impact on the Company can be found in the Risk Management, the Corporate Governance and the Sustainability Report as set out on pages 44 to 51, pages 53 to 67 and pages 94 to 112 of this Annual Report respectively.

## DIVIDENDS

The directors declared an interim dividend of HK2.85 cents (2015: HK2.80 cents) per share in respect of the year ended 31 December 2016 which was paid on 22 September 2016. The directors recommended, subject to the approval of the shareholders at the forthcoming annual general meeting of the Company to be held on 1 June 2017 (the "Annual General Meeting"), the payment of a final dividend of HK10.35 cents (2015: HK9.70 cents) per share in respect of the year ended 31 December 2016 payable on 20 June 2017 to shareholders on the Register of Members at the close of business on 9 June 2017.

## 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	6.0%	
Five largest customers in aggregate	16.0%	
The largest supplier		32.1%
Five largest suppliers in aggregate		57.4%

So far as the directors of the Company are aware, the directors of the Company, their close 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 total number of issued shares) do not have any interest in these major customers and suppliers during the year.

## CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to approximately HK\$1,167,000 (2015: HK\$1,190,000).

# DIRECTORS' REPORT

## DIRECTORS

The directors of the Company who held office during the year ended 31 December 2016 and up to the date of this report were:

Mr. Xin Yue Jiang  
Dr. Lin Zhenhui  
Mr. Luo Ning  
Dr. David Chan Tin Wai  
Mr. Liu Jifu  
Mr. Fei Yiping (appointed with effect from 1 June 2016)  
Mr. Liu Li Qing  
Mr. Gordon Kwong Che Keung  
Mr. Zuo Xunsheng

Mr. Fei Yiping was appointed by the Board as a non-executive director of the Company with effect from 1 June 2016. In accordance with the Articles of Association of the Company, he shall hold office until the Annual General Meeting. In addition, Dr. Lin Zhenhui and Mr. Liu Jifu shall retire by rotation in the Annual General Meeting. All of Messrs. Lin Zhenhui, Liu Jifu and Fei Yiping, being eligible, offer themselves for re-election.

Mr. Gordon Kwong Che Keung, an independent non-executive director of the Company, shall retire in the Annual General Meeting. Due to other commitment, Mr. Kwong will not seek for re-election. The nomination committee has recommended to the Board to appoint Mr. Lam Yiu Kin as an independent non-executive director of the Company to fill the vacancy created by the retirement of Mr. Gordon Kwong Che Keung and an ordinary resolution for the appointment of Mr. Lam Yiu Kin will be put forward for shareholders' approval at the Annual General Meeting.

The names of all directors who have served on the boards of the subsidiaries of the Company during the year ended 31 December 2016 or during the period from 1 January 2017 to the date of this Report are available on the Company's website at [www.citictel.com](http://www.citictel.com).

## DIRECTORS' SERVICE CONTRACTS

As at 31 December 2016, 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 Annual General Meeting.

## INDEMNITY OF DIRECTORS

The Company's Articles of Association provides that every director of the Company is entitled to be indemnified out of the assets of the Company against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto so far as its provisions are not avoided by the Hong Kong Companies Ordinance. In this respect, the Company has arranged directors and officers liability and company reimbursement insurances for its directors and officers.

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or 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.

# DIRECTORS' REPORT

## 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. Luo Ning, an executive director of the Company, is a vice chairman of CITIC Guoan Group Co., Ltd. ("CITIC Guoan Group") and the chairman of 中信網絡有限公司 (CITIC Networks Company Limited) ("CITIC Networks").

CITIC Guoan Group is one of the subsidiaries of CITIC Group Corporation ("CITIC Group"). Currently CITIC Guoan Group has been a comprehensive and large enterprise group covering the industries of finance, information network (including the investment and operation of cable TV, value-added telecommunications, satellite communications, system integration as well as other services), tourism, resource development, wine, real estate, culture and health care etc..

CITIC Networks is also a wholly-owned subsidiary of CITIC Group. It possesses licences for operation of basic telecommunications services and value-added services under which CITIC Networks is permitted to conduct the lease or sale of network elements and ISP (Internet Service Provider) services, etc. in the People's Republic of China (the "PRC"). It now possesses a nation-wide optical fibre backbone network.

## CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

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

1. On 25 April 2014, the Company and CITIC Networks entered into the funding and loan support agreement (the "Funding and Loan Support Agreement") in relation to the provision of financial assistance by the Company to CITIC Networks in respect of the operation of the nation-wide optical fibre backbone network (the "China Express Network") of the PRC.

On 22 April 2015, the Company and CITIC Networks entered into a supplemental agreement to the Funding and Loan Support Agreement (the "Funding Supplemental Agreement") to extend the term of the Funding and Loan Support Agreement from the original two years to three years from the date of the Funding and Loan Support Agreement.

On 1 September 2016, the Company and CITIC Networks entered into a second supplemental agreement (the "Funding Second Supplemental Agreement") to extend the Funding and Loan Support Agreement (as amended and supplemented by the Funding Supplemental Agreement) for a term of three years to 31 August 2019. The parties agreed that the Company (or its subsidiary(ies) as procured by the Company) shall provide funds or financial support with a maximum amount of RMB340 million to CITIC Networks if and when a shortage of funds arises in the operation of China Express Network at any time during the term of the Funding Second Supplemental Agreement. The Company shall charge the finance costs to CITIC Networks for any funds advanced or financial assistance provided, with reference to the usual finance costs of the Company which shall not be higher than the RMB benchmark interest rates for loans of financial institutions as announced by the People's Bank of China for the same period. The Company and CITIC Networks agreed that the finance costs shall be charged by the Company as and when the Company is permitted to provide the funding and loan support to CITIC Networks directly in the capacity of lender under the relevant PRC laws and regulations.

CITIC Networks is a wholly-owned subsidiary of CITIC Group, the ultimate holding company of the Company, and, therefore, is a connected person of the Company.

## DIRECTORS' REPORT

- On 18 March 2016, the Company agreed to provide a pledge of deposits (denominated in RMB or HK\$ or USD) in the name of the Company in favour of China CITIC Bank International Limited ("China CITIC Bank International") to secure the granting of a standby line of credit of up to RMB100 million (the "Facility") to the Company. The Facility is repayable on demand and China CITIC Bank International may at any time modify, terminate, cancel or suspend the Facility. Under the Facility, China CITIC Bank International will, on application made by the Company, issue standby letter(s) of credit in RMB with a tenor of up to 13 months. To secure the issuance of each standby letter of credit, the Company is required to provide a pledge of an equivalent amount of RMB deposit(s) in the name of the Company in favour of China CITIC Bank International. The Company will pay a commission at market rate for the standby letter(s) of credit at the time of issuance.

China CITIC Bank International is a non-wholly owned subsidiary of CITIC Limited, the controlling shareholder of the Company, and, therefore, is a connected person of the Company.

- On 16 August 2016, the Company and Talisgold Limited ("Talisgold") entered into the conditional sale and purchase agreement (the "Acquisition Agreement"), pursuant to which Talisgold has conditionally agreed to sell the entire share capital of Neostar Investment Limited ("Neostar") and to procure Eltonford Limited ("Eltonford"), a wholly-owned subsidiary of CITIC Limited, to assign the benefit of all outstanding loan owing to Eltonford by Neostar to the Company (or its nominee), and the Company (or its nominee) has conditionally agreed to make such purchase and take such assignment at the initial purchase price of HK\$850,000,000 (subject to customary working capital adjustment), which shall be satisfied by cash of HK\$424,999,999 (subject to customary working capital adjustment) plus the allotment and issue of 141,666,667 new shares of the Company (the "Acquisition").

Upon completion of the Acquisition, the Company through ComNet Investment Limited ("ComNet Investment", a wholly-owned subsidiary of the Company) holding portion of ground, 1st, 2nd and 3rd floors, the whole of 5th, 16th, 17th, 18th, 23rd, 25th and 26th floors, portion of the roof and ancillary areas of CITIC Telecom Tower and Neostar, holding portions of ground, 1st, 2nd and 3rd floors and car parking spaces thereof, the whole of 6th, 7th, 8th, 9th, 10th, 11th, 12th, 13th, 15th, 19th, 20th, 21st, 22nd floors, common areas and facilities of CITIC Telecom Tower, have ownership over the entire CITIC Telecom Tower.

Talisgold is a wholly-owned subsidiary of CITIC Limited, the controlling shareholder of the Company, and, therefore, is a connected person of the Company. The transaction was completed on 28 October 2016.

# DIRECTORS' REPORT

Continuing connected transactions disclosed in accordance with the Listing Rules are as follows:

1. Pursuant to the exclusive service agreement dated 24 November 2010 (the "Exclusive Service Agreement") entered into between China Enterprise ICT Solutions Limited ("CEC", presently a non-wholly owned subsidiary of the Company and in which CITIC Group holds 45.09% equity 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) (as supplemented by an agreement supplemental to the Exclusive Service Agreement dated 7 August 2013 (the "First Supplemental Agreement"), an agreement supplemental to the First Supplemental Agreement dated 19 February 2014 (the "Second Supplemental Agreement") and an agreement supplemental to the Second Supplemental Agreement dated 22 April 2015 (the "Third Supplemental Agreement")), CEC shall provide technical and support services to the customers of CEC-HK and CPC in the PRC for a term up to 23 June 2018, to facilitate the provision of value-added telecoms services to these customers. CEC will be responsible for arranging, operating and maintaining all necessary technical and support services exclusively in the PRC to serve the customers of CEC-HK and CPC in the PRC. A service fee shall be payable to CEC monthly with reference to CEC's costs in servicing such customers provided that CEC-HK and CPC shall be entitled to retain the first 30% of the corresponding sales proceeds from customers such that the service fee shall not in any event exceed 70% of the relevant sales proceeds. If CEC's costs shall be less than 70% of the corresponding sales proceeds, CEC on one hand and CEC-HK and CPC on the other shall be entitled to share the surplus equally. In accordance with the Listing Rules, CEC is an associate of CITIC Group, and, therefore, is a connected person of the Company.

The annual caps for the transactions under the Third Supplemental Agreement are US\$42,520,000, US\$44,650,000 and US\$23,440,000 for the financial year ended 31 December 2016, the financial year ending 31 December 2017 and the period from 1 January 2018 to 23 June 2018 respectively.

The aggregate service fee paid by CEC-HK and CPC to CEC under the Third Supplemental Agreement for the year ended 31 December 2016 was approximately RMB274,188,000 (equivalent to approximately US\$41,608,000).

2. On 7 August 2013, CEC and CITIC Networks, a wholly-owned subsidiary of CITIC Group and therefore a connected person of the Company, entered into a telecoms services agreement (the "Telecoms Services Agreement"), pursuant to which CEC shall engage CITIC Networks as service provider for the provision of various telecoms services, such as leasing of circuits and racks for data networking, to CEC for a term of three years up to 6 August 2016.

As the Telecoms Services Agreement expired on 6 August 2016, CEC and CITIC Networks had entered into a new telecoms services agreement (the "New Telecoms Services Agreement") on 5 August 2016 to continue to engage CITIC Networks as service provider for the provision of various telecoms services for a further term of three years from 7 August 2016 to 6 August 2019.

Under the New Telecoms Services Agreement, an estimated basic monthly service fee of approximately RMB1,640,000, subject to adjustment based on actual usage, shall be payable to CITIC Networks by CEC.

The annual caps for the transactions for the financial year ended 31 December 2016, which covered both the period from 1 January 2016 to 6 August 2016 under the Telecoms Services Agreement and the period from 7 August 2016 to 31 December 2016 under the New Telecoms Services Agreement, are HK\$46,300,000 and HK\$14,860,000 respectively and the annual caps for the transactions for the two financial years ending 31 December 2017 and 2018 and the period from 1 January 2019 to 6 August 2019 are HK\$50,080,000, HK\$67,510,000 and HK\$51,250,000 respectively.

The aggregate service fee paid by CEC to CITIC Networks for the financial year ended 31 December 2016, which covered both the period from 1 January 2016 to 6 August 2016 under the Telecoms Services Agreement and the period from 7 August 2016 to 31 December 2016 under the New Telecoms Services Agreement, were approximately HK\$12,795,000 and HK\$9,079,000 respectively.

## DIRECTORS' REPORT

3. On 19 February 2014, CEC and 廣東盈通網絡投資有限公司 (Guangdong Eastern Fibernet Investment Company Limited) ("Guangdong Eastern Fibernet") entered into a services agreement (the "2014 Services Agreement"), pursuant to which CEC shall engage Guangdong Eastern Fibernet as service provider for the provision of Synchronous Digital Hierarchy ("SDH", a kind of telecommunications technology for signal transmission) circuit services, such as leasing of circuits and racks for data networking to CEC for a term of three years until 18 February 2017. Guangdong Eastern Fibernet, of which CITIC Group held more than 30% equity interest, is a connected person of the Company.

For each service order under the 2014 Services Agreement, the service fee includes (i) a one-off set-up fee; and (ii) a monthly service fee, the amount of which will depend on the location and bandwidth of the SDH circuits provided by Guangdong Eastern Fibernet based on the business needs of CEC. An estimated total basic monthly service fee of approximately RMB730,000, subject to adjustment based on actual usage, shall be payable to Guangdong Eastern Fibernet by CEC on a monthly prepayment basis.

The service fees payable by CEC to Guangdong Eastern Fibernet are subject to annual caps of RMB17,050,000 and RMB3,410,000 for the financial year ended 31 December 2016 and the period from 1 January 2017 to 18 February 2017 respectively.

As the 2014 Services Agreement expired on 18 February 2017, CEC and Guangdong Eastern Fibernet had entered into a new services agreement on 17 February 2017 to continue to engage Guangdong Eastern Fibernet as service provider for the provision of SDH circuit services for a further term of three years from 19 February 2017 to 18 February 2020. An estimated total basic monthly service fee of approximately RMB603,000, subject to adjustment based on actual usage, shall be payable to Guangdong Eastern Fibernet by CEC on a monthly prepayment basis.

The service fees payable by CEC to Guangdong Eastern Fibernet are subject to annual caps of RMB12,680,000, RMB15,940,000, RMB17,530,000 and RMB2,410,000 for the period from 19 February 2017 to 31 December 2017, and the two financial years ending 31 December 2018 and 2019 and the period from 1 January 2020 to 18 February 2020 respectively.

The aggregate service fee paid by CEC to Guangdong Eastern Fibernet under the 2014 Services Agreement for the financial year ended 31 December 2016 was approximately RMB6,700,000.

4. Pursuant to the tenancy agreement dated 28 March 2014 entered into between CEC and 北京中信國際大廈物業管理有限公司 (CITIC Building Management Co., Ltd.) ("CB Management Co.", a wholly-owned subsidiary of CITIC Group, and, therefore, a connected person of the Company) (as supplemented by a supplemental agreement dated 19 August 2014 (the "Supplemental Agreement")) (collectively, the "Tenancy Agreement"), CB Management Co., as an agent of CITIC Group (the owner of the Beijing Premises (as defined below)), leased to CEC the premises comprising part of the first floor and the third to fifth floors of #5 Building of the CITIC Building in Beijing, the PRC (the "Beijing Premises") for a term of two years commencing 1 September 2014 and expiring on 31 August 2016. A monthly rental of approximately RMB450,000, which covers air-conditioning charges during normal business hours, shall be payable quarterly in advance. CEC shall have a right of first offer to lease the Beijing Premises for a further term subject to the terms and conditions to be agreed between the parties.

CEC and CB Management Co. also entered into other related agreements relating to, inter alia, the leasing of car parking spaces at the CITIC Building and the provision of management services in respect of certain utility facilities at the Beijing Premises to CEC during the term of the tenancy. The fees payable by CEC to CB Management Co. under such other related agreements include (i) one-off installation fees for telephone and Internet facilities; (ii) monthly fees for the use of telephone and Internet facilities; (iii) air-conditioning (outside normal business hours only) and electricity charges, the amount of which is based on actual usage; and/or (iv) monthly rental for car parking spaces. It is estimated that the total monthly fees payable by CEC to CB Management Co. under such related agreements will be approximately RMB50,000.



## DIRECTORS' REPORT

The annual caps for the transactions under the Tenancy Agreement (including the monthly management fees and monthly rental payable during the term of the tenancy, and the fees payable under other related agreements) for the period from 1 January 2016 to 31 August 2016 are approximately HK\$5,326,000\*.

The aggregate amount paid by CEC to CB Management Co. under the Tenancy Agreement and other related agreements for the period from 1 January 2016 to 31 August 2016 was approximately HK\$4,511,000.

\* As disclosed in the Company's 2014 Annual Report, due to the delay in handing over of the Beijing Premises by CB Management Co. to CEC, CB Management Co. and CEC had entered into the Supplemental Agreement whereby, inter alia, the term of Tenancy Agreement was revised so as to commence from 1 September 2014 to 31 August 2016 (instead of 1 August 2014 to 31 July 2016). Accordingly, this annual cap has been adjusted to cover the period from 1 January 2016 to 31 August 2016.

5. On 25 April 2014, the Company and CITIC Networks had also entered into the management consultancy and technical service agreement (the "Management Service Agreement") pursuant to which CITIC Networks engaged the Company to provide technical support, business support and relevant consultancy services relating to China Express Network (the "Management Consultancy and Technical Services") at an annual service fee of RMB10 million for a term of two years.

During the term of the Management Service Agreement, the Company and CITIC Networks shall enter into specific agreements in which the detailed scope, manner and standard requirement of technical services or consultancy services to be provided shall be specified. A consultancy and management committee comprising committee members nominated jointly by CITIC Networks and the Company shall also be established to report regularly to the board of directors of CITIC Networks. The service fee will only be payable upon China Express Network achieving the pre-defined standards requirement through the provision of Management Consultancy and Technical Services as confirmed by CITIC Networks.

On 22 April 2015, the Company and CITIC Networks entered into a supplemental agreement to the Management Service Agreement (the "Management Service Supplemental Agreement") to extend the term of the Management Service Agreement from the original two years to three years from the date of the Management Service Agreement.

On 1 September 2016, the Company and CITIC Networks entered into a second supplemental agreement (the "Management Service Second Supplemental Agreement") to extend the term of the Management Service Agreement (as amended and supplemented by the Management Service Supplemental Agreement) for a term of three years to 31 August 2019. The Company (or designated subsidiary(ies) of the Company as agreed by CITIC Networks) shall continue to provide comprehensive technical support, business support and relevant consultancy services to CITIC Networks relating to China Express Network, including technical support and consultancy services in respect of the operation and management of the assets and business operation, the network maintenance and expansion, the development and sales of products and services, and the marketing, human resources and administration, financial and strategic planning of CITIC Networks relating to China Express Network.

The Company and CITIC Networks agreed that the proposed service fee payable (inclusive of the PRC value added tax) by CITIC Networks to the Company for the provision of the Management Consultancy and Technical Services for the year ended 31 December 2016, for the years ending 31 December 2017 and 2018 and for the period from 1 January 2019 to 31 August 2019 shall not exceed the maximum amount of RMB10 million, RMB10 million, RMB10 million and RMB6.67 million respectively.

During the year ended 31 December 2016, a service fee (inclusive of the PRC value added tax) of approximately RMB10 million under the Management Service Agreement (as amended and supplemented by the Management Service Supplemental Agreement and the Management Service Second Supplemental Agreement) was charged to CITIC Networks by the Company, as CITIC Networks has confirmed that the service performed by the Company has achieved the relevant standard requirements.

## DIRECTORS' REPORT

6. On 15 September 2014, CPC and CEC entered into a funding support agreement (the "Funding Support Agreement"), pursuant to which CPC agreed to provide funding support of not more than RMB50 million to CEC if and when a shortage of funds arises in the operation of the cloud data centre to be established by CEC in Shanghai, the PRC during the three years from the date of the Funding Support Agreement. CPC shall provide funds by way of shareholder's loans and the interest rate shall be equivalent to the RMB benchmark interest rates for loans of financial institutions as announced by the People's Bank of China for the same period.

The maximum amount of funding support to be provided by CPC to CEC for the financial year ended 31 December 2016 and the period from 1 January 2017 to 14 September 2017 shall not exceed RMB50 million.

CEC is a non-wholly owned subsidiary of the Company and also an associate of CITIC Group, and, therefore, is a connected person of the Company.

For the year ended 31 December 2016, the aggregate amount of the funds advanced by CPC to CEC under the Funding Support Agreement was RMB50 million.

7. On 21 August 2015, CITIC Telecom International Limited ("CITIC Telecom", a wholly-owned subsidiary of the Company) entered into the following renewal tenancy agreements with Tendo Limited ("Tendo"):
- a) the main premises renewal tenancy agreement (the "Main Premises Renewal Tenancy Agreement") in relation to the leasing of the main premises (the "Main 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 at the building located at No.111 Lee Nam Road, Ap Lei Chau, Hong Kong (the "Ap Lei Chau Building") to CITIC Telecom by Tendo for a term of three years commencing from 20 September 2015 and expiring on 19 September 2018 (both days inclusive), with an aggregate monthly rental of approximately HK\$774,865. CITIC Telecom shall also pay its share of management fee in respect of the Main Premises, being approximately HK\$69,738 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 Main Premises; and
  - b) other premises renewal tenancy agreement (the "Other Premises Renewal Tenancy Agreement") in relation to the leasing of the Mezzanine floor (including the store room) of the Ap Lei Chau Building (the "Other Premises") to CITIC Telecom by Tendo for a term of three years commencing from 20 September 2015 and expiring on 19 September 2018 (both days inclusive). In addition to a monthly rental of approximately HK\$72,141, CITIC Telecom shall pay its share of management fee as well as air-conditioning charges in respect of the Other Premises during the term of the Other Premises Renewal Tenancy Agreement, being approximately HK\$4,515 per month and HK\$11,000 per month respectively, 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 Other Premises.

Incidental to the Main Premises Renewal Tenancy Agreement and the Other Premises Renewal Tenancy Agreement, CITIC Telecom and Tendo also entered into two further agreements (the "Further Agreements") on 21 August 2015 pursuant to which, inter alia, Tendo has granted to CITIC Telecom two consecutive options to renew the Main Premises Renewal Tenancy Agreement and the Other Premises Renewal Tenancy Agreement respectively for a further term of three years each upon the expiration of the Main Premises Renewal Tenancy Agreement and the Other Premises Renewal Tenancy Agreement (as the case may be) at a new rent to be mutually agreed by the parties.

The expected maximum amounts (including the rentals, the management fees, the air-conditioning charges and other outgoings such as rentals for car parking spaces to be leased by Tendo to CITIC Telecom from time to time) payable by CITIC Telecom to Tendo under the (i) Main Premises Renewal Tenancy Agreement; and (ii) Other Premises Renewal Tenancy Agreement for the financial year ended 31 December 2016, the financial year ending 31 December 2017 and the period from 1 January 2018 to 19 September 2018 will be approximately HK\$12,000,000, HK\$12,000,000 and HK\$8,500,000 respectively.

## DIRECTORS' REPORT

Tendo is a wholly-owned subsidiary of CITIC Limited, and, therefore, is a connected person of the Company.

The aggregate amounts paid by CITIC Telecom to Tendo under the Main Premises Renewal Tenancy Agreement and the Other Premises Renewal Tenancy Agreement for the year ended 31 December 2016 was approximately HK\$11,226,000.

8. On 28 October 2016, ComNet Investment, Neostar and Hang Luen Chong Property Management Company, Limited ("Hang Luen Chong") entered into the management services agreement (the "Property Management Services Agreement"), pursuant to which Hang Luen Chong shall provide general property management services, chilled water supply and air-conditioning supply in respect of CITIC Telecom Tower to the Group (collectively, the "Management Services") for a period of two years from completion of the Acquisition on 28 October 2016 (the "Completion Date"), provided that any one of the parties may terminate the Property Management Services Agreement with or without cause by giving to the other parties a 3 months' prior notice in writing at any time during the term of the Property Management Services Agreement.

The general management fees payable by the Group for CITIC Telecom Tower are approximately HK\$645,000 per month. The chilled water charges payable by the Group for CITIC Telecom Tower are based on the actual volume of chilled water used and are estimated to be approximately HK\$138,000 per month. The air-conditioning charges for supply during normal office hours payable by the Group for CITIC Telecom Tower are approximately HK\$188,000 per month. The air-conditioning charges for supply after normal office hours payable to Hang Luen Chong are based on the actual usage and are estimated to be approximately HK\$5,000 per month.

The annual caps in respect of the provision of the Management Services for the period from the Completion Date to 31 December 2016, for the year ending 31 December 2017 and for the period from 1 January 2018 to the second anniversary date of the Completion Date shall be HK\$3,000,000, HK\$12,900,000 and HK\$14,200,000 respectively.

Hang Luen Chong is a wholly-owned subsidiary of CITIC Limited, the controlling shareholder of the Company, and, therefore, is a connected person of the Company.

The aggregate amounts of the general management fees, chilled water charges and air-conditioning charges paid to Hang Luen Chong under the Property Management Services Agreement for the period from the Completion Date to 31 December 2016 was approximately HK\$1,990,000.

9. Upon completion of the Acquisition, the transaction as subsisted under the tenancy agreement (the "DCH Tenancy Agreement") entered into between Neostar as the landlord and Dah Chong Hong Holdings Limited ("DCH") as the tenant on 29 May 2015 in respect of the whole of 7th floor to 12th floor of CITIC Telecom Tower became a continuing connected transaction of the Company. The DCH Tenancy Agreement is for a term of 3 years commencing from 1 June 2015.

The monthly rental is approximately HK\$1,300,000 (exclusive of government rent, rates and management charges and other outgoings) and monthly management charges is approximately HK\$200,000.

The annual caps (including the rentals and the management charges) payable by DCH to the Group under the DCH Tenancy Agreement for the financial year ended 31 December 2016, for the financial year ending 31 December 2017 and for the period from 1 January 2018 to 31 May 2018 shall be HK\$5,300,000, HK\$22,100,000 and HK\$9,200,000 respectively.

DCH is a non-wholly owned subsidiary of CITIC Limited, the controlling shareholder of the Company, and, therefore, is a connected person of the Company.

The aggregate amounts (including the rentals and the management charges) paid by DCH under the DCH Tenancy Agreement for the period from 28 October 2016 to 31 December 2016 was approximately HK\$3,173,000.

# DIRECTORS' REPORT

## Review of the Continuing Connected Transactions:

The independent non-executive directors of the Company have reviewed the aforesaid continuing connected transactions conducted in the financial year ended 31 December 2016 and confirmed that the transactions had been entered into

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

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "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 77 to 81 of the Annual Report in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

## Related Party Transactions:

Details of material related party transactions undertaken in the normal course of business are provided under note 30 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 "Connected Transactions and 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 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.
4. 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

5. 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.
6. 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; and (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.
7. The Plan shall be valid and effective till 16 May 2017.

As approved at the annual general meeting held on 25 April 2014, the mandate limit is refreshed so that taking into account the overriding limit of the Plan, the total number of Shares which may be issued upon the exercise of all options to be granted under the Plan, together with all outstanding options granted and yet to be exercised under the Plan, shall not exceed 333,505,276 Shares, being 10% of the number of Shares in issue as at the date of approval of the refreshment of the mandate limit. As at 20 March 2017, the maximum number of Shares available for issue under the Plan is 133,982,519, representing approximately 3.79% of the Shares in issue.

Since the adoption of the Plan, the Company has granted the following 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
26 June 2013	81,347,000	26 June 2013 to 25 June 2018	2.25
24 March 2015	43,756,250	24 March 2016 to 23 March 2021	2.612
24 March 2015	43,756,250	24 March 2017 to 23 March 2022	2.612

Upon completion of the rights issue of the Company on 7 June 2013, the exercise price and the number of shares to be allotted and issued upon full exercise of the subscription rights attaching to the outstanding share options of the Company as at 6 June 2013 have been adjusted (the "Adjustments") in the following manner:

Date of grant	Before Adjustments		After Adjustments	
	Number of outstanding share options	Exercise price per share HK\$	Number of outstanding share options	Exercise price per share HK\$
17 September 2009	19,451,000	2.10	21,438,072	1.91
19 August 2011	32,332,500	1.54	35,635,462	1.40

No share options were granted nor cancelled in 2016. The share options granted on 23 May 2007 and 17 September 2009 have expired. 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.

# DIRECTORS' REPORT

A summary of the movements of the share options during the year ended 31 December 2016 is as follows:

## A. Directors of the Company

Name of director	Date of grant	Exercise period	Number of share options			Balance as at 31.12.2016	Percentage to the number of issued shares %
			Balance as at 1.1.2016	Exercised during the year ended 31.12.2016	Lapsed during the year ended 31.12.2016		
Xin Yue Jiang	17.9.2009	17.9.2011–16.9.2016	991,945	991,000 (Note 1)	945	–	
	19.8.2011	19.8.2012–18.8.2017	1,377,701	–	–	1,377,701	
	19.8.2011	19.8.2013–18.8.2018	1,377,701	–	–	1,377,701	
	26.6.2013	26.6.2013–25.6.2018	3,575,000	–	–	3,575,000	
	24.3.2015	24.3.2016–23.3.2021	1,787,500	–	–	1,787,500	
	24.3.2015	24.3.2017–23.3.2022	1,787,500	–	–	1,787,500	
						9,905,402	0.280
Lin Zhenhui	24.3.2015	24.3.2016–23.3.2021	1,573,000	–	–	1,573,000	
	24.3.2015	24.3.2017–23.3.2022	1,573,000	–	–	1,573,000	
						3,146,000	0.089
Luo Ning	26.6.2013	26.6.2013–25.6.2018	400,000	–	–	400,000	
	24.3.2015	24.3.2016–23.3.2021	500,000	–	–	500,000	
	24.3.2015	24.3.2017–23.3.2022	500,000	–	–	500,000	
						1,400,000	0.040
David Chan Tin Wai	17.9.2009	17.9.2011–16.9.2016	771,513	771,513 (Note 2)	–	–	
	19.8.2011	19.8.2012–18.8.2017	1,047,052	–	–	1,047,052	
	19.8.2011	19.8.2013–18.8.2018	1,047,053	–	–	1,047,053	
	26.6.2013	26.6.2013–25.6.2018	2,717,000	–	–	2,717,000	
	24.3.2015	24.3.2016–23.3.2021	1,358,500	–	–	1,358,500	
	24.3.2015	24.3.2017–23.3.2022	1,358,500	–	–	1,358,500	
						7,528,105	0.213
Liu Jifu	24.3.2015	24.3.2016–23.3.2021	1,000,000	–	–	1,000,000	
	24.3.2015	24.3.2017–23.3.2022	1,000,000	–	–	1,000,000	
						2,000,000	0.057
Liu Li Qing	24.3.2015	24.3.2016–23.3.2021	200,000	200,000 (Note 3)	–	–	
	24.3.2015	24.3.2017–23.3.2022	200,000	–	–	200,000	
						200,000	0.006

# DIRECTORS' REPORT

Name of director	Date of grant	Exercise period	Number of share options				Percentage to the number of issued shares %
			Balance as at 1.1.2016	Exercised during the year ended 31.12.2016	Lapsed during the year ended 31.12.2016	Balance as at 31.12.2016	
Gordon Kwong Che Keung	26.6.2013	26.6.2013–25.6.2018	400,000	–	–	400,000	0.023
	24.3.2015	24.3.2016–23.3.2021	200,000	–	–	200,000	
	24.3.2015	24.3.2017–23.3.2022	200,000	–	–	200,000	
						800,000	
Zuo Xunsheng	24.3.2015	24.3.2016–23.3.2021	200,000	200,000 (Note 4)	–	–	0.006
	24.3.2015	24.3.2017–23.3.2022	200,000	–	–	200,000	
						200,000	

## B. Employees of the Company working under continuous contracts (as defined in the Employment Ordinance), other than the Directors

Date of grant	Exercise period	Number of share options			
		Balance as at 1.1.2016	Exercised during the year ended 31.12.2016 (Note 5)	Lapsed during the year ended 31.12.2016 (Note 6)	Balance as at 31.12.2016
17.9.2009	17.9.2011–16.9.2016	3,527,562	3,480,705	46,857	–
19.8.2011	19.8.2012–18.8.2017	3,276,743 (Note 7)	302,175	–	2,974,568
19.8.2011	19.8.2013–18.8.2018	8,328,283 (Note 7)	834,293	18,515	7,475,475
26.6.2013	26.6.2013–25.6.2018	35,279,817 (Note 7)	1,707,000	65,000	33,507,817
24.3.2015	24.3.2016–23.3.2021	35,746,750 (Note 7)	1,767,583	509,600	33,469,567
24.3.2015	24.3.2017–23.3.2022	35,746,750 (Note 7)	–	1,364,500	34,382,250

# DIRECTORS' REPORT

## C. Others (Note 8)

Date of grant	Exercise period	Number of share options			Balance as at 31.12.2016
		Balance as at 1.1.2016	Exercised during the year ended 31.12.2016 (Note 9)	Lapsed during the year ended 31.12.2016 (Note 6)	
17.9.2009	17.9.2011–16.9.2016	81,053	80,729	324	–
19.8.2011	19.8.2012–18.8.2017	8,643 (Note 7)	8,643	–	–
19.8.2011	19.8.2013–18.8.2018	210,691 (Note 7)	8,643	1,573	200,475
26.6.2013	26.6.2013–25.6.2018	2,971,000 (Note 7)	120,000	5,000	2,846,000
24.3.2015	24.3.2016–23.3.2021	299,000 (Note 7)	100,000	–	199,000
24.3.2015	24.3.2017–23.3.2022	299,000 (Note 7)	–	–	299,000

### Notes:

- The weighted average closing price of the shares immediately before the date on which Mr. Xin Yue Jiang exercised the options was HK\$2.90.
- The weighted average closing price of the shares immediately before the date on which Dr. David Chan Tin Wai exercised the options was HK\$2.97.
- The weighted average closing price of the shares immediately before the date on which Mr. Liu Li Qing exercised the options was HK\$3.23.
- The weighted average closing price of the shares immediately before the date on which Mr. Zuo Xunsheng exercised the options was HK\$3.09.
- The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK\$3.09.
- These are in respect of options i) granted to some employees under continuous contracts who have subsequently resigned; or ii) lapsed upon the expiry of the relevant share options during the year.
- Some share options were reclassified from "Employees of the Company working under continuous contracts" to "Others" due to the resignation/retirement/death of the relevant staff in 2015.
- These are in respect of options granted to i) some employees under continuous contracts who subsequently resigned/retired/ passed away before 1 January 2016; and ii) an officer who is not an employee under continuous contract of the Company.
- The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK\$2.90.



# DIRECTORS' REPORT

## 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 2016 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 number of issued shares %
<b>CITIC Telecom International Holdings Limited</b>		
David Chan Tin Wai	987,775	0.0279
<b>CITIC Limited, an associated corporation</b>		
David Chan Tin Wai	40,000	0.0001
Liu Jifu	840,000	0.0029
Gordon Kwong Che Keung	70,000 (Note 1)	0.0002
<b>Dah Chong Hong Holdings Limited, an associated corporation</b>		
David Chan Tin Wai	5,279	0.0003
<b>China CITIC Bank Corporation Limited (H shares), an associated corporation</b>		
David Chan Tin Wai	3,000 (Note 2)	0.00002

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.

### 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".

Save as disclosed above, as at 31 December 2016, 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 2016, 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 number of issued shares %
CITIC Group Corporation	2,129,345,175	60.243
CITIC Polaris Limited	2,129,345,175	60.243
CITIC Glory Limited	2,129,345,175	60.243
CITIC Limited	2,129,345,175	60.243
CITIC Corporation Limited	2,129,345,175	60.243
CITIC Investment (HK) Limited	2,129,345,175	60.243
Silver Log Holdings Ltd.	2,129,345,175	60.243
CITIC Pacific Limited ("CITIC Pacific")	2,129,345,175	60.243
Crown Base International Limited	2,129,345,175	60.243
Effectual Holdings Corp.	2,129,345,175	60.243
CITIC Pacific Communications Limited	2,129,345,175	60.243
Douro Holdings Inc.	2,129,345,175	60.243
Ferretti Holdings Corp.	2,129,345,175	60.243
Ease Action Investments Corp.	2,129,345,175	60.243
Peganin Corp.	2,129,345,175	60.243
Richtone Enterprises Inc.	2,129,345,175	60.243
FIL Limited	248,921,000	7.042

CITIC Group is the direct holding company of CITIC Polaris Limited and CITIC Glory Limited, which in turn hold CITIC Limited. CITIC Limited is the direct holding company of CITIC Corporation Limited and CITIC Pacific. CITIC Corporation Limited is the direct holding company of CITIC Investment (HK) Limited, which in turn holds Silver Log Holdings Ltd.. 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 Peganin Corp.. Ferretti Holdings Corp. is the direct holding company of Ease Action Investments Corp. and Peganin Corp. is the direct holding company of Richtone Enterprises Inc.. Accordingly, the interests of CITIC Group in the Company and the interests in the Company of all its direct and indirect subsidiaries as described above duplicate each other.

On 18 December 2012, CITIC Investment (HK) Limited entered into an agreement (the "Sale and Purchase Agreement") with CITIC Limited and Onway Assets Holdings Ltd. (a wholly-owned subsidiary of CITIC Limited) for acquiring 444,500,000 shares of the Company by acquiring the entire issued share capital of Silver Log Holdings Ltd. and on 21 February 2013, Ease Action Investments Corp., Richtone Enterprises Inc. and Silver Log Holdings Ltd. entered into a management rights agreement (the "Management Rights Agreement") to regulate their relationship with each other in respect of their shareholdings in the Company. The Sale and Purchase Agreement and the Management Rights Agreement constitute agreements under section 317 of the SFO. For the purposes of the duty of disclosure, in the case of an agreement to which section 317 applies, each party to the agreement is deemed to be interested in any shares comprised in the relevant share capital in which any other party to the agreement is interested apart from the agreement.

# DIRECTORS' REPORT

## 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 2016:

1. Deed of non-competition dated 21 March 2007 executed by CITIC Limited 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 Limited and/or its associates are regarded as a controlling shareholder of the Company under the Listing Rules, (i) CITIC Limited will not engage and will procure its subsidiaries not to engage in the provisions of telecommunications hub-based service (the "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 Limited to invest in any independent third party's business engaging in the Restricted Activity, CITIC Limited 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.
2. Deed of Indemnity dated 21 March 2007 given by CITIC Limited in favour of the Company (and its subsidiaries), pursuant to which CITIC Limited 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.
3. Trademark licence agreement dated 17 November 2013 entered into between the Company and CITIC Group, pursuant to which CITIC Group 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 2016, and may be renewed thereafter. No consideration is payable by the Company to CITIC Group for the use of the aforesaid trademarks.

Upon its expiry on 16 November 2016, the Company had entered into a trademark licence agreement with CITIC Group on 17 November 2016, pursuant to which CITIC Group 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 2019, and may be renewed thereafter. No consideration is payable by the Company to CITIC Group for the use of the aforesaid trademarks.

4. Administrative services agreement dated 20 August 2014 (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 retrospective effect from 1 July 2014. 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 Limited, the immediate holding company of 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. Messrs. Liu Jifu and Fei Yiping are directors of CITIC Pacific and therefore 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.

Apart from the above and the transactions as mentioned in the section of "Connected Transactions and 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 2016.

# DIRECTORS' REPORT

## EQUITY-LINKED AGREEMENTS

On 24 August 2015, CITIC Group and the Company entered into a share subscription agreement (the "Share Subscription Agreement") whereby CITIC Group has conditionally agreed to subscribe (or to procure its wholly-owned subsidiaries as its nominees to subscribe) for not more than 520,713,219 new shares of the Company (the "Subscription Shares") at the subscription price of HK\$3.00 per Subscription Share, subject to the terms and conditions of the Share Subscription Agreement if the Company's proposed acquisition of up to 39% equity interest in CITIC Networks from CITIC Group in the open tender process at China Beijing Equity Exchange (北京產權交易所) is materialised.

Save for the share option plan of the Company as set out above in the section of "Share Option Plan" and the Share Subscription Agreement, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year, or subsisted at the end of the year.

## 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 AND ISSUE OF GUARANTEED BONDS

On 5 March 2013, CITIC Telecom International Finance Limited ("CITIC Finance"), a wholly-owned subsidiary of the Company, issued US\$450 million 6.1% guaranteed bonds due 2025 (the "Bonds") to professional investors pursuant to a subscription agreement made between the Company (as guarantor), CITIC Finance and CITIC Securities Corporate Finance (HK) Limited, Deutsche Bank AG, Singapore Branch, Standard Chartered Bank and UBS AG, Hong Kong Branch on 26 February 2013 for financing part of the consideration paid by the Company in respect of the acquisition of 79% interest in Companhia de Telecomunicações de Macau, S.A.R.L. The Bonds are listed on the Stock Exchange on 6 March 2013. All of the Bonds remained outstanding at 31 December 2016.

Particulars of borrowings of the Company and the Group at 31 December 2016 are set out in notes 20 to 22 to the financial statements.

## SHARE CAPITAL

On 28 October 2016, the Company issued 141,666,667 new shares under the Acquisition Agreement as mentioned in the section of "Connected Transactions and Continuing Connected Transactions".

In addition, during the year ended 31 December 2016, a total of 10,572,284 shares of the Company were issued upon the exercise of share options granted under the Plan as mentioned in the section of "Share Option Plan".

Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year ended 31 December 2016 and the Company has not redeemed any of its shares during the year ended 31 December 2016.

# DIRECTORS' REPORT

## 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.

## 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 52 of the Annual Report.

## PROPERTY

Particulars of the property held for investment of the Group are shown on page 197 of this Annual Report.

## RETIREMENT SCHEMES

The Group operates a defined benefit retirement plan and several defined contribution retirement plans. Particulars of the retirement schemes are set out in note 23 to the financial statements.

## UPDATE ON DIRECTORS' INFORMATION PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in monthly salaries for the following executive directors of the Company under their respective service contracts are set out below:

Name of director	Previous monthly salary	Monthly salary (with effect from 1 January 2017)
Xin Yue Jiang	HK\$307,750	HK\$317,910
Lin Zhenhui	HK\$299,250	HK\$309,130
David Chan Tin Wai	HK\$213,040	HK\$220,070

Note: For information in relation to the 2016 full year emoluments of the directors of the Company, please refer to note 8 to the financial statements.

# DIRECTORS' REPORT

## 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 Annual General Meeting.

By Order of the Board

**Xin Yue Jiang**

*Chairman*

Hong Kong, 20 March 2017

# 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 current expectations, beliefs, assumptions or projections concerning future events and involve known and unknown risks and uncertainties 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 expressed, implied or anticipated in any forward looking statement or assessment of risk.

None of the Company, the directors, employees or agents assumes (a) any obligation to correct or update any forward looking statements or opinions contained in this Annual Report; and (b) any liability arising from any forward looking statements or opinions that do not materialise or otherwise prove to be incorrect.

# SUSTAINABILITY REPORT





# SUSTAINABILITY REPORT

The 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 on both workplace practices, community involvement, training and development, and environmental protection, 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 followings:

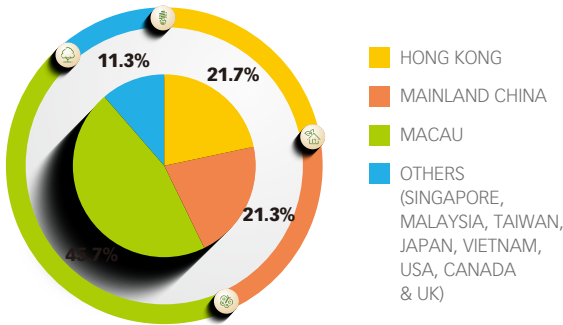
- (I) CONCERTEDLY BUILDING THE “CITIC TELECOM TEAM”
- (II) FAIRNESS AND INTEGRITY
- (III) CARING FOR THE COMMUNITY
- (IV) SUPPORT FOR THE COMMUNITY
- (V) TRAINING AND DEVELOPMENT
- (VI) CARING FOR THE ENVIRONMENT

## CONCERTEDLY BUILDING THE “CITIC TELECOM TEAM”

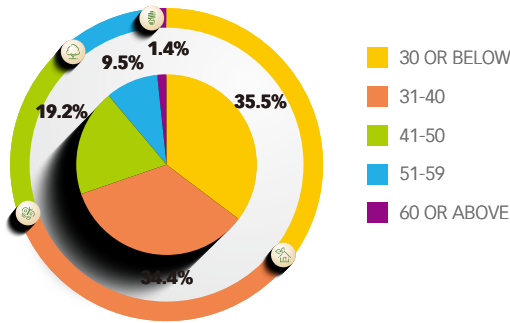
### People

As at the end of December 2016, the Group employed a total of 2,360 employees (2015: 2,184) for its headquarter in Hong Kong and its subsidiaries. Number of employees in Hong Kong was 513. Employees in Mainland China and Macau totaled 1,580. Employees in overseas regions totaled 267. The increase in number of employees was in line with business need of this year and due to acquisition projects completed during the year. The diverse workforce offers us the opportunity to learn from one another and to connect with a wide range of customers.

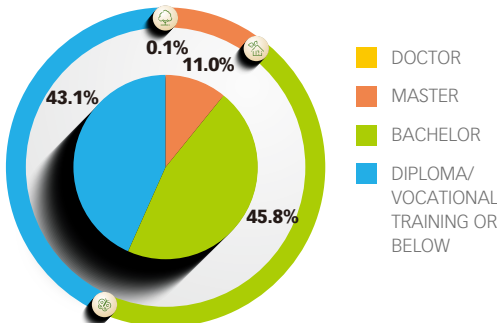
## EMPLOYEE NUMBERS BY REGION



## EMPLOYEE NUMBERS BY AGE

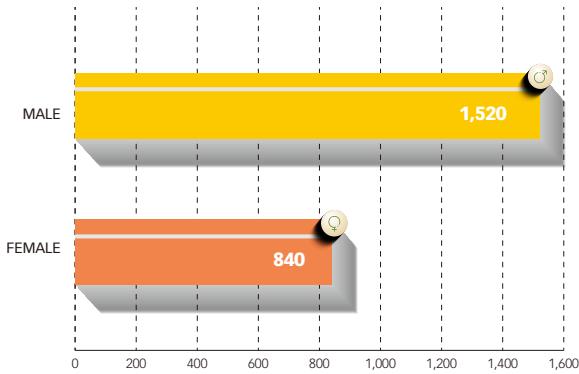


## EMPLOYEE NUMBERS BY EDUCATIONAL BACKGROUND

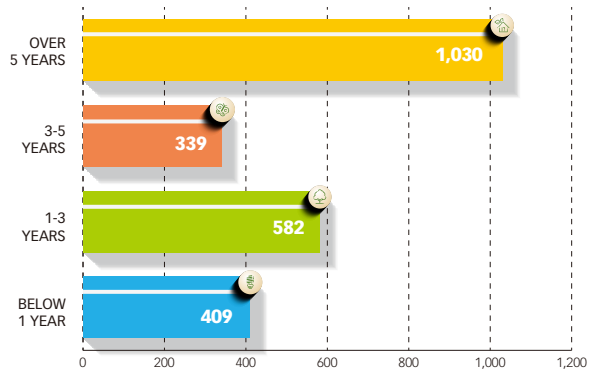


# SUSTAINABILITY REPORT

## EMPLOYEE NUMBERS BY GENDER



## EMPLOYEE NUMBERS BY YEARS OF SERVICE



### 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, in Mainland China and Macau, 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. The Group organised “CITIC Telecom International Basketball Championship” and “CITIC Telecom International Badminton Competition” in this year. Through the activities, our staff were provided with opportunities to participate and establish team spirit, and to promote the importance of physical exercise.

Our subsidiary continued to demonstrate its full support to “World Challenge Day” for the 10th consecutive year, where the company has encouraged staff to actively participate in sporting event.



# SUSTAINABILITY REPORT

The Group has also built the indoor sports centre and multi-functional recreation centre in our headquarter building to allow our staff to enjoy all kinds of leisure and sports activities regardless of the weather conditions. The Group has signed the “Joyful@Healthy Workplace Charter” which is launched by the Occupational Safety and Health Council and has promoted physical and mental well-being in workplace with emphasis on healthy eating, physical activities and mental well-being. Our subsidiary also held different interest classes and health programmes for staff to join and relax.

The Group organised various outing activities for our employees and their families throughout the year to enhance work-life balance as well as employee relations. We organised a one-day trip to unique parts of Hong Kong for our employees and their families to appreciate the importance of physical exercise and the environmental preservation. Our subsidiary organised “Family Fun Day” to promote an open and harmonious culture. During the event, the family members and friends of our employees were invited to visit our comfortable office environment and to feel its positive atmosphere.

The Group was awarded the “Happy Company 2016” by the Hong Kong Productivity Council and the Promoting Happiness Index Foundation again this year in recognition

of our commitment to foster a happy workplace culture and raise the happiness-at-work level of the workforce. The Group was also awarded the “2015/16 Family-Friendly Employers Award” and “Special Mention Award” organised by the Family Council in this year. It is a direct recognition of our continuous effort and outstanding achievements in the implementation of family-friendly practices and policies. Moreover, our subsidiary received the “Awards for Innovation” to acknowledge their flexible use of innovative ideas to implement family-friendly employer practices and policies under the same programme. The Group will continue to promote importance of the family-friendly spirit, put in place family-friendly employment policies and practices for awareness of the importance of family core values, and aim to foster a pro-family culture and environment.

## 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”).

The Group’s employees in other locations are required to participate in retirement schemes administered and operated by the respective local authorities and contributions are made according to the local requirements.

The Group continued to be awarded “the Good MPF Employer Award” by the Mandatory Provident Fund Authority this year.



# SUSTAINABILITY REPORT

## 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, ideas or suggestions. We have set up a Group intranet platform, suggestion boxes in each office floor and 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.

## 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. 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.

The Group takes a series of mechanism including report on compliance of Code of Conduct and Whistle-blowing policy. This helps to monitor and ensure that the local law on commercial bribery, extortion and fraud have been strictly followed.

## Product and Service Responsibility

Service Excellence is the core value of the Group. We have put high priorities in collecting and analysis of customers' feedback on our products and services. The proper review and enhancement on our service procedures and quality of products/services are made. Our subsidiary in Macau has appointed the service of an international research agency for 3 years to carry out full scale "Customer Satisfaction Survey". A series of targeted improvement actions have been formulated according to the analysis results, and performance targets on key service items have been established and closely monitored, aiming to continuously improve the quality of our services, and uplift the overall satisfaction of our customers.

Our subsidiary was awarded the "Customer Relationship Excellent (CRE) Awards" by Asia Pacific Customer Service Consortium for years, in recognition of the effort in providing professional customer services. Our subsidiary in Macau was awarded the title of "The Best Public Mobile Telecom Brand" at "Macau Elite Service Award" organised by Exmoo News and co-organised by TDM Teledifusão de Macau again. The subsidiary was also honored the "2016 Sands Supplier Excellence Awards – Total Quality Management".

Through staff education to continuously increase the awareness and knowledge on personal data protection, communication security and privacy protection, our staff working under a telecommunications entity are professional in handling customer and sensitive information.

## Supply Chain Management

The Group was committed to comply with the policies and procedures of our supply chain management during all purchasing activities. The policies and procedures provide clear guidelines on selection and evaluation of supplier and other purchasing operational process for our staff. In return, the Group could serve our customers towards their satisfaction through the products and services with best service quality.

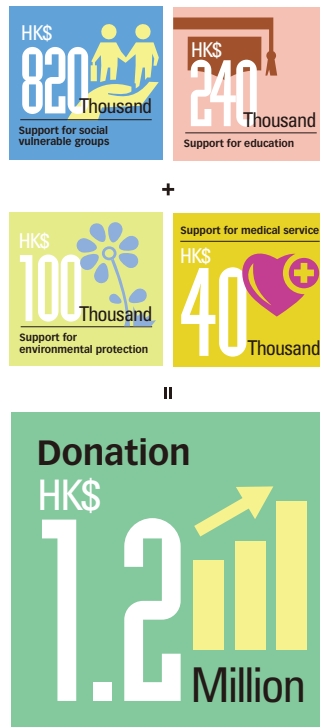


# SUSTAINABILITY REPORT

The Group always takes into account of the environmental protection, energy saving and corporate social responsibility during our supply chain management. Great care should be taken to fulfill our environmental responsibility and to achieve better results for energy efficiency and conservation. Moreover, through effective supplier management and communication, the Group has guided the supply chain partners to fulfill their social responsibilities together.

## 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. The Group made charitable donations approximately HK\$1.2 million in this year.



## Donations

The Group has always been committed to participating and supporting local charitable activities. The Group continued to support ORBIS in its fund-raising activity “the Moonwalkers” to help the blind for years. We donated to WWF to contribute in environmental protection.

Our subsidiary provided support to the welfare shop managed by the Macau Holy House of Mercy to offer the “short-term food assistance programme” for the vulnerable populations in Macau. Our subsidiary has actively participated in different fund-raising activities including “Walk for a Million” and the Macau Red Cross Disaster Fund, by setting up donation channels through Internet and mobile, as well as the “CTM Bonus Point Donation Scheme”, aiming at expanding the fund-raising network, hence fostering more fund for the needy.

## Staff Volunteerism

The Group supports and encourages staff members to offer their time and care to the people in need in our community. The volunteer service of the Group in 2016 was over 570 hours. Our volunteer service team visited “Ronald McDonald House” for six consecutive years. 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.



# SUSTAINABILITY REPORT



The volunteer team of our subsidiary visited the Lam Woo Memorial Day Care Centre under Hong Kong Young Women’s Christian Association to extend our warmth to the elderly during the Dragon Boat Festival.

Our subsidiary in Macau continued to sponsor “CTM Macau Touring Car Cup” of Grand Prix for fourteen consecutive years. Our subsidiary continued to support “Macau TrailHiker 2016” by forming teams to take part in the charity event. The subsidiary sponsored and supported the “2016 Carnival for Autism” which organised by the Macau Autism Association by utilizing the subsidiary’s various e-promotional channels.

The volunteer team of our subsidiary in Macau provided support to the underprivileged groups by visiting different organisations during the year. Apart from making use of our e-promotional channels to help further promoting the event, the volunteers also participated in the Oxfam Rice Selling Activity. The team supported the Oxfam fund-raising activity, “Oxfam Charity Walking 2016”. Moreover, the volunteers jointly organised celebration activity in Mid-Autumn Festival with Our Lady of Mercy Home for the Elderly. The subsidiary also supported the “Caring the Community Campaign” to provide assistance and service to the hidden elderly.

## Sponsorships

The Group continued to support the “Ronald McDonald House Charities” Raffle Ticket Sale 2016, the fund-raising programme for the operating cost of the hostel of “Ronald McDonald House” for six consecutive years.



Our subsidiary in Singapore sponsored and took part in “Frost the Trail 2016”, the 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 continued to sponsor “CITIC Telecom Scholarship” at Singapore Polytechnic in this year.



# SUSTAINABILITY REPORT

## Nurturing Youth

The Group has been devoting great efforts to help youngsters for their future development and to nurture local talents.

This year our subsidiary continuously participated in the “Business-School Partnership Program” organised by the Hong Kong General Chamber of Commerce. The programme aimed at widening students’ exposure to various industries, enhancing students’ career development and equipping them with business and industry knowledge. Through career talk in this programme, students from Fanling Kau Yan College learnt interviewing skills and tips on writing good resume. Moreover, students were paired with mentors from various departments of our subsidiary under “Job Shadowing Programme 2016” to observe and get familiarized with the workplace, while gaining hands-on business experience.

The subsidiary also co-organised with Hong Kong Federation of Youth Group to provide an opportunity for secondary school students to grasp and understand the working environment and different types of job through the events of “Job Exploration” and “Workplace Visit”. In addition, the subsidiary was invited by the Office of the Government Chief Information Officer to organise a career talk and IDC visit for the secondary school students which giving students a better understanding of ICT facilities and the importance of IT in today’s world.

Our subsidiary in Macau organised “Youth Development Program” for three consecutive years, aiming at helping the youngsters to broaden their horizon, unleash



the potential and talent, as well as to enhance their confidence, so as to help them to identify positive personal goals and strengthen existing capacities and abilities. In this year, the subsidiary hosted the visit for the students from Macao Polytechnic Institute and youngsters of Fai Chi Kei Family and Community Service Centre. We introduced our company structure, products and services, new IDC, IT system & facilities, and the latest mobile application to them, through which to further enhance their understanding of the telecoms industry.

## SUPPORT FOR THE COMMUNITY

The Group has been continuing to work with different organisations for various charitable and meaningful activities with aims to care for the needy and help creating greater harmony in society. Apart from encouraging our staff to actively participate in volunteer work and charitable activities at leisure, the Group continues to utilise our strength on information technology to support the community.

### 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 continued to provide 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 Hong Kong Government’s emergency services to more accurately pinpoint their locations in the event of a rescue attempt.



# SUSTAINABILITY REPORT

## Support to Communications Industry Development

The Group has provided 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.

Our subsidiary fully supported the “Regulation Workshop of AICEP”, to promote exchanges between Macau and Portuguese-speaking countries. Moreover, the subsidiary also demonstrated support to the “13th Asia-Pacific Internet Research Alliance International Conference” and “Macau Big Data Forum 2016”.

## Further Promote the Popularity of Information Technology and the Effective Use of Telecoms Services

The Group has been making significant investments to introduce a variety of services and applications with the objective of facilitating the customers as well as community to enjoy the convenience brought by technology.

Our subsidiary and Cisco co-organised a “Data Centre and Managed Services Seminar”, demonstrating a series of advanced Data Centre deployment solutions. It helped the participants to deepen their understanding in IDC. The subsidiary hosted visit for the delegation from the Macau Computer Society and in-depth exchanged valuable ideas on IT popularity trend and IT application. Moreover, the subsidiary held “Smarty Elderly’s Brand New Wi-Fi

Experience” workshop for the retired members of the Association of CEM & SAAM Workers, introducing Wi-Fi service application. It aimed at encouraging the elderly to increase the usage of ICT services to reinforce the communication with the community, so as to enrich their life style.

## Further Promote the Development of “Digital Campus”

The subsidiary has continued to promote the “mSchool” service, by providing an effective and convenient channel to facilitate instant communication and information exchange between schools and parents.

## Award and Recognition

The Group has been awarded as 5 Years Plus “Caring Company” for our dedication to promote corporate social responsibility through caring for the community, employees and environment. The Group was awarded “Award for Volunteer Service Commitment 2016” by Agency for Volunteer Service in recognition of our continuous commitment to community services.

The Group was also granted the “Corporate Citizenship Logo” and “Corporate Citizenship 5+ Logo” under the “Hong Kong Corporate Citizenship Award Scheme” organised by the Hong Kong Productivity Council in 2016, to recognise our contribution in social responsibilities.

The subsidiary was awarded the “Social Caring Award 2015-16”, granted by the Macau Youth Entrepreneur Association and the Youth Committee of Macao Chamber of Commerce, in recognition of its active participation and contribution in local community.





# SUSTAINABILITY REPORT



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.

The Group has continued to provide various training opportunities in this year, both internally and externally, in order to enhance the competitiveness of the Group. Such training areas and scopes cover advanced management skills, team building, engineering techniques, sales skills and client management, information technology, finance management and language, etc.

Our subsidiary organised different training schemes in this year including teambuilding, leadership, selling skills enhancement, strategic account management workshops, and seminar on Competition Law, etc. It aimed at enhancing skills of employees and ongoing talent development.

## 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



# SUSTAINABILITY REPORT



To encourage our staff to develop themselves further, the Group 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 supports ongoing training and development for our senior executives. It is believed that ongoing skills enhancement, attending seminar and international conference will be beneficial to them for industry information exchange, technology update and personal conduct compliance. In return, it helps the Group on enhancing overall work efficiency and effectiveness. The Group will continuously keep on providing training in a systematic and proper manner in addition to the learning through normal work practices and on the job training.

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 2016, the Group provided a variety of training courses to employees, total accumulated over 50,400 hours of training.

Our subsidiary was continually awarded the “Manpower Developer” in the ERB Manpower Developer Award



Scheme launched by Employees Retraining Board in recognition of its outstanding accomplishments in manpower training and development.

## Internship Schemes

The Group contributes to the society by providing various working and internship opportunities. The Group and a subsidiary have launched technical graduates trainee scheme covering technical knowledge and soft skills training. It also helps us to develop talent pool for corporate future growth.

## Continuous Professional Development for Directors

All board directors also participated in continuous professional training to develop and refresh their knowledge and skills. The training topics included trend of Hong Kong Stock Market and impact of change of International Financial Reporting Standards. This is to ensure that our directors obtain the updated market information and regulations for decision making.

## 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.

# SUSTAINABILITY REPORT

## 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. We have formulated and ongoing reviewed our policies of environmental protection and energy saving in order to achieve sustainable targets.



The Group has set up and regularly reviewed our environmental related policies. Here is our Green Policy:

- Set, monitor and review regularly on our environmental targets; take every reasonable and practicable measure to continually improve our environmental performance
- Ensure best use of resources and reduce waste by implementing 4Rs Environmental Management Model incorporating Reduce, Recycle, Reuse and Replace disposable materials
- Comply with all relevant environmental legislation and ensure all staff behave accordingly
- Communicate our environmental policy and performance to all stakeholders
- Raise environmental awareness of our staff through promotion and training programmes; encourage staff's participation on environmental protection

The Group was honored the Bronze Award under the Media and Communications Sector of the Hong Kong Awards for Environmental Excellence which was co-organised by the Environmental Campaign Committee, Environmental Protection Department, the Hong Kong Productivity Council and other organisations. The award is for recognition of our outstanding results on "Green

Leadership", "Programme & Performance" and "Partner Synergy".

The Group was also awarded the Hong Kong Green Organisation Certification (HKGOC) by achieving the targets of "Wastewi\$e Certificate", "Energywi\$e Certificate", and "Carbon Reduction Certificate". The HKGOC scheme was co-organised by nine organisations in total including the Environmental Campaign Committee and the Environmental Protection Department, in order to benchmark and recognise the awardees on their commitments and contributions to environmental protection.

The Group participated in the "Energy Saving Charter 2016" scheme launched by Electrical and Mechanical Services Department of the Hong Kong Special Administrative Region and was embarking upon a series of measures to reduce Greenhouse Gas (GHG) emissions. These include improving energy efficiency and energy conservation, encouraging going green and raising public awareness. The Group continued to support the "Toner & Ink Cartridges Recycling & Reuse Programme" launched by Friends of Earth (HK). We collected our used toner and ink cartridges regularly and returned for recycling, which demonstrated our implementation of 4Rs in office daily operations.

The Group obtained the Silver membership of WWF Hong Kong in 2016 and supported the organisation on environment conservation and education work. Moreover, the Group committed and executed a pledge to help stopping shark fins consumption. The Group and our subsidiary in Macau participated in "Earth Hour" by turning the lights off during the hour. We encouraged our staff to join together for this meaningful event and continued to execute our green action on energy saving and carbon reduction.



# SUSTAINABILITY REPORT



Our subsidiary sponsored the “Green Power Hike 2016”, an annual large-scale charitable fund-raising walkathon for Green Power. Through this event, we encouraged our staff to explore our mother nature, and to better appreciate and protect the abundant biological resources of Hong Kong. The subsidiary was awarded “the Green Office Award” presented by the World Green Organisation and “the Better World Company” organised by the Junior Chamber International Hong Kong. The awards are recognition of the organisation to go Green in nine stipulated aspects of operations. The subsidiary was honored to be recognised for the continuous contribution in sustainability through the implementation of green office practices.

Our subsidiary in Macau fully supported the “Macau Energy Conservation Week 2016” held by the Office for the Development of the Energy Sector. It helped to promote the importance of energy saving and increase our environmental awareness. The subsidiary also actively participated in the “Battery Recycling Campaign” by providing “the battery collection box” at our shops, contributing our effort on environmental protection.

Our Singapore subsidiary has continued its effort to protect the environment. The office was continued to be Eco-office awarded by the Singapore Environment Council to the offices which have displayed environmental consciousness in their daily operations.

Our Singapore subsidiary sponsored “the Singapore Environmental Achievement Award” again in this year. The award aims to recognise organisations which have

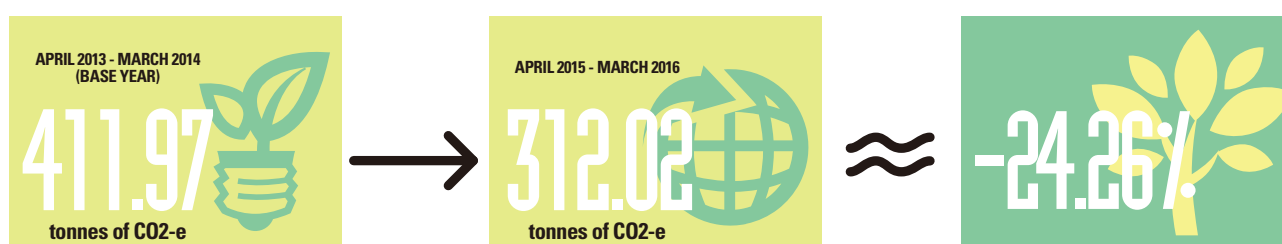
imbued a strong sense of environmental stewardship in their organisational operations and aims to influence more corporations down this route. To further the environmental protection effort as well as to help students with financial needs, the subsidiary continued to sponsor “CITIC Telecom Scholarship” at Singapore Polytechnic to help students pursuing the related courses concerning the preservation of the environment.

During the year, the Group conducted carbon audit again by using an effective and scientific method and under the international recognised standard, to measure GHG emissions of our office areas in Hong Kong Headquarter. It helps us identifying and managing risks and opportunities with respect of GHG, as well as to facilitate our tracking of the performance and progress in the reduction of GHG emissions. We achieved a reduction of 24.26% GHG emissions compared to the year 2015/2016 with the base year of 2013/2014. After the process of the quantification, monitoring, reporting and verification of our GHG emission and removal, the Group continued to gain the certificate of ISO 14064 for our office floors of 20, 23, 25 and 26 of CITIC Telecom Tower of Hong Kong Headquarter. We have also extended the GHG emissions measurement to our data centres at the floors of 16, 17 and 18 of CITIC Telecom Tower of Hong Kong Headquarter and Ap Lei Chau. The total GHG emissions of the mentioned data centres were 10,782.72 tonnes of CO<sub>2</sub>-equivalent. The Group will continue to make our best effort on energy saving and carbon reduction which demonstrate our strong commitment on corporate social responsibility for sustainable environment.

# SUSTAINABILITY REPORT

The results of carbon audit and the comparison with the base year of our office floors of 20, 23, 25 and 26 of CITIC Telecom Tower of Hong Kong headquarter are as follows:

GHG Emission/Removal Sources	April 2015 – March 2016	April 2013 – March 2014 (Base Year)	Difference
<b>GHG Emissions (in tonnes of CO2-equivalent)</b>			
<b>Scope 1: Direct GHG Emissions</b>			
Stationary Combustion Sources	–	–	–
Mobile Combustion Sources	32.85	39.92	(17.71%)
Fugitive Emissions	–	–	–
<b>Scope 2: Energy Indirect GHG Emissions</b>			
Electricity Purchased	270.60	355.03	(23.78%)
Towngas Purchased	–	–	–
<b>Scope 3: Other Indirect GHG Emissions</b>			
Methane Generation at Landfill due to Disposal of Paper Waste	7.66	16.53	(53.66%)
Electricity for Processing Fresh Water	0.63	0.35	80.00%
Electricity for Processing Sewage	0.28	0.14	100.00%
<b>GHG Offsets/removals (in tonnes of CO2-equivalent)</b>			
	–	–	–
<b>Total GHG Emissions (in tonnes of CO2-equivalent)</b>	<b>312.02</b>	<b>411.97</b>	<b>(24.26%)</b>



We have set up a “Green Corner” at our company intranet to share our environmental information like Green Policy, energy saving tips and our achievements. In order to achieve our goals on energy saving and carbon reduction, we have taken the following ongoing actions:

## Reduce Electricity Consumption and Improve 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
- 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

# SUSTAINABILITY REPORT

## Reduce Paper Consumption

- Utilise intranet, e-mail and e-fax systems for internal and external communications to avoid unnecessary photocopies/printouts
- Launch automation system to replace paper workflow
- 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
- Reminder on water saving posted at the pantries of office
- 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, paper folders, envelopes, paper clips, paper 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. In 2016, we recycled over 1,000 kg wasted papers in the office floors of our headquarter, CITIC Telecom Tower, by reducing greenhouse gas emissions of around 5 tonnes of CO<sub>2</sub>-equivalent.
- 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



# SUSTAINABILITY REPORT

## SUSTAINABILITY REPORT HIGHLIGHTS 2016

### JANUARY

- The Group was awarded the “Hong Kong Green Organisation Certification” by the Environmental Campaign Committee for recognition of our effort and achievement
- Our subsidiary CPC sponsored and participated in the “Green Power Hike 2016” for environmental education

### FEBRUARY

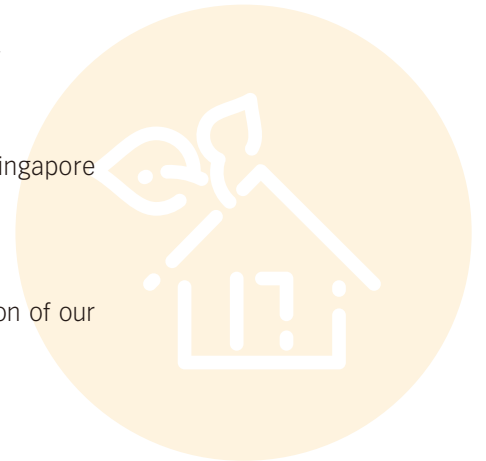
- Obtained the “Wastewi\$e Certificate”, “Energywi\$e Certificate”, and “Carbon Reduction Certificate” presented by the Environmental Campaign Committee
- CPC co-organised with Hong Kong Federation of Youth Group for the event “Job Exploration”
- Our subsidiary CTM sponsored and supported the “2016 Carnival for Autism”
- CTM participated in the Oxfam fund-raising activity “Charity Walking 2016”
- Our Singapore subsidiary sponsored “CITIC Telecom Scholarship” at Singapore Polytechnic

### MARCH

- The Group was honored the 5 Years Plus “Caring Company” in recognition of our dedication to promote corporate social responsibility
- CTM provided support to the “Regulation Workshop of AICEP”
- CTM supported the “Grow Festival: EatFair”
- CTM participated in “Earth Hour” organised by WWF

### APRIL

- The Group was honored the Bronze Award under the Media and Communications Sector of the Hong Kong Awards for Environmental Excellence co-organised by the Environmental Campaign Committee, Environmental Protection Department and Hong Kong Productivity Council, etc
- Awarded again the “Volunteer Service Award” presented by “Ronald McDonald House Charities”
- Awarded the “Happy Company 2016” by the Hong Kong Productivity Council and the Promoting Happiness Index Foundation again this year
- CPC hosted the IDC Visit for secondary students to give them a better understanding of ICT industry
- CPC conducted a career talk under the “Business-School Partnership Program” organised by the Hong Kong General Chamber of Commerce
- CPC held a health talk to demonstrate our care for the staff
- CTM hosted the briefing of company introduction and sharing of useful information during the visit of students from Macao Polytechnic Institute during the visit of students from Macao Polytechnic Institute



# SUSTAINABILITY REPORT



## MAY

- Continued to support the “Toner & Ink Cartridges Recycling & Reuse Programme” launched by Friends of Earth (HK)
- CPC launched “Workplace Visit” together with Hong Kong Federation of Youth Group
- CPC continued to be awarded the “Manpower Developer” in the ERB Manpower Developer Award Scheme launched by Employees Retraining Board
- CTM participated in “World Challenge Day” for the 10th consecutive year
- CTM and Cisco jointly organised a “Data Centre and Managed Services Seminar” to demonstrate a series of advanced Data Centre deployment solutions
- CTM supported “Oxfam Rice Event”

## JUNE

- Our volunteer service team visited “Ronald McDonald House” to extend warmth for kids receiving treatment and their families
- Participated in the “Energy Saving Charter 2016” scheme launched by Electrical and Mechanical Services Department of the Hong Kong Special Administrative Region for continued support of environmental protection
- CPC continued to obtain the “Customer Relationship Excellent Award” presented by the Asia Pacific Customer Service Consortium
- CPC was awarded “the Better World Company” organised by the Junior Chamber International Hong Kong and “the Green Office Award” by the World Green Organisation
- CPC volunteers visited the Lam Woo Memorial Day Care Centre for the Elderly under Hong Kong Young Women’s Christian Association to celebrate the Dragon Boat Festival
- CTM continually organised the “Youth Development Program”
- CTM supported the “Energy Conservation Week 2016” held by the Office for the Development of the Energy Sector of the Macau Special Administrative Region





# SUSTAINABILITY REPORT

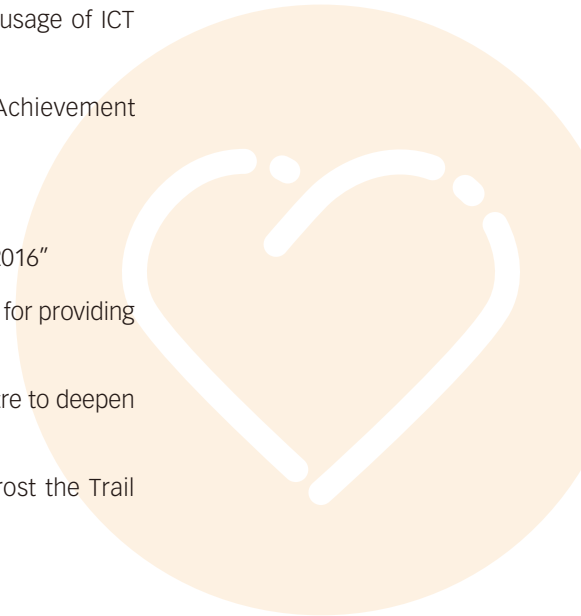


## JULY

- Hosted the “6th CITIC Telecom International Basketball Championship 2016”
- Supported and participated in the fund-raising event of “Ronald McDonald House Charities Raffle Ticket Sale 2016”
- Obtained the Silver membership of WWF Hong Kong
- Participated in the environmental protection programme, “Earth Hour”
- CPC supported the event “Job Shadowing” under the Business-School Partnership Program organised by the HKGCC
- CPC launched “Technical Management Trainee Program” for nurturing graduates and helping them develop all-rounded knowledge and skills
- CTM held “Smarty Elderly’s Brand New Wi-Fi Experience” workshop, for introducing Wi-Fi service application and encouraging the elderly to increase the usage of ICT services
- Our Singapore subsidiary sponsored “the Singapore Environmental Achievement Award” to support green activities

## AUGUST

- Organised the “4th CITIC Telecom International Badminton Competition 2016”
- CTM supported “Caring the Community Campaign” held by Ping On Tong for providing assistance to the hidden elderly
- CTM hosted the visit to students from Fai Chi Kei Integrated Service Centre to deepen students’ insight and broaden their horizon
- Our Singapore subsidiary continued to sponsor and participate in “Frost the Trail 2016”



## SEPTEMBER

- CTM supported the “13th Asia-Pacific Internet Research Alliance International Conference” and “Macau Big Data Forum 2016”
- CTM jointly organised volunteer activity with the Our Lady of Mercy Home for the Elderly in celebration of Mid-Autumn Festival
- CTM supported the charity running activity of Macau Caritas

# SUSTAINABILITY REPORT

## OCTOBER

- Obtained “the 2015/16 Good MPF Employer Award” presented by the Mandatory Provident Fund Authority
- Continued to be granted the certificate of ISO 14064 under the international recognised standard for our office floors of 20, 23, 25 and 26 of CITIC Telecom Tower of Hong Kong headquarter
- Awarded the “2015/16 Family-Friendly Employers Award” and “2015/16 Special Mention Award” presented by the Family Council. Our subsidiary also received “Awards for Innovation” in the same programme
- CTM launched “Family Fun Day”
- CTM actively supported and took part in “Macau TrailHiker 2016” for the 7th consecutive year
- CTM continued to promote mSchool service and application for further support on the development of “Digital Campus”

## NOVEMBER

- Sponsored and supported the “Moonwalkers” held by ORBIS
- Signed the “Joyful@Healthy Workplace Charter” which was launched by the Occupational Safety and Health Council
- Organised outing activities for our employees and their families
- Set up “Green Corner” at our company intranet for sharing of environmental news
- CTM sponsored “CTM Macau Touring Car Cup” of Grand Prix for the 14th consecutive year
- CTM participated in the “Battery Recycling Campaign” by providing “the battery collection box” at the retail shops

## DECEMBER

- The Group was granted the “Corporate Citizenship Logo” and “Corporate Citizenship 5+ Logo” under the “Hong Kong Corporate Citizenship Award Scheme” organised by the Hong Kong Productivity Council
- CTM continued to support the welfare shop managed by the Macau Holy House of Mercy which offer the “short-term food assistance programme” for the vulnerable populations
- CTM supported and participated in “Walk for a Million”



# INDEPENDENT AUDITOR'S REPORT



## **Independent auditor's report to the members of CITIC Telecom International Holdings Limited**

*(Incorporated in Hong Kong with limited liability)*

### **OPINION**

We have audited the consolidated financial statements of CITIC Telecom International Holdings Limited and its subsidiaries (together "the Group") set out on pages 120 to 196, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

### **BASIS FOR OPINION**

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKASs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **KEY AUDIT MATTERS**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## INDEPENDENT AUDITOR'S REPORT

### KEY AUDIT MATTERS (CONTINUED)

#### Assessment of potential impairment of goodwill, intangible assets and other property, plant and equipment ("other PP&E")

Refer to notes 11, 12 and 13 to the consolidated financial statements and the accounting policies on pages 131 to 132.

##### The Key Audit Matter

The carrying values of the Group's goodwill, intangible assets and other PP&E as at 31 December 2016, which amounted to HK\$9,597 million, HK\$1,879 million and HK\$2,554 million, respectively, were allocated to cash-generating units ("CGUs") which comprised: (i) the Telecoms Business – Macau, (ii) Enterprise Solutions (outside Macau), and (iii) Other Telecommunications Services.

Management performs impairment assessments of goodwill and intangible assets with indefinite useful lives annually or whenever there is an indication that intangible assets with definite useful lives and other PP&E may be impaired. Management compares the aggregate carrying values of the CGUs to which the goodwill, intangible assets and other PP&E have been allocated with their estimated recoverable amounts by preparing discounted cashflow forecasts to determine the amount of impairment which should be recognised for the year, if any.

The preparation of discounted cashflow forecasts involves the exercise of significant management judgement, particularly in estimating long term growth rates and the discounts rates applied.

We identified assessing potential impairment of goodwill, intangible assets and other PP&E as a key audit matter because the impairment assessments prepared by management are complex and contain certain judgemental assumptions, in particular in respect of the long term growth rates and the discount rates applied, which could be subject to management bias in their selection.

##### How the matter was addressed in our audit

Our audit procedures to assess the potential impairment of goodwill, intangible assets and other PP&E included the following:

- evaluating management's identification of CGUs and the value of goodwill, intangible assets and other PP&E allocated to each CGU and assessing the methodology applied by management in the preparation of the discounted cashflow forecasts with reference to the requirements of the prevailing accounting standards;
- evaluating the discounted cashflow forecasts prepared by management by comparing data therein with the relevant data, including revenue, cost of sales and other operating expenses, contained in the financial budget which was approved by the Board of Directors and by taking into account our understanding, experience and knowledge of the telecommunications sector and the Group's future business plans;
- comparing the revenue and operating costs included in discounted cashflow forecasts prepared in the prior year with the current year's performance to assess how accurate the prior year's discounted cashflow forecasts were and making enquiries of management as to the reasons for any significant variations identified;
- engaging our internal valuation specialists to assist us in assessing whether the discount rates applied in the discounted cashflow forecasts were within the range adopted by other companies in the same industry;
- comparing the long term growth rates adopted in the discounted cashflow forecasts with those of comparable companies and external market data; and
- obtaining from management sensitivity analyses for both the discount rates and long term growth rates adopted in the discounted cashflow forecasts and assessing the impact of changes in the key assumptions on the conclusions reached in the impairment assessments and whether there were any indicators of management bias.

## INDEPENDENT AUDITOR'S REPORT

### KEY AUDIT MATTERS (CONTINUED)

#### Revenue recognition: telecommunications billing systems

Refer to note 3 to the consolidated financial statements and the accounting policies on page 138.

##### The Key Audit Matter

The Group's revenue principally comprises income from mobile services, Internet services, international telecommunication services and fixed line services which amounted to HK\$3,750 million for the year ended 31 December 2016.

Revenue is recognised based on reports generated from the telecommunications billing systems which are complex and process large volumes of data with a large combination of different products sold and price changes during the year. As a result, the recognition of revenue is highly reliant on the telecommunications billing systems.

We identified revenue recognition in respect of the telecommunications billing systems as a key audit matter because of the complexity of the telecommunications billing systems which process information and calculate the revenue to be recognised and because of the large volumes of data processed.

##### How the matter was addressed in our audit

Our audit procedures to assess the recognition of revenue in respect of the telecommunications billing systems included the following:

- evaluating the design, implementation and operating effectiveness of the key internal controls over the capture and processing of revenue, with the assistance of our information technology specialists, with particular emphasis on:
  - the capturing and recording of data usage;
  - authorisation of rate changes; and
  - calculating the amounts billed to customers.
- assessing the design, implementation and operating effectiveness of the key non-automated internal controls over the revenue recognition process;
- evaluating journal entries posted to revenue accounts, on a specific risk-based sample basis, and comparing the details of these journals entries with relevant underlying documentation, which included reports generated from the telecommunications billing systems; and
- comparing cash receipts from customers during the year and subsequent to the financial year end with invoices issued to customers during the year, on a sample basis.

## INDEPENDENT AUDITOR'S REPORT

### KEY AUDIT MATTERS (CONTINUED)

#### Revenue recognition: incomplete business solution projects

Refer to note 3 to the consolidated financial statements and the accounting policies on page 138.

##### The Key Audit Matter

Revenue from business solution projects, which amounted to HK\$430 million for the year ended 31 December 2016, was recognised based on the stage of completion of each project at the end of the reporting period, which was assessed with reference to the proportion of costs incurred up to the reporting date to the estimated total contract costs for each project at completion.

The future costs to complete a project can be uncertain during the earlier stages of the project and can change over time. Additional costs include cost overruns which generally require negotiation with customers and may or may not result in increased revenue being generated from the project. There is a broad range of acceptable outcomes resulting from the estimations of future costs to complete the projects which could result in different profit and revenue being reported in the consolidated financial statements.

We identified revenue recognition in respect of incomplete business solution projects as a key audit matter because the calculation revenue to be recognised for each project involves significant management judgement and estimation in respect of the assessment of the future cost elements, the stage of completion of the contract and in determining any provisions required for loss making contracts and because actual outcomes in terms of total costs or revenue may be higher or lower than estimated at the end of the reporting period, which would affect the revenue and profit to be recognised in future years as an adjustment to the amounts recorded to date.

##### How the matter was addressed in our audit

Our audit procedures to assess the revenue recognised in respect of incomplete business solution projects included the following:

- evaluating the design, implementation and operating effectiveness of key internal controls over the recognition of revenue from business solution projects;
- inspecting contracts with customers and discussing with management to obtain an understanding of the specific terms and risks associated with individual projects for the purpose of considering whether revenue was properly recognised based on the percentage of completion method, on a sample basis;
- recalculating management's calculation of the percentage of completion for each project and comparing the key inputs in the calculation, including total contract revenue, costs incurred to date and amounts invoiced to date, with contract terms, invoices issued and vendor invoices, on a sample basis;
- examining the consents from customers for the acceptance of the work performed, on a sample basis;
- challenging management's estimation of the expected future costs to complete each project by benchmarking with similar estimations for comparable contracts, on a sample basis; and
- assessing the historical accuracy of management's estimations by comparing the outcome of similar estimations for comparable contracts made at the prior year end, on a sample basis, and enquiring of management about the reasons for any material differences between the estimations and the actual outcome.

## **INDEPENDENT AUDITOR'S REPORT**

### **INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON**

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

## INDEPENDENT AUDITOR'S REPORT

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.



## INDEPENDENT AUDITOR'S REPORT

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lee Wai Shun, Wilson.

#### **KPMG**

Certified Public Accountants

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

20 March 2017

# CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2016 (Expressed in Hong Kong dollars)

	Note	2016 \$'000	2015 \$'000
<b>Turnover</b>	3	<b>7,699,147</b>	8,349,811
Other revenue	4	<b>12,672</b>	8,372
Other net (loss)/gain	5	<b>(22,787)</b>	12,351
		<b>7,689,032</b>	8,370,534
Cost of sales and services		<b>(4,229,077)</b>	(4,941,830)
Depreciation and amortisation	6(c)	<b>(656,415)</b>	(674,007)
Staff costs	6(b)	<b>(850,953)</b>	(801,632)
Other operating expenses		<b>(598,477)</b>	(596,087)
		<b>1,354,110</b>	1,356,978
Finance costs	6(a)	<b>(327,707)</b>	(346,070)
Share of profit/(loss) of a joint venture		<b>1,686</b>	(465)
<b>Profit before taxation</b>	6	<b>1,028,089</b>	1,010,443
Income tax	7(a)	<b>(165,368)</b>	(195,611)
<b>Profit for the year</b>		<b>862,721</b>	814,832
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>850,088</b>	802,213
Non-controlling interests		<b>12,633</b>	12,619
<b>Profit for the year</b>		<b>862,721</b>	814,832
<b>Earnings per share (HK cents)</b>	10		
Basic		<b>24.9</b>	23.8
Diluted		<b>24.7</b>	23.6

The notes on pages 125 to 196 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 25(b).

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2016 (Expressed in Hong Kong dollars)

	Note	2016 \$'000	2015 \$'000
<b>Profit for the year</b>		<b>862,721</b>	814,832
<b>Other comprehensive income for the year (after tax and reclassification adjustments)</b>			
<i>Items that will not be reclassified to profit or loss:</i>			
Remeasurement of net defined benefit obligation:			
– actuarial gains/(losses)	23(a)(v)	<b>3,077</b>	(15,350)
– deferred tax recognised on the actuarial gains/(losses)	7(c)	<b>(287)</b>	1,918
		<b>2,790</b>	(13,432)
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Foreign currency translation adjustments:			
– exchange differences on translation of financial statements of operations outside Hong Kong, net of \$Nil tax		<b>(13,790)</b>	(24,315)
		<b>(13,790)</b>	(24,315)
<b>Other comprehensive income for the year</b>		<b>(11,000)</b>	(37,747)
<b>Total comprehensive income for the year</b>		<b>851,721</b>	777,085
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>839,006</b>	764,584
Non-controlling interests		<b>12,715</b>	12,501
<b>Total comprehensive income for the year</b>		<b>851,721</b>	777,085

The notes on pages 125 to 196 form part of these financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2016 (Expressed in Hong Kong dollars)

	Note	2016 \$'000	2015 \$'000
<b>Non-current assets</b>			
Investment property	11	635,328	–
Other property, plant and equipment	11	2,553,923	2,404,952
		<b>3,189,251</b>	2,404,952
Intangible assets	12	1,878,846	2,005,221
Goodwill	13	9,596,599	9,276,511
Interest in a joint venture	15	7,367	5,541
Non-current other receivables and deposits	17	198,920	163,862
Deferred tax assets	7(c)	85,764	33,227
		<b>14,956,747</b>	13,889,314
<b>Current assets</b>			
Inventories	16	69,945	174,163
Trade and other receivables and deposits	17	1,691,446	1,689,517
Current tax recoverable	7(b)	5,687	6,497
Cash and bank deposits	18(a)	1,459,050	1,222,979
		<b>3,226,128</b>	3,093,156
<b>Current liabilities</b>			
Trade and other payables	19	1,706,100	1,767,454
Bank and other loans	20	43,739	100,000
Obligations under finance leases	22	2,928	–
Current tax payable	7(b)	230,183	242,206
		<b>1,982,950</b>	2,109,660
<b>Net current assets</b>			
		<b>1,243,178</b>	983,496
<b>Total assets less current liabilities</b>			
		<b>16,199,925</b>	14,872,810
<b>Non-current liabilities</b>			
Interest-bearing borrowings	21	7,857,680	7,372,492
Obligations under finance leases	22	3,063	–
Non-current other payables	19	77,594	65,656
Net defined benefit retirement obligation	23(a)	112,878	117,307
Deferred tax liabilities	7(c)	249,024	260,297
		<b>8,300,239</b>	7,815,752
<b>NET ASSETS</b>			
		<b>7,899,686</b>	7,057,058
<b>Capital and reserves</b>			
Share capital	25(c)	4,262,457	3,848,565
Reserves		3,608,047	3,180,822
<b>Total equity attributable to equity shareholders of the Company</b>			
		<b>7,870,504</b>	7,029,387
<b>Non-controlling interests</b>			
		<b>29,182</b>	27,671
<b>TOTAL EQUITY</b>			
		<b>7,899,686</b>	7,057,058

Approved and authorised for issue by the board of directors on 20 March 2017.

**Xin Yue Jiang**  
Director

**Lin Zhenhui**  
Director

The notes on pages 125 to 196 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016 (Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Company							
		Share capital	Capital reserve	Exchange reserve	Retained profits	Total	Non-controlling interests	Total equity
	Note	(note 25(c)) \$'000	(note 25(d)) \$'000	(note 25(e)) \$'000	\$'000	\$'000	\$'000	\$'000
<b>Balance at 1 January 2015</b>		3,780,941	52,477	(559)	2,735,499	6,568,358	25,918	6,594,276
<b>Changes in equity for 2015:</b>								
Profit for the year		-	-	-	802,213	802,213	12,619	814,832
Other comprehensive income for the year		-	-	(24,331)	(13,298)	(37,629)	(118)	(37,747)
Total comprehensive income for the year		-	-	(24,331)	788,915	764,584	12,501	777,085
Dividend paid to non-controlling interests		-	-	-	-	-	(10,748)	(10,748)
Shares issued under share option plan	24(b)(ii)	67,624	(15,103)	-	-	52,521	-	52,521
Equity-settled share-based transactions	6(b)	-	28,120	-	-	28,120	-	28,120
Dividends approved in respect of the previous financial year	25(b)(ii)	-	-	-	(289,536)	(289,536)	-	(289,536)
Release upon lapse of share options	24(b)(ii)	-	(238)	-	238	-	-	-
Dividends approved in respect of the current financial year	25(b)(i)	-	-	-	(94,660)	(94,660)	-	(94,660)
		67,624	12,779	-	(383,958)	(303,555)	(10,748)	(314,303)
<b>Balance at 31 December 2015</b>		3,848,565	65,256	(24,890)	3,140,456	7,029,387	27,671	7,057,058
<b>Balance at 1 January 2016</b>		<b>3,848,565</b>	<b>65,256</b>	<b>(24,890)</b>	<b>3,140,456</b>	<b>7,029,387</b>	<b>27,671</b>	<b>7,057,058</b>
<b>Changes in equity for 2016:</b>								
Profit for the year		-	-	-	850,088	850,088	12,633	862,721
Other comprehensive income for the year		-	-	(13,844)	2,762	(11,082)	82	(11,000)
Total comprehensive income for the year		-	-	(13,844)	852,850	839,006	12,715	851,721
Dividend paid to non-controlling interests		-	-	-	-	-	(11,204)	(11,204)
Shares issued under share option plan	24(b)(ii)	28,559	(6,741)	-	-	21,818	-	21,818
Shares issued for acquisition of a subsidiary	25(c)(iii)	385,333	-	-	-	385,333	-	385,333
Equity-settled share-based transactions	6(b)	-	20,220	-	-	20,220	-	20,220
Dividends approved in respect of the previous financial year	25(b)(ii)	-	-	-	(328,612)	(328,612)	-	(328,612)
Release upon lapse of share options	24(b)(ii)	-	(215)	-	215	-	-	-
Dividends approved in respect of the current financial year	25(b)(i)	-	-	-	(96,648)	(96,648)	-	(96,648)
		413,892	13,264	-	(425,045)	2,111	(11,204)	(9,093)
<b>Balance at 31 December 2016</b>		<b>4,262,457</b>	<b>78,520</b>	<b>(38,734)</b>	<b>3,568,261</b>	<b>7,870,504</b>	<b>29,182</b>	<b>7,899,686</b>

The notes on pages 125 to 196 form part of these financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2016 (Expressed in Hong Kong dollars)

	Note	2016 \$'000	2015 \$'000
<b>Operating activities</b>			
Cash generated from operations	18(d)	2,078,949	1,959,223
Tax paid:			
– Hong Kong Profits Tax paid		(35,272)	(42,532)
– Tax paid for jurisdictions outside Hong Kong		(161,423)	(157,004)
Tax refunded:			
– Hong Kong Profits Tax refunded		5	16,091
– Tax refunded for jurisdictions outside Hong Kong		341	–
<b>Net cash generated from operating activities</b>		<b>1,882,600</b>	<b>1,775,778</b>
<b>Investing activities</b>			
Payment for the purchase of other property, plant and equipment and others		(608,599)	(734,461)
Proceeds from sale of other property, plant and equipment		456	345
Payment for the acquisitions of subsidiaries (net of cash and cash equivalents acquired)	26(c)	(681,946)	–
Payment for transaction costs for the acquisitions		(21,531)	–
Increase in pledged deposits		(34,493)	(146,097)
Interest received		9,017	5,341
<b>Net cash used in investing activities</b>		<b>(1,337,096)</b>	<b>(874,872)</b>
<b>Financial activities</b>			
Proceeds from new bank and other loans		3,518,806	1,170,000
Proceeds from new shares issued under share option plan		21,818	52,521
Payment for transaction costs on bank and other loans		(3,376)	(43,125)
Capital element of finance lease rentals paid		(960)	–
Repayment of bank and other loans		(3,143,914)	(1,684,800)
Interest element of finance lease rental paid		(62)	–
Other borrowing costs paid		(287,839)	(312,576)
Dividends paid to equity shareholders of the Company		(425,260)	(384,196)
Dividend paid to non-controlling interests		(11,204)	(10,748)
<b>Net cash used in financing activities</b>		<b>(331,991)</b>	<b>(1,212,924)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>213,513</b>	<b>(312,018)</b>
<b>Cash and cash equivalents at 1 January</b>	18(a)	<b>1,073,683</b>	<b>1,393,486</b>
<b>Effect of foreign exchange rate changes</b>		<b>(3,521)</b>	<b>(7,785)</b>
<b>Cash and cash equivalents at 31 December</b>	18(a)	<b>1,283,675</b>	<b>1,073,683</b>

The notes on pages 125 to 196 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 (the "Stock Exchange"). Significant accounting policies adopted by the Group are disclosed 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. 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 2016 comprise CITIC Telecom International Holdings Limited (the "Company") and its subsidiaries (together referred to as the "Group") and the Group's interest in a joint venture.

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 a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

### 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

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, transactions and cash flows 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 the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders 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 investment in a joint venture (see note 1(e)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(k)).



## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (e) Joint ventures

A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in a joint venture 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(k)). 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 joint venture, 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 joint venture.

Unrealised profits and losses resulting from transactions between the Group and its joint venture 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 joint control over a joint venture, 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.

#### (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(k)).

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

(Expressed in Hong Kong dollars unless otherwise indicated)

### 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (g) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(j)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 1(t)(iv).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 1(j)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payment are accounted for as described in note 1(j).

#### (h) Other property, plant and equipment

Other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(k)).

Construction in progress represents other property, plant and equipment under construction and equipment pending installation, and is initially recognised in the consolidated statement of financial position at cost less impairment losses (see note 1(k)).

The cost of self-constructed items of other property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads. Capitalisation of these costs ceases and the construction in progress is transferred to other property, plant and equipment when the asset is substantially ready for its intended use. Those costs which are not eligible for capitalisation under accounting standards are recognised as expenses 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 other property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

- Buildings situated on freehold land are depreciated over their estimated useful lives, 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 is depreciated over 2 to 20 years.
- Other assets are depreciated over 2 to 5 years.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (h) Other property, plant and equipment (Continued)

Where parts of an item of other property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Gains or losses arising from the retirement or disposal of an item of other 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.

#### (i) 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(k)). 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:

– Trade names/trademarks	10–27 years
– Customer relationships	4–15 years
– Indefeasible rights of use (“IRU”) of telecommunications capacity	10 years
– Order backlog	5 years
– Computer software	3 years

Both the period and method of amortisation are reviewed annually.

#### (j) 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 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, with the following exceptions:

- property held under operating leases that would otherwise meet the definition of an investment property is classified as investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 1(g)); and
- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (j) Leased assets (Continued)

##### (ii) Assets acquired under finance lease

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(k). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

##### (iii) 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 (see note 1(g)) or is held for development for sale.

#### (k) Impairment of assets

##### (i) Impairment of investments in equity securities and trade and other receivables and deposits

Investments in equity securities and current and non-current trade and other receivables and deposits that are stated at cost or amortised cost are reviewed at the end of each reporting period 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.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (k) Impairment of assets (Continued)

##### (i) Impairment of investments in equity securities and trade and other receivables and deposits (Continued)

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

- For investment in a joint venture accounted for under equity method in the consolidated financial statements (see note 1(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(k)(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(k)(ii).
- For trade and other receivables and deposits carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and 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 the end of each reporting period to identify indications that other property, plant and equipment, intangible assets, goodwill and investments in subsidiaries in the Company's statement of financial position 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.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (k) Impairment of assets (Continued)

##### (ii) Impairment of other assets (Continued)

- Calculation of recoverable amount  
The recoverable amount of an asset is the greater of its fair value less costs of disposal 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 of disposal (if measurable) or value in use (if determinable).
- Reversals of impairment losses  
In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

##### (iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(k)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (l) Inventories

#### (i) Sales of goods

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first-in-first-out cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

#### (ii) Business solution projects

The revenue recognition policy for revenue from business solution projects is set out in note 1(t)(iii). When the outcome of a project can be estimated reliably, project costs are recognised as an expense by reference to the stage of completion of the project at the end of the reporting period. When it is probable that total project costs will exceed total project revenue, the expected loss is recognised as an expense immediately. When the outcome of a project cannot be estimated reliably, project costs are recognised as an expense in the period in which they are incurred.

Business solution projects at the end of the reporting period are recorded in the consolidated statement of financial position at the net amount of costs incurred plus recognised profit less recognised losses and progress billings. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customers.

### (m) Trade and other receivables and deposits

Trade and 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(k)), 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.

### (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

(Expressed in Hong Kong dollars unless otherwise indicated)

### 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (o) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(s)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

#### (p) 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.

#### (q) 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) Defined benefit retirement plan obligations

The Group's net obligation in respect of defined benefit retirement plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Service cost and net interest expense (income) on the net defined benefit liability (asset) are recognised in profit or loss and allocated by nature as part of "staff costs", "other operating expenses" or "finance costs". Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised. Net interest expense (income) for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability (asset). The discount rate is the yield at the end of the reporting period on high quality government bonds that have maturity dates approximating the terms of the Group's obligations.

Remeasurements arising from defined benefit retirement plans are recognised in other comprehensive income and reflected immediately in retained profits. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability (asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability (asset)).



## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (q) Employee benefits (Continued)

##### (iii) 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 option pricing 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 included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

#### (r) 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 in 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 end of the reporting period, 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 their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (r) Income tax (Continued)

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 1(g), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, 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 end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

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

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (s) 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 issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(s)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group or the Company under the guarantee, and (ii) the amount of that claim on the Group or the Company is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

##### (ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the 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.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (t) 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) Revenue from telecommunications services

Revenue from telecommunications services is recognised on the basis of minutes of traffic processed and/or contracted fees for telecommunications services that have been provided and based on the relative fair value of the services rendered.

##### (ii) Sale of equipment and mobile handsets

Revenue from the sale of equipment and mobile handsets is recognised when the goods are delivered to the customers which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value-added tax or other sales taxes and is after deduction of any trade discounts.

##### (iii) Revenue from business solution projects

Revenue from business solution projects is recognised in proportion to the stage of completion of the projects at the end of the reporting period. The stage of completion is assessed by reference to the surveys of work performed. When the outcome of a project cannot be estimated reliably, project revenue is recognised only to the extent of project costs incurred where its recoverability is probable.

##### (iv) 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.

##### (v) Interest income

Interest income is recognised as it accrues using the effective interest method.

#### (u) 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 end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of foreign operations are translated into Hong Kong dollars ("HKD") at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations, are translated into HKD at the closing foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

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.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (v) Borrowing costs

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

#### (w) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
- (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (x) 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 various lines of business and geographical locations.

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.

#### (y) 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.

#### (z) Deferred expenditure

Deferred expenditure represents the service fees prepaid for telecommunications services, which is amortised over the remaining service period based on the service pattern.

### 2 ACCOUNTING JUDGEMENT AND ESTIMATES

Notes 11(b), 13, 23, 26(b)(iii) and 27 contain information about the assumptions and their risk factors relating to valuation of investment properties, goodwill impairment, defined benefit retirement obligation, fair value of the acquiree's identifiable assets and liabilities and financial instruments. Other key sources of estimation uncertainty are as follows:

#### (a) Depreciation and amortisation

Other property, plant and equipment and intangible assets are depreciated and amortised on a straight-line basis over its 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 costs of disposal 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 the 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.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 2 ACCOUNTING JUDGEMENT AND ESTIMATES (CONTINUED)

#### (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 the determination of the ultimate tax position 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 end of the reporting period. 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 financial results in future years.

#### (d) Business solution projects

As explained in notes 1(l)(ii) and 1(t)(iii) revenue and profit recognition on an uncompleted project is dependent on estimating the total outcome of the business solution contract, as well as the work done to date. Based on the Group's recent experience and the nature of the business solution activities undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that the costs to complete and revenue can be reliably estimated. As a result, until this point is reached, the accrued revenue included in trade and other receivables and deposits will not include profit which the Group may eventually realise from the work done to date. In addition, actual outcomes in terms of total costs or revenue may be higher or lower than estimated at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 3 TURNOVER AND SEGMENT REPORTING

#### (a) Turnover

The Group is principally engaged in the provision of telecommunications services, including mobile services, Internet services, international telecommunications services, enterprise solutions and fixed line services, and sale of equipment and mobile handsets.

Turnover represents fees from the provision of telecommunications services and sale of equipment and mobile handsets. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2016 \$'000	2015 \$'000
Mobile services	1,164,781	1,244,673
Internet services	922,189	832,557
International telecommunications services	1,341,297	1,554,795
Enterprise solutions	2,255,822	2,107,124
Fixed line services	321,705	356,517
Fees from the provision of telecommunications services	6,005,794	6,095,666
Sale of equipment and mobile handsets	1,693,353	2,254,145
	<b>7,699,147</b>	8,349,811

#### (b) Segment reporting

The Group manages its businesses by business operations. The financial results of the Group are reported to the Group's most senior executive management as one operating segment for the purposes of resource allocation and performance assessment.

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 operating segment, i.e. telecommunications operations.



## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 3 TURNOVER AND SEGMENT REPORTING (CONTINUED)

#### (b) Segment reporting (Continued)

##### (i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources, the Group's senior executive management monitors the results, assets and liabilities attributable to the reportable segment on the following bases:

- Segment assets include all assets, with the exception of investment property, interest in a joint venture, deferred tax assets, current tax recoverable, and other corporate assets. Segment liabilities include trade and other payables and net defined benefit retirement obligation attributable to the operating activities of the segment.
- 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 profit

	2016 \$'000	2015 \$'000
<b>Profit</b>		
Reportable segment profit	2,120,839	2,098,653
Net loss on disposal of other property, plant and equipment	(333)	(226)
Net foreign exchange (loss)/gain	(22,454)	12,577
Depreciation and amortisation	(656,415)	(674,007)
Finance costs	(327,707)	(346,070)
Share of profit/(loss) of a joint venture	1,686	(465)
Interest income	7,927	8,372
Rentals receivable from investment property less direct outgoings	3,516	–
Unallocated head office and corporate expenses	(98,970)	(88,391)
<b>Consolidated profit before taxation</b>	<b>1,028,089</b>	<b>1,010,443</b>

##### (iii) Reconciliation of reportable segment assets and liabilities

	2016 \$'000	2015 \$'000
<b>Assets</b>		
Reportable segment assets	17,343,300	16,863,217
Investment property	635,328	–
Interest in a joint venture	7,367	5,541
Deferred tax assets	85,764	33,227
Current tax recoverable	5,687	6,497
Unallocated head office and corporate assets	105,429	73,988
<b>Consolidated total assets</b>	<b>18,182,875</b>	<b>16,982,470</b>
<b>Liabilities</b>		
Reportable segment liabilities	1,753,886	1,915,068
Bank and other loans	43,739	100,000
Obligations under finance leases	5,991	–
Current tax payable	230,183	242,206
Non-current interest-bearing borrowings	7,857,680	7,372,492
Deferred tax liabilities	249,024	260,297
Unallocated head office and corporate liabilities	142,686	35,349
<b>Consolidated total liabilities</b>	<b>10,283,189</b>	<b>9,925,412</b>

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 3 TURNOVER AND SEGMENT REPORTING (CONTINUED)

#### (b) Segment reporting (Continued)

##### (iv) Geographic information

The following table sets out information about the geographical location of the Group's revenue from external customers and the Group's investment property, other property, plant and equipment, intangible assets, goodwill and interest in a joint venture ("specified non-current assets"). The geographical location of revenue is based on the physical location of assets through which the services were provided or the location at which the goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of investment property and other property, plant and equipment, the location of the operation to which they are allocated, in the case of intangible assets and goodwill, and the location of operations, in the case of interest in a joint venture.

	Revenue from external customers		Specified non-current assets	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Hong Kong (place of domicile)	2,564,223	2,607,841	1,679,050	986,323
Macau	4,367,905	5,015,893	12,340,141	12,411,793
Others	767,019	726,077	652,872	294,109
	<b>7,699,147</b>	8,349,811	<b>14,672,063</b>	13,692,225

### 4 OTHER REVENUE

	2016 \$'000	2015 \$'000
Interest income from bank deposits	7,844	8,260
Other interest income	83	112
	<b>7,927</b>	8,372
Gross rental income from investment property	4,745	–
	<b>12,672</b>	8,372

### 5 OTHER NET (LOSS)/GAIN

	2016 \$'000	2015 \$'000
Net loss on disposal of other property, plant and equipment	(333)	(226)
Net foreign exchange (loss)/gain	(22,454)	12,577
	<b>(22,787)</b>	12,351

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	2016 \$'000	2015 \$'000
<b>(a) Finance costs</b>		
Interest on bank and other borrowings		
– wholly repayable within five years	73,086	95,873
– not wholly repayable within five years	214,110	214,110
	<b>287,196</b>	309,983
Finance charges on obligations under finance leases	62	–
Other finance charges	37,347	32,704
Other interest expense (note 23(a)(v))	3,102	3,383
	<b>327,707</b>	346,070
<b>(b) Staff costs (including directors' emoluments (note 8))</b>		
Contributions to defined contribution retirement plans	45,386	41,225
Expenses recognised in respect of defined benefits retirement plan (note 23(a)(v))	10,269	10,011
	<b>55,655</b>	51,236
Total retirement costs	55,655	51,236
Equity-settled share-based payment expenses (note 24(b)(iii))	20,220	28,120
Salaries, wages and other benefits	775,078	722,276
	<b>850,953</b>	801,632
<b>(c) Other items</b>		
Operating lease charges		
– leased circuits	835,259	771,120
– land and buildings	110,550	97,533
	<b>487,894</b>	496,838
Depreciation (note 11(a))	168,521	177,169
Amortisation (note 12)	656,415	674,007
Impairment losses		
– trade debtors, net (note 17(b))	3,306	12,447
Rentals receivable from investment property less direct outgoings of \$1,229,000 (2015:\$Nil)	(3,516)	–
Auditors' remuneration		
– audit services	5,906	5,639
– non-audit services	2,235	1,343
Transaction costs for the acquisitions	15,792	–

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 7 INCOME TAX

#### (a) Income tax in the consolidated income statement represents:

	2016 \$'000	2015 \$'000
<b>Current tax</b>		
Hong Kong Profits Tax		
– Provision for the year	50,508	55,136
– (Over)/under-provision in respect of prior years	(268)	178
	<b>50,240</b>	55,314
Jurisdictions outside Hong Kong		
– Provision for the year	154,498	162,087
– Over-provision in respect of prior years	(22,109)	(1,717)
	<b>132,389</b>	160,370
<b>Deferred tax</b>		
Origination and reversal of temporary differences (note 7(c))	(17,261)	(20,073)
	<b>165,368</b>	195,611

The provision for Hong Kong Profits Tax for 2016 is calculated at 16.5% (2015: 16.5%) of the estimated assessable profits for the year, taking into account a reduction granted by the Hong Kong SAR Government of 75% of the tax payable for the year of assessment 2015/2016 subject to a maximum reduction of \$20,000 for each business (2015: a maximum reduction of \$20,000 was granted for the year of assessment 2014/2015 and was taken into account in calculating the provision for 2015).

The provision for Macau Complementary Tax for 2016 is calculated at 12% (2015: 12%) of the estimated assessable profits for the year. Assessable profits of the first MOP600,000 (equivalent to approximately \$583,000) (2015: MOP600,000 (equivalent to approximately \$583,000)) are exempted from Macau Complementary Tax.

Taxation for jurisdictions outside Hong Kong and Macau is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

Reconciliation between actual tax expense and accounting profit at applicable tax rates:

	2016 \$'000	2015 \$'000
Profit before taxation	1,028,089	1,010,443
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	125,473	115,326
Tax effect of non-taxable income and non-deductible expenses	64,523	66,690
Tax effect of unused tax losses not recognised	969	20,887
Tax effect of temporary differences previously not recognised and recognition of previous unused tax losses	(1,514)	(4,904)
Over-provision in respect of prior years	(22,377)	(1,539)
Others	(1,706)	(849)
Actual tax expense	<b>165,368</b>	195,611

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 7 INCOME TAX (CONTINUED)

#### (b) Current taxation in the consolidated statement of financial position represents:

	2016 \$'000	2015 \$'000
<b>Hong Kong Profits Tax</b>		
Provision for the year	50,508	55,136
Provisional profits tax paid	(41,227)	(38,463)
Balance of profits tax provision relating to prior years	25,575	3,210
	<b>34,856</b>	19,883
<b>Jurisdictions outside Hong Kong</b>		
Provision for the year	154,498	162,087
Profits tax paid	(6,228)	(5,448)
Through acquisition of subsidiaries (note 26(b)(ii))	3,454	–
Balance of profits tax provision relating to prior years	38,863	59,844
Exchange adjustments	(947)	(657)
	<b>189,640</b>	215,826
	<b>224,496</b>	235,709
<b>Representing:</b>		
Current tax recoverable	(5,687)	(6,497)
Current tax payable	230,183	242,206
	<b>224,496</b>	235,709

#### (c) Deferred tax assets and liabilities recognised:

The components of deferred tax liabilities/(assets) recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Intangible assets arising from business combination \$'000	Depreciation allowances in excess of the related depreciation \$'000	Defined benefit retirement obligation \$'000	Future benefits of tax losses \$'000	Others \$'000	Total \$'000
<b>Deferred tax arising from:</b>						
At 1 January 2015	251,789	83,356	(12,446)	(74,021)	(601)	248,077
(Credited)/charged to profit or loss (note 7(a))	(11,372)	(6,166)	287	(2,822)	–	(20,073)
Credited to reserves	–	–	(1,918)	–	–	(1,918)
Exchange adjustments	212	–	–	772	–	984
At 31 December 2015	240,629	77,190	(14,077)	(76,071)	(601)	227,070
At 1 January 2016	240,629	77,190	(14,077)	(76,071)	(601)	227,070
Through acquisitions of subsidiaries	7,430	29,065	–	(76,107)	(7,367)	(46,979)
(Credited)/charged to profit or loss (note 7(a))	(21,990)	(5,711)	245	8,661	1,534	(17,261)
Charged to reserves	–	–	287	–	–	287
Exchange adjustments	183	(449)	–	167	242	143
At 31 December 2016	226,252	100,095	(13,545)	(143,350)	(6,192)	163,260

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 7 INCOME TAX (CONTINUED)

#### (c) Deferred tax assets and liabilities recognised: (Continued)

##### Reconciliation to the consolidated statement of financial position

	2016 \$'000	2015 \$'000
Net deferred tax assets recognised in the consolidated statement of financial position	(85,764)	(33,227)
Net deferred tax liabilities recognised in the consolidated statement of financial position	249,024	260,297
	<b>163,260</b>	227,070

#### (d) Deferred tax assets not recognised

In accordance with the accounting policies set out in note 1(r), the Group has not recognised deferred tax assets in respect of unused tax losses of \$277,546,000 (2015: \$230,365,000) at 31 December 2016 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. \$243,498,000 (2015: \$207,882,000) of the tax losses do not expire under the current tax legislation, and \$34,048,000 (2015: \$22,483,000) of the tax losses will expire after 3 to 20 years.

### 8 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2016							Total \$'000
	Directors' fees \$'000	Basic salaries and allowances \$'000	Discretionary bonuses \$'000	Benefits in kind \$'000	Retirement scheme contributions \$'000	Sub-total \$'000	Share-based payments \$'000	
<b>Executive directors</b>								
Xin Yue Jiang	-	4,001	4,252	119	-	8,372	1,001	9,373
Lin Zhenhui	-	3,890	3,827	70	18	7,805	881	8,686
Luo Ning	-	-	-	-	-	-	280	280
Chan Tin Wai, David	-	2,770	3,421	77	18	6,286	761	7,047
<b>Non-executive directors</b>								
Liu Jifu	-	-	-	-	-	-	560	560
Fei Yiping (appointed on 1 June 2016)	-	-	-	-	-	-	-	-
<b>Independent non-executive directors</b>								
Liu Li Qing	340	-	-	-	-	340	112	452
Kwong Che Keung, Gordon	340	-	-	-	-	340	112	452
Zuo Xunsheng	340	-	-	-	-	340	112	452
<b>Total</b>	<b>1,020</b>	<b>10,661</b>	<b>11,500</b>	<b>266</b>	<b>36</b>	<b>23,483</b>	<b>3,819</b>	<b>27,302</b>

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 8 DIRECTORS' EMOLUMENTS (CONTINUED)

	2015							
	Directors' fees \$'000	Basic salaries and allowances \$'000	Discretionary bonuses \$'000	Benefits in kind \$'000	Retirement scheme contributions \$'000	Sub-total \$'000	Share-based payments \$'000	Total \$'000
<b>Executive directors</b>								
Xin Yue Jiang	-	3,810	4,128	68	-	8,006	1,565	9,571
Lin Zhenhui (appointed on 1 January 2015)	-	3,705	3,715	66	18	7,504	1,377	8,881
Luo Ning	-	-	500	-	-	500	438	938
Chan Tin Wai, David	-	2,638	3,322	64	18	6,042	1,189	7,231
<b>Non-executive director</b>								
Liu Jifu	-	-	-	-	-	-	875	875
<b>Independent non-executive directors</b>								
Liu Li Qing	340	-	-	-	-	340	175	515
Kwong Che Keung, Gordon	340	-	-	-	-	340	175	515
Zuo Xunsheng	340	-	-	-	-	340	175	515
<b>Total</b>	<b>1,020</b>	<b>10,153</b>	<b>11,665</b>	<b>198</b>	<b>36</b>	<b>23,072</b>	<b>5,969</b>	<b>29,041</b>

The above emoluments are included in staff costs as presented in note 6(b).

A number of the Company's directors were granted share options of the Company. Details of the share option plans are set out in note 24.

The discretionary bonuses of the Group were determined and approved by the Company's remuneration committee with reference to the performance of the Group and the respective directors.

During the years ended 31 December 2016 and 2015, 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

(Expressed in Hong Kong dollars unless otherwise indicated)

### 9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2015: three) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other two (2015: two) individuals are as follows:

	<b>2016</b> <b>\$'000</b>	2015 \$'000
Salaries and other emoluments	<b>6,919</b>	6,585
Discretionary bonuses	<b>8,834</b>	10,289
Share-based payments	<b>748</b>	1,220
Retirement scheme contributions	<b>540</b>	514
	<b>17,041</b>	18,608

The emoluments of the two (2015: two) individuals with the highest emoluments are within the following bands:

	<b>2016</b> <b>Number of</b> <b>individuals</b>	2015 Number of individuals
\$		
6,000,001–6,500,000	<b>1</b>	1
10,500,001–11,000,000	<b>1</b>	–
12,500,001–13,000,000	<b>–</b>	1

During the years ended 31 December 2016 and 2015, no emoluments were paid by the Company to any of the highest paid individuals as an inducement to join or upon joining the Company or as compensation for loss of office.



## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 10 EARNINGS PER SHARE

	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
Profit attributable to equity shareholders of the Company	<b>850,088</b>	802,213

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

	<b>Number of shares</b>	
	<b>2016</b>	2015
	<b>'000</b>	'000
Issued ordinary shares at 1 January	<b>3,382,342</b>	3,355,674
Effect of shares issued for acquisition of a subsidiary	<b>25,159</b>	–
Effect of share options exercised	<b>5,652</b>	16,619
Weighted average number of ordinary shares (basic) at 31 December	<b>3,413,153</b>	3,372,293
Effect of deemed issue of shares under the Company's share option plan	<b>25,572</b>	33,576
Weighted average number of ordinary shares (diluted) at 31 December	<b>3,438,725</b>	3,405,869
Basic earnings per share (HK cents)	<b>24.9</b>	23.8
Diluted earnings per share (HK cents)	<b>24.7</b>	23.6

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 11 INVESTMENT PROPERTY AND OTHER PROPERTY, PLANT AND EQUIPMENT

#### (a) Reconciliation of carrying amount

	Land and buildings held for own use (note (c)) \$'000	Telecommunications equipment \$'000	Other assets (note (f)) \$'000	Construction in progress \$'000	Sub-total \$'000	Investment property (note (b), (c) and (e)) \$'000	Total \$'000
<b>Cost or valuation:</b>							
At 1 January 2015	265,595	2,640,448	259,025	325,886	3,490,954	–	3,490,954
Additions	–	87,505	21,381	709,854	818,740	–	818,740
Disposals	(292)	(63,585)	(1,298)	–	(65,175)	–	(65,175)
Reclassification and transfer to intangible assets (note 12)	–	794,634	14,026	(824,697)	(16,037)	–	(16,037)
Exchange adjustments	–	(13,512)	(3,345)	–	(16,857)	–	(16,857)
At 31 December 2015	265,303	3,445,490	289,789	211,043	4,211,625	–	4,211,625
<b>Representing:</b>							
Cost	265,303	3,445,490	289,789	211,043	4,211,625	–	4,211,625
At 1 January 2016	<b>265,303</b>	<b>3,445,490</b>	<b>289,789</b>	<b>211,043</b>	<b>4,211,625</b>	–	<b>4,211,625</b>
Additions							
– through acquisitions of subsidiaries	<b>126,905</b>	<b>6,698</b>	<b>15,793</b>	<b>93</b>	<b>149,489</b>	<b>635,328</b>	<b>784,817</b>
– others	–	<b>74,012</b>	<b>13,933</b>	<b>408,558</b>	<b>496,503</b>	–	<b>496,503</b>
Disposals	–	<b>(25,296)</b>	<b>(4,466)</b>	–	<b>(29,762)</b>	–	<b>(29,762)</b>
Reclassification and transfer to intangible assets (note 12)	–	<b>439,954</b>	<b>3,258</b>	<b>(443,996)</b>	<b>(784)</b>	–	<b>(784)</b>
Exchange adjustments	–	<b>(15,152)</b>	<b>(3,177)</b>	<b>(2)</b>	<b>(18,331)</b>	–	<b>(18,331)</b>
At 31 December 2016	<b>392,208</b>	<b>3,925,706</b>	<b>315,130</b>	<b>175,696</b>	<b>4,808,740</b>	<b>635,328</b>	<b>5,444,068</b>
<b>Representing:</b>							
Cost	392,208	3,925,706	315,130	175,696	4,808,740	–	4,808,740
Valuation – 2016	–	–	–	–	–	635,328	635,328
	392,208	3,925,706	315,130	175,696	4,808,740	635,328	5,444,068
<b>Accumulated depreciation:</b>							
At 1 January 2015	31,991	1,203,076	149,978	–	1,385,045	–	1,385,045
Charge for the year (note 6(c))	11,417	449,774	35,647	–	496,838	–	496,838
Written back on disposals	(292)	(63,082)	(1,230)	–	(64,604)	–	(64,604)
Exchange adjustments	–	(9,567)	(1,039)	–	(10,606)	–	(10,606)
At 31 December 2015	43,116	1,580,201	183,356	–	1,806,673	–	1,806,673
At 1 January 2016	<b>43,116</b>	<b>1,580,201</b>	<b>183,356</b>	–	<b>1,806,673</b>	–	<b>1,806,673</b>
Charge for the year (note 6(c))	<b>11,892</b>	<b>442,144</b>	<b>33,858</b>	–	<b>487,894</b>	–	<b>487,894</b>
Written back on disposals	–	<b>(24,563)</b>	<b>(4,410)</b>	–	<b>(28,973)</b>	–	<b>(28,973)</b>
Exchange adjustments	–	<b>(10,263)</b>	<b>(514)</b>	–	<b>(10,777)</b>	–	<b>(10,777)</b>
At 31 December 2016	<b>55,008</b>	<b>1,987,519</b>	<b>212,290</b>	–	<b>2,254,817</b>	–	<b>2,254,817</b>
<b>Net book value:</b>							
At 31 December 2016	<b>337,200</b>	<b>1,938,187</b>	<b>102,840</b>	<b>175,696</b>	<b>2,553,923</b>	<b>635,328</b>	<b>3,189,251</b>
At 31 December 2015	222,187	1,865,289	106,433	211,043	2,404,952	–	2,404,952

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 11 INVESTMENT PROPERTY AND OTHER PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

#### (b) Fair value measurement of investment property

##### (i) Fair value hierarchy

The following table presents the fair value of the Group's investment property measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value at 31 December	Fair value measurements as at 31 December 2016 categorised into		
	2016 \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
<b>Recurring fair value measurement</b>				
Investment property:				
– Industrial – Hong Kong	635,328	–	–	635,328

During the year ended 31 December 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2015: \$Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The Group's investment property was revalued as at 31 December 2016. The valuations were carried out by an independent firm of surveyors, Centaline Surveyors Limited, who have among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The management have discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at the end of each reporting period.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 11 INVESTMENT PROPERTY AND OTHER PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

#### (b) Fair value measurement of investment property (Continued)

##### (ii) Information about Level 3 fair value measurements

	Valuation techniques	Major unobservable input	Input amount
Investment property Industrial – Hong Kong	Direct comparison approach	Market unit rate	\$3,277 per square foot

The fair value of investment property located in Hong Kong is determined by using direct comparison approach by reference to recent sales price of comparable properties on a price per square foot basis, adjusted for timing factors, size, quality and location of the investment property.

During the years ended 31 December 2016 and 2015, no fair value adjustment of investment property is recognised.

#### (c) The analysis of net book value of properties is as follows:

	2016 \$'000	2015 \$'000
Situated in Hong Kong and held under medium-term leases	892,538	135,337
Situated outside Hong Kong and held under medium-term leases	79,990	86,850
	<b>972,528</b>	222,187
<b>Representing:</b>		
Land and buildings carried at cost	337,200	222,187
Investment property carried at fair value	635,328	–
	<b>972,528</b>	222,187

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 11 INVESTMENT PROPERTY AND OTHER PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

#### (d) Assets held under finance leases

The Group leases certain assets under finance leases expiring from 3 to 5 years. At the end of the lease term the Group has the option to purchase the leased assets at a price deemed to be a bargain purchase option. None of the leases includes contingent rentals.

During the year ended 31 December 2016, the additions through acquisition of subsidiaries include other assets of \$2,342,000 (2015: \$Nil) where the subsidiary was the lessee under finance leases, while the addition to construction in progress financed by a new finance lease was \$4,493,000 (2015: \$Nil). At the end of the reporting period, the net book values of other assets and construction in progress held under finance leases were \$1,923,000 (2015: \$Nil) and \$4,292,000 (2015: \$Nil) respectively.

#### (e) Assets leased out under operating leases

The Group leases out investment property under operating leases. The leases typically run for an initial period of 1 to 3 years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment property.

Total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2016 \$'000	2015 \$'000
Within 1 year	23,793	–
After 1 year but within 5 years	8,205	–
	<b>31,998</b>	–

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

(g) Certain other property, plant and equipment of Companhia de Telecomunicações de Macau S.A.R.L. ("CTM") are designated for the provision of basic infrastructure of public telecommunications services. They may need to be shared with other licensed telecommunications operators or the Macau Government with fair compensation, or, upon termination of the concession agreement, assigned in favour of the Macau Government.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 12 INTANGIBLE ASSETS

	Customer relationships \$'000	Order backlog \$'000	Trade names/ trademarks \$'000	IRU of tele- communications capacity \$'000	Computer software \$'000	Total \$'000
<b>Cost:</b>						
At 1 January 2015	1,673,091	18,725	790,556	626	9,797	2,492,795
Transfer from other property, plant and equipment (note 11(a))	-	-	-	-	16,037	16,037
Disposals	-	-	-	-	(2,271)	(2,271)
Exchange adjustments	(2,122)	(311)	(836)	-	-	(3,269)
At 31 December 2015	1,670,969	18,414	789,720	626	23,563	2,503,292
At 1 January 2016	<b>1,670,969</b>	<b>18,414</b>	<b>789,720</b>	<b>626</b>	<b>23,563</b>	<b>2,503,292</b>
Additions through acquisition of subsidiaries (note 26(b)(ii))	<b>27,755</b>	-	<b>15,952</b>	-	-	<b>43,707</b>
Transfer from other property, plant and equipment (note 11(a))	-	-	-	-	<b>784</b>	<b>784</b>
Exchange adjustments	<b>(2,216)</b>	<b>(318)</b>	<b>(1,456)</b>	-	-	<b>(3,990)</b>
At 31 December 2016	<b>1,696,508</b>	<b>18,096</b>	<b>804,216</b>	<b>626</b>	<b>24,347</b>	<b>2,543,793</b>
<b>Accumulated amortisation:</b>						
At 1 January 2015	255,688	12,659	50,306	626	5,888	325,167
Charge for the year (note 6(c))	137,348	4,035	30,173	-	5,613	177,169
Written back on disposals	-	-	-	-	(2,271)	(2,271)
Exchange adjustments	(1,619)	(196)	(179)	-	-	(1,994)
At 31 December 2015	391,417	16,498	80,300	626	9,230	498,071
At 1 January 2016	<b>391,417</b>	<b>16,498</b>	<b>80,300</b>	<b>626</b>	<b>9,230</b>	<b>498,071</b>
Charge for the year (note 6(c))	<b>132,944</b>	<b>1,229</b>	<b>30,297</b>	-	<b>4,051</b>	<b>168,521</b>
Exchange adjustments	<b>(1,095)</b>	<b>(257)</b>	<b>(293)</b>	-	-	<b>(1,645)</b>
At 31 December 2016	<b>523,266</b>	<b>17,470</b>	<b>110,304</b>	<b>626</b>	<b>13,281</b>	<b>664,947</b>
<b>Net book value:</b>						
At 31 December 2016	<b>1,173,242</b>	<b>626</b>	<b>693,912</b>	-	<b>11,066</b>	<b>1,878,846</b>
At 31 December 2015	1,279,552	1,916	709,420	-	14,333	2,005,221

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 13 GOODWILL

	2016 \$'000	2015 \$'000
<b>Cost and carrying amount:</b>		
At 1 January	9,276,511	9,281,625
Additions through acquisitions of subsidiaries (note 26(b)(ii))	335,781	–
Exchange adjustments	(15,693)	(5,114)
At 31 December	9,596,599	9,276,511

#### Impairment tests for cash-generating units containing goodwill

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

	2016 \$'000	2015 \$'000
Telecoms business – Macau	8,892,097	8,892,097
Enterprise solutions (outside Macau)	114,546	116,764
Other telecommunications services	589,956	267,650
	9,596,599	9,276,511

The recoverable amounts of the cash-generating units are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a three-year period.

Key assumptions used for the value-in-use calculations are as follows:

	2016	2015
Long term growth rate	3%	0% – 3%
Discount rate	11%	9%

The long term growth rates used are based on past performance and management's expectation for market development. The discount rate used is pre-tax and reflects specific risks relating to the respective cash-generating units.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 14 INTERESTS IN SUBSIDIARIES

(a) The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

Name of company	Place of incorporation/ operation	Particulars of issued and fully paid-up capital	Proportion of ownership interest		Principal activity
			Held by the Company	Held by subsidiaries	
Acclivis Technologies and Solutions Pte. Ltd.	Republic of Singapore	Singaporean Dollars ("SG\$") 16,500,000*	–	100%	Provision of telecommunications services
China Enterprise ICT Solutions Limited ("CEC")	The People's Republic of China ("PRC")	Renminbi ("RMB") 84,620,000	–	49% (note (i))	Provision of value-added telecommunications services
China Enterprise Netcom Corporation Limited	Hong Kong	HK\$100*	–	100%	Provision of telecommunications leasing and technology services
CITIC Telecom International (Concept) Limited	Hong Kong	HK\$2*	–	100%	Provision of systems integration services
CITIC Telecom International (Data) Limited	Hong Kong	HK\$2*	–	100%	Provision of data and other telecommunications services
CITIC Telecom International Finance Limited	British Virgin Islands	United States Dollar ("US\$")1*	100%	–	Provision of financing services
CITIC Telecom International Limited	Hong Kong	HK\$2*	100%	–	Provision of telecommunications services
CITIC Telecom International (Japan) Ltd.	Japan	Japanese Yen ("JPY") 10,000,000*	–	100%	Provision of telecommunications services
CITIC Telecom International (SEA) Pte. Ltd.	Republic of Singapore	SG\$14,000,002*	–	100%	Provision of telecommunications services
CITIC Telecom International CPC Limited	Hong Kong	HK\$402,712,186*	–	100%	Provision of telecommunications services
CITIC Telecom International CPC Japan Limited	Japan	JPY10,000,000*	–	100%	Provision of telecommunications services
CITIC Telecom International CPC (Malaysia) Sdn. Bhd.	Malaysia	Malaysian Ringgit 500,000*	–	100%	Provision of telecommunications services
CITIC Telecom International CPC (Singapore) Pte. Ltd.	Republic of Singapore	SG\$2,000,000*	–	100%	Provision of telecommunications services
CITIC Telecom International CPC (USA) LLC	United States of America	N/A#	–	100%	Provision of operational support services
CITIC Telecom (UK) Limited	United Kingdom	£2*	–	100%	Provision of telecommunications services



## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 14 INTERESTS IN SUBSIDIARIES (CONTINUED)

#### (a) (Continued)

Name of company	Place of incorporation/ operation	Particulars of issued and fully paid-up capital	Proportion of ownership interest		Principal activity
			Held by the Company	Held by subsidiaries	
ComNet Investment Limited	Hong Kong	HK\$2*	–	100%	Property and equipment holding, and investment holding
ComNet Telecom (Canada) Ltd.	Canada	Canadian Dollars 100** and 1 common share without par value <sup>Δ</sup>	–	100%	Provision of telecommunications services
ComNet Telecom (HK) Limited	Hong Kong	HK\$2*	–	100%	Provision of telecommunications services
ComNet Telecom International Limited	Hong Kong	HK\$2*	–	100%	Provision of telecommunications services
ComNet Telecom (Singapore) Pte. Ltd.	Republic of Singapore	SG\$100,000*	–	100%	Provision of telecommunications services
ComNet (USA) LLC	United States of America	N/A***	–	100%	Provision of telecommunications services
Companhia de Telecomunicações de Macau, S.A.R.L.	Macau	Macau Patacas ("MOP") 150,000,000*	99%	–	Provision of telecommunications services
Neostar Investment Limited	Hong Kong	HK\$2*	–	100%	Property holding
Pacific Internet (S) Pte. Ltd.	Republic of Singapore	SG\$500,000*	–	100%	Provision of telecommunications services
Pacific Internet (Thailand) Limited	Thailand	Baht 188,176,100*	–	100%	Provision of telecommunications services

Notes:

(i) The Group has consolidated the results of CEC as the Group is exposed and has rights to variable returns from its involvement with CEC and has the ability to affect those returns through its power over CEC.

\* Represents ordinary shares.

# Capital contribution for CITIC Telecom International CPC (USA) LLC amounted to US\$100,000.

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

<sup>Δ</sup> 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 US\$10,000.

(b) The Group had no subsidiaries which have material non-controlling interests for the years ended 31 December 2016 and 2015.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 15 INTEREST IN A JOINT VENTURE

Details of the Group's interest in the joint venture, of which is an unlisted corporate entity whose quoted market price is not available, are as follows:

Name of joint venture	Form of business structure	Place of incorporation/ operation	Particulars of issued and paid-up capital	Proportion of ownership interest		Principal activity
				Group's effective interest	Held by the Company	
Cheer Harvest Holdings Limited	Incorporated	Samoa	370,000 shares of US\$1 each	85%	-	Investment holding

Cheer Harvest Holdings Limited has a wholly-owned subsidiary, E-Tone Network Corporation, which is incorporated in Taiwan and is principally engaged in the provision of telecommunications services in Taiwan.

The equity interest in Cheer Harvest Holdings Limited is accounted for as a joint venture 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 entity and have rights to the net assets of the entity.

### 16 INVENTORIES

Inventories in the consolidated statement of financial position mainly comprise telecommunications equipment, including project parts and mobile handsets.

The amount of inventories recognised as an expense and included in profit or loss for the year ended 31 December 2016 is \$2,057,273,000 (2015: \$2,741,364,000).

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 17 TRADE AND OTHER RECEIVABLES AND DEPOSITS

	2016 \$'000	2015 \$'000
Trade debtors	1,312,809	1,247,787
Less: allowance for doubtful debts	(38,759)	(45,567)
	1,274,050	1,202,220
Other receivables and deposits	616,316	651,159
	1,890,366	1,853,379
<b>Represented by:</b>		
Non-current portion	198,920	163,862
Current portion	1,691,446	1,689,517
	1,890,366	1,853,379

All of the current trade and 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 2016 amounted to \$31,329,000 (2015: \$26,143,000) which will not be recovered within a year.

At 31 December 2016 and 2015, included in other receivables and deposits were the following:

- (i) deferred expenditure of \$58,421,000 (2015: \$64,991,000) 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
- (ii) an advance payment paid to the ultimate holding company for the acquisition of the remaining equity interest in a subsidiary of RMB61,987,000 (equivalent to approximately \$69,295,000) (2015: RMB61,987,000 (equivalent to approximately \$73,988,000)).

#### (a) Ageing analysis

At the end of the reporting period, the ageing analysis of trade debtors (before allowance for doubtful debts and included in trade and other receivables and deposits) based on the invoice date is as follows:

	2016 \$'000	2015 \$'000
Within 1 year	1,196,840	1,069,220
Over 1 year	115,969	178,567
	1,312,809	1,247,787

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 27(a).

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 17 TRADE AND OTHER RECEIVABLES AND DEPOSITS (CONTINUED)

#### (b) Impairment of trade debtors

Impairment losses in respect of trade debtors are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors directly (see note 1(k)(i)).

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

	2016 \$'000	2015 \$'000
At 1 January	45,567	113,347
Through acquisitions of subsidiaries	1,301	–
Impairment loss recognised	7,354	14,072
Impairment loss reversed	(4,048)	(1,625)
Uncollectible amounts written off	(9,498)	(78,637)
Exchange adjustments	(1,917)	(1,590)
At 31 December	<b>38,759</b>	45,567

At 31 December 2016, trade debtors of \$128,350,000 (2015: \$121,423,000) 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 \$38,759,000 (2015: \$45,567,000) were recognised. The Group does not hold any collateral over these balances.

#### (c) Trade debtors that are not impaired

The ageing analysis of trade debtors that are neither individually nor collectively considered to be impaired are as follows:

	2016 \$'000	2015 \$'000
Within 1 year	1,098,979	978,716
Over 1 year	85,480	147,648
	<b>1,184,459</b>	1,126,364

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.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 18 CASH AND CASH EQUIVALENTS

#### (a) Cash and cash equivalents comprise:

	2016 \$'000	2015 \$'000
Cash at bank and in hand	823,342	900,267
Time deposits with banks	635,708	322,712
Cash and bank deposits in the consolidated statement of financial position (note (b))	1,459,050	1,222,979
Less: pledged deposits (note (c))	(175,375)	(149,296)
Cash and cash equivalents in the consolidated cash flow statement	1,283,675	1,073,683

(b) Included in cash and bank deposits were \$57,861,000 (2015: \$38,247,000) placed in financial institutions 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 2016, the Group pledged deposits of \$171,324,000 (2015: \$146,097,000) to commercial banks to secure loans drawn by a fellow subsidiary from the commercial banks under the offshore-security-onshore-loan arrangements (see notes 29(c) and 30(a)(vi)).

At 31 December 2016, bank deposits of \$4,051,000 (2015: \$3,199,000) were pledged to secure parts of the trade facilities of the Group.

#### (d) Reconciliation of profit before taxation to cash generated from operations:

	Note	2016 \$'000	2015 \$'000
Profit before taxation		1,028,089	1,010,443
Adjustments for:			
Depreciation and amortisation	6(c)	656,415	674,007
Net loss on disposal of other property, plant and equipment	5	333	226
Share of (profit)/loss of a joint venture		(1,686)	465
Transaction costs for the acquisitions	6(c)	15,792	–
Finance costs	6(a)	327,707	346,070
Interest income	4	(7,927)	(8,372)
Equity-settled share-based payment expenses	6(b)	20,220	28,120
Foreign exchange loss/(gain)		4,000	(3,097)
		2,042,943	2,047,862
Changes in working capital:			
Decrease in inventories		112,074	24,768
Decrease in trade and other receivables and deposits		102,628	252,861
Decrease in trade and other payables		(174,242)	(361,113)
Decrease in net defined benefit retirement obligation		(4,454)	(5,155)
Cash generated from operations		2,078,949	1,959,223

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 19 TRADE AND OTHER PAYABLES

	2016 \$'000	2015 \$'000
Trade creditors	751,836	768,978
Other payables and accruals	1,031,858	1,064,132
	<b>1,783,694</b>	1,833,110
<b>Represented by:</b>		
Non-current portion	77,594	65,656
Current portion	1,706,100	1,767,454
	<b>1,783,694</b>	1,833,110

At 31 December 2016, other payables included a deferred revenue of \$65,656,000 (2015: \$73,040,000) 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.

All current trade and other payables are expected to be settled or recognised as income within one year.

At the end of the reporting period, the ageing analysis of trade creditors (which are included in trade and other payables) based on the invoice date is as follows:

	2016 \$'000	2015 \$'000
Within 1 year	494,475	506,173
Over 1 year	257,361	262,805
	<b>751,836</b>	768,978

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 20 BANK AND OTHER LOANS

At 31 December 2016, bank and other loans were repayable and secured as follows:

	2016 \$'000	2015 \$'000
Within 1 year or on demand	43,739	100,000
After 1 year but within 2 years	312,892	502,405
After 2 years but within 5 years	4,061,423	3,389,989
	<b>4,418,054</b>	3,992,394
<b>Represented by:</b>		
Unsecured		
– Current	43,739	100,000
– Non-current (note 21(a))	4,374,315	3,892,394
	<b>4,418,054</b>	3,992,394

Certain of the Group's banking facilities are subject to the fulfilment of covenants relating to certain of the Group's statement of financial position and financial performance ratios, as are commonly found in lending arrangement with financial institutions. If the Group were to breach the covenants or in any case of an event of default, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 27(b). At 31 December 2016 and 2015, the Group was in compliance with the relevant requirements.

### 21 NON-CURRENT INTEREST-BEARING BORROWINGS

(a) The analysis of the carrying amount of non-current interest-bearing borrowings is as follows:

	2016 \$'000	2015 \$'000
Unsecured bank and other loans (note 20)	4,374,315	3,892,394
Guaranteed bonds at 6.1% due 2025 (note (b))	3,483,365	3,480,098
	<b>7,857,680</b>	7,372,492

All of the non-current interest-bearing borrowings are carried at amortised cost. None of the non-current interest-bearing borrowings is expected to be settled within one year.

(b) On 5 March 2013, a wholly-owned subsidiary of the Company issued US\$450,000,000 (approximately \$3,510,000,000) bonds with a maturity of twelve years due on 5 March 2025 (the "Guaranteed Bonds"). The Guaranteed Bonds were unconditionally and irrevocably guaranteed by the Company.

The Guaranteed Bonds were issued at 100% of the aggregate principal amount, denominated in USD and bore interest at 6.1% per annum payable semi-annually in arrears. The Guaranteed Bonds would become repayable on demand in case of an event of default.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 22 OBLIGATIONS UNDER FINANCE LEASES

At 31 December 2016, the Group had obligations under finance leases repayable as follows:

	2016		2015	
	Present value of the minimum lease payments \$'000	Total minimum lease payments \$'000	Present value of the minimum lease payments \$'000	Total minimum lease payments \$'000
Within 1 year	2,928	3,127	–	–
After 1 year but within 2 years	1,416	1,526	–	–
After 2 years but within 5 years	1,647	1,722	–	–
	<b>3,063</b>	<b>3,248</b>	–	–
	<b>5,991</b>	<b>6,375</b>	–	–
Less: total future interest expenses		(384)		–
Present value of lease obligations		<b>5,991</b>		–



## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 23 EMPLOYEE RETIREMENT BENEFITS

#### (a) Defined benefit retirement plan

A subsidiary of the Company, CTM, makes contributions to a defined benefit retirement plan, CTM Staff Provident Fund (the "Fund"). The Fund was established on 1 January 2003 to replace a staff provident fund of a previous constitution. The Fund is registered with Autoridade Monetária de Macau ("AMCM") and is under the management of Macau Life Insurance Company Limited. The members of the Fund are all the employees who were members of the original staff provident fund. No new members joined the Fund after 1 May 2002. The members are required to make contributions to the Fund at 5% of their relevant income. CTM is required to make contributions to the Fund in accordance with an independent actuary's recommendation based on periodic actuarial valuations. CTM is also obliged to make any extraordinary contributions which may be deemed necessary by Macau Life Insurance Company Limited when there are insufficient assets in the Fund to meet the liabilities of the Fund or when such insufficiency is anticipated. Upon retirement or resignation, each member is entitled to receive a lump sum payment calculated on the basis of a multiplying factor ranging from 0.6 to 2 times the final monthly salary and the number of service year that the member has served with CTM.

The independent actuarial valuation of the Fund at 31 December 2016 was prepared by Willis Towers Watson, using the projected unit credit method. The actuarial valuation indicates that CTM's obligations under the Fund is 70% (2015: 68%) covered by the plan assets held by the trustees at 31 December 2016. The Fund exposes the Group to actuarial risks, such as longevity risk, currency risk, interest rate risk, and market (investment) risk.

#### (i) The amounts recognised in the consolidated statement of financial position are as follows:

	2016 \$'000	2015 \$'000
Fair value of plan assets	261,686	250,029
Present value of plan obligation	(374,564)	(367,336)
	<b>(112,878)</b>	(117,307)

A portion of the above liability is expected to be settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The Group expects to pay \$15,534,000 (2015: \$15,534,000) in contributions to the Fund in 2017.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 23 EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

#### (a) Defined benefit retirement plan (Continued)

##### (ii) Plan assets consist of the following:

	2016 \$'000	2015 \$'000
Cash and money market	24,964	22,231
Bonds		
– Government bonds	53,708	54,640
– Corporate bonds	48,599	47,022
	102,307	101,662
Equity securities		
– Asia	10,652	–
– North America	62,421	31,711
– Europe	51,441	83,222
– Other areas	9,901	11,203
	134,415	126,136
	261,686	250,029

All of the bonds and equity securities have quoted prices in active markets.

At the end of each reporting period, a study is performed by the Fund's asset manager in which the consequences of the strategic investment policies are analysed. The strategic investment policy of the Fund can be summarised as follows:

- a strategic assets mix comprising 51% equity securities, 39% bonds and 10% other investments;
- interest rate risk is managed by duration limitation; and
- foreign currency risk is managed by allocation guideline.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 23 EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

#### (a) Defined benefit retirement plan (Continued)

##### (iii) Movements in the present value of the defined benefit obligation

	2016 \$'000	2015 \$'000
At 1 January	367,336	343,370
Benefits paid by the Fund	(16,525)	(10,857)
Employees' contributions	4,411	4,406
Current service cost	10,269	10,011
Interest cost	10,358	12,086
Remeasurements:		
– Experience adjustments	1,415	1,651
– Actuarial (gains)/losses arising from changes in financial assumptions	(2,700)	6,669
At 31 December	<b>374,564</b>	367,336

The weighted average duration of the defined benefit obligations is 7 (2015: 8) years.

##### (iv) Movements in plan assets

	2016 \$'000	2015 \$'000
At 1 January	250,029	239,641
Employer's and employees' contributions paid to the Fund	19,824	20,193
Benefits paid by the Fund	(16,525)	(10,857)
Administrative expenses	(690)	(621)
Interest income	7,256	8,703
Remeasurements	1,792	(7,030)
At 31 December	<b>261,686</b>	250,029

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 23 EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

#### (a) Defined benefit retirement plan (Continued)

(v) Amounts recognised in the consolidated income statement and consolidated statement of comprehensive income are as follows:

	2016 \$'000	2015 \$'000
Current service cost	10,269	10,011
Net interest on net defined benefit obligation	3,102	3,383
Administrative expenses	690	621
<b>Total amount recognised in profit or loss</b>	<b>14,061</b>	14,015
Actuarial (gains)/losses and total amount recognised in other comprehensive income	<b>(3,077)</b>	15,350
<b>Net defined benefit loss</b>	<b>10,984</b>	29,365

The current service cost and the net interest on net defined benefit liability are recognised in the following line items in the consolidated income statement:

	2016 \$'000	2015 \$'000
Staff costs (note 6(b))	10,269	10,011
Other operating expenses	690	621
Finance costs (note 6(a))	3,102	3,383
<b>Total</b>	<b>14,061</b>	14,015

(vi) Significant actuarial assumptions (expressed as weighted averages) and sensitivity analysis are as follows:

	2016 %	2015 %
Discount rate	3.0	2.9
Salary escalation	3.0	3.0

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 23 EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

#### (a) Defined benefit retirement plan (Continued)

##### (vi) Significant actuarial assumptions (expressed as weighted averages) and sensitivity analysis are as follows: (Continued)

The below analysis shows how the defined benefit obligation at 31 December 2016 would have increased/ (decreased) as a result of a 0.25% (2015: 0.25%) change in the significant actuarial assumptions:

	2016		2015	
	Increase of 0.25% \$'000	Decrease of 0.25% \$'000	Increase of 0.25% \$'000	Decrease of 0.25% \$'000
Discount rate	(6,621)	6,809	(7,018)	7,228
Future salary growth	6,337	(6,194)	6,756	(6,595)

The above sensitivities are generated by measuring the effect on the defined benefit retirement obligation at 31 December 2016 by revising each of the major assumptions independently (i.e. no changes in the other assumptions). Whilst the analysis does not take account of the full distribution of cash flows expected under the Fund, it does provide an approximation to the sensitivity of the assumptions shown.

#### (b) Defined contribution retirement plans

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 contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of \$30,000. Contributions to the plan vest immediately.

CTM also operates the Defined Contribution Fund which was set up under the terms of Decree Law 6/99/M and registered with AMCM. The Defined Contribution Fund is for all full time Macau employees who joined CTM after 1 May 2002. The Defined Contribution Fund is under the management of Macau Life Insurance Company Limited. The employees and CTM are each required to make contributions to the Defined Contribution Fund at 5% of the employee's relevant income. Contributions to the Defined Contribution Fund vest immediately.

Employees employed by the Group outside Hong Kong and Macau are covered by the appropriate local defined contribution schemes pursuant to the local labour rules and regulations.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 24 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

#### (a) Share option plan of an intermediate holding company

CITIC Limited, 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 Limited may invite any director, executive or employee of CITIC Limited or any of its subsidiaries to subscribe for options over CITIC Limited's shares. The Plan 2000 ended on 30 May 2010 and a new plan, CITIC Pacific Share Incentive Plan 2011, was adopted by CITIC Limited on 12 May 2011. The options granted under these plans are exercisable till the end of exercise period. No option was granted to directors or employees of the Group for their services to the Group under these plans. None of the directors or employees of the Group had options subsisting at 31 December 2016 under these plans.

#### (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 the following share options to directors, officers and employees of the Company and its subsidiaries. Each option gives the holder the right to subscribe for one ordinary share of the Company.

Date of grant	Number of share options granted	Exercise price per share	Exercise period
23 May 2007	18,720,000	\$3.26 (Note (i))	From 23 May 2007 to 22 May 2012
17 September 2009	17,912,500	\$2.10 (Note (i))	From 17 September 2010 to 16 September 2015
17 September 2009	17,912,500	\$2.10 (Note (i))	From 17 September 2011 to 16 September 2016
19 August 2011	24,227,500	\$1.54 (Note (ii))	From 19 August 2012 to 18 August 2017
19 August 2011	24,227,500	\$1.54 (Note (ii))	From 19 August 2013 to 18 August 2018
26 June 2013	81,347,000	\$2.25 (Note (i))	From 26 June 2013 to 25 June 2018
24 March 2015	43,756,250	\$2.612 (Note (iii))	From 24 March 2016 to 23 March 2021
24 March 2015	43,756,250	\$2.612 (Note (iii))	From 24 March 2017 to 23 March 2022

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 24 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

#### (b) Share option plan of the Company (Continued)

Notes:

- (i) The closing price of the Company's ordinary shares on the date of grant.
- (ii) The closing price of the Company's ordinary shares on the date of grant was \$1.48 per share.
- (iii) The closing price of the Company's ordinary shares on the date of grant was \$2.61 per share.

The share options granted on 23 May 2007, the first 50% of the share options granted on 17 September 2009 and the remaining share options granted on 17 September 2009 have expired at the close of business on 22 May 2012, 16 September 2015 and 16 September 2016 respectively.

Upon completion of the rights issue of the Company on 7 June 2013, the exercise price of the share options and the number of shares to be allotted and issued upon full exercise of the subscription rights attaching to the outstanding share options at 6 June 2013 have been adjusted (the "Adjustments") in the following manner:

	Before the Adjustments		After the Adjustments	
	Exercise price per share	Number of outstanding share options	Exercise price per share	Number of outstanding share options
Share options granted on 17 September 2009	\$2.10	19,451,000	\$1.91	21,438,072
Share options granted on 19 August 2011	\$1.54	32,332,500	\$1.40	35,635,462

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 24 EQUITY-SETTLED 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
<b>Options granted to directors:</b>				
– 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	Expired at the close of business on 16 September 2015
– on 17 September 2009	\$2.10*	3,150,000	Fully vested on 17 September 2011	Expired at the close of business on 16 September 2016
– on 19 August 2011	\$1.54 <sup>#</sup>	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 <sup>#</sup>	3,750,000	Fully vested on 19 August 2013	Expire at the close of business on 18 August 2018
– on 26 June 2013	\$2.25	11,038,000	Fully vested on the date of grant	Expire at the close of business on 25 June 2018
– on 24 March 2015	\$2.612	6,819,000	Fully vested on 24 March 2016	Expire at the close of business on 23 March 2021
– on 24 March 2015	\$2.612	6,819,000	Vesting from 24 March 2017	Expire at the close of business on 23 March 2022



## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 24 EQUITY-SETTLED 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: (Continued)

	Exercise price per share	Number of options	Vesting condition	Expiry date
<b>Options granted to officers and employees:</b>				
– 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	Expired at the close of business on 16 September 2015
– on 17 September 2009	\$2.10*	14,762,500	Fully vested on 17 September 2011	Expired at the close of business on 16 September 2016
– on 19 August 2011	\$1.54 <sup>#</sup>	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 <sup>#</sup>	20,477,500	Fully vested on 19 August 2013	Expire at the close of business on 18 August 2018
– on 26 June 2013	\$2.25	70,309,000	Fully vested on the date of grant	Expire at the close of business on 25 June 2018
– on 24 March 2015	\$2.612	36,937,250	Fully vested on 24 March 2016	Expire at the close of business on 23 March 2021
– on 24 March 2015	\$2.612	36,937,250	Vesting from 24 March 2017	Expire at the close of business on 23 March 2022
Total number of share options		271,859,500		

\* Exercise price per share has been adjusted to \$1.91 since 7 June 2013

<sup>#</sup> Exercise price per share has been adjusted to \$1.40 since 7 June 2013

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 24 EQUITY-SETTLED 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:

	2016		2015	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	\$2.35	153,118,257	\$2.00	94,478,688
Granted during the year	–	–	\$2.612	87,512,500
Exercised during the year (note 25(c))	\$2.06	(10,572,284)	\$1.97	(26,667,686)
Cancelled during the year	–	–	\$2.612	(398,000)
Lapsed during the year	\$2.57	(2,012,314)	\$2.49	(1,807,245)
Outstanding at the end of the year	\$2.37	140,533,659	\$2.35	153,118,257
Exercisable at the end of the year	\$2.26	99,033,409	\$2.01	67,388,757

During the year ended 31 December 2016, options for 10,572,284 (2015: 26,667,686) shares were exercised and options for 2,012,314 (2015: 1,807,245) shares have lapsed but no option (2015: 398,000 shares) has been cancelled. The value of vested options lapsed during the year ended 31 December 2016 was \$215,000 (2015: \$238,000) and was released directly to retained profits.

The weighted average closing price at the date of exercise of share options exercised during the year was \$3.06 (2015: \$3.24). The options outstanding at 31 December 2016 had a weighted average exercise price of \$2.37 (2015: \$2.35) and a weighted average remaining contractual life of 3.28 (2015: 3.81) years.

(iii) The total expense recognised in the consolidated income statement for the year ended 31 December 2016 in respect of the above grant of options was \$20,220,000 (2015: \$28,120,000).

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 25 CAPITAL, RESERVES AND DIVIDENDS

#### (a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

#### Company

	Note	Share capital \$'000	Capital reserve \$'000	Retained profits \$'000	Total \$'000
<b>Balance at 1 January 2015</b>		3,780,941	108,374	1,100,541	4,989,856
<b>Changes in equity for 2015:</b>					
Total comprehensive income for the year		–	–	744,002	744,002
Shares issued under share option plan	24(b)(ii)	67,624	(15,103)	–	52,521
Equity-settled share-based transactions	6(b)	–	28,120	–	28,120
Dividends approved in respect of the previous financial year	25(b)(ii)	–	–	(289,536)	(289,536)
Release upon lapse of share options	24(b)(ii)	–	(238)	238	–
Dividends approved in respect of the current financial year	25(b)(i)	–	–	(94,660)	(94,660)
<b>Balance at 31 December 2015 and 1 January 2016</b>		<b>3,848,565</b>	<b>121,153</b>	<b>1,460,585</b>	<b>5,430,303</b>
<b>Changes in equity for 2016:</b>					
Total comprehensive income for the year		–	–	857,504	857,504
Shares issued under share option plan	24(b)(ii)	28,559	(6,741)	–	21,818
Shares issued for acquisition of a subsidiary	25(c)(iii)	385,333	–	–	385,333
Equity-settled share-based transactions	6(b)	–	20,220	–	20,220
Dividends approved in respect of the previous financial year	25(b)(ii)	–	–	(328,612)	(328,612)
Release upon lapse of share options	24(b)(ii)	–	(215)	215	–
Dividends approved in respect of the current financial year	25(b)(i)	–	–	(96,648)	(96,648)
<b>Balance at 31 December 2016</b>		<b>4,262,457</b>	<b>134,417</b>	<b>1,893,044</b>	<b>6,289,918</b>

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 25 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

#### (b) Dividends

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

	2016 \$'000	2015 \$'000
Interim dividend declared and paid of HK2.85 cents (2015: HK2.80 cents) per share	96,648	94,660
Final dividend proposed after the end of the reporting period of HK10.35 cents (2015: HK9.70 cents) per share	365,829	328,087
	<b>462,477</b>	422,747

For the interim dividend in respect of the period ended 30 June 2016, there was a difference of \$70,000 between the interim dividend disclosed in 2016 interim report and the amount paid during the year ended 31 December 2016, which represented dividends attributable to shares issued upon exercise of share options before the closing date of register of members.

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

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

	2016 \$'000	2015 \$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK9.70 cents (2015: HK8.60 cents) per share	328,612	289,536

For the final dividend in respect of the year ended 31 December 2015, there was a difference of \$525,000 between the final dividend disclosed in the 2015 annual report and the amount paid during the year ended 31 December 2016, which represented dividends attributable to shares issued upon exercise of share options before the closing date of the register of members.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 25 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

#### (c) Share capital

	Note	2016		2015	
		No. of shares	Amount \$'000	No. of shares	Amount \$'000
<b>Ordinary shares, issued and fully paid:</b>					
At 1 January	(i)	<b>3,382,342,098</b>	<b>3,848,565</b>	3,355,674,412	3,780,941
Shares issued under share option plan	(ii)	<b>10,572,284</b>	<b>28,559</b>	26,667,686	67,624
Shares issued for acquisition of a subsidiary	(iii)	<b>141,666,667</b>	<b>385,333</b>	–	–
At 31 December	(i)	<b>3,534,581,049</b>	<b>4,262,457</b>	3,382,342,098	3,848,565

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Company do not have a par value.

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 2016, 10,572,284 (2015: 26,667,686) ordinary shares were issued at a weighted average exercise price of \$2.06 (2015: \$1.97) per ordinary share to share option holders who had exercised their options. These new shares issued rank pari passu with the then existing ordinary shares in issue.
- (iii) On 28 October 2016, the Company allotted 141,666,667 new shares of the Company to Perfect New Holdings Limited, a fellow subsidiary of Talisgold Limited, for the acquisition of assets through an acquisition of a subsidiary of Talisgold Limited, a fellow subsidiary of the Company (see note 26(a)).

#### (d) Capital reserve

The capital reserve represents the portion of the grant date fair value of unexercised share options granted to directors or employees of the Group 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(q)(iii).

#### (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(u).

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 25 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

#### (f) Distributability of reserves

At 31 December 2016, the aggregate amount of reserves available for distribution to equity shareholders of the Company, as calculated under the provisions of Part 6 of the Hong Kong Companies Ordinance, was \$1,893,044,000 (2015: \$1,460,585,000). After the end of the reporting period, the directors proposed a final dividend of HK10.35 cents (2015: HK9.70 cents) per share, amounting to \$365,829,000 (2015: \$328,087,000). This dividend has not been recognised as a liability at the end of the reporting period.

#### (g) 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. The Group's gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as total debt (which includes bank and other loans, interest-bearing borrowings, and obligations under finance leases), less cash and bank deposits. Total capital is total equity attributable to equity shareholders, as shown in the consolidated statement of financial position, plus net debt.

The Group's net gearing ratios at 31 December 2016 and 2015 are as follows:

	2016 \$'000	2015 \$'000
Bank and other loans	43,739	100,000
Interest-bearing borrowings	7,857,680	7,372,492
Obligations under finance leases	5,991	–
Total debt	7,907,410	7,472,492
Less: cash and bank deposits	(1,459,050)	(1,222,979)
<b>Net debt</b>	<b>6,448,360</b>	6,249,513
Total equity attributable to equity shareholders of the Company	7,870,504	7,029,387
<b>Total capital</b>	<b>14,318,864</b>	13,278,900
<b>Net gearing ratio</b>	<b>45%</b>	47%

Neither the Company nor any of its subsidiaries are subject to any externally imposed capital requirements.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 26 ACQUISITIONS OF SUBSIDIARIES

#### (a) Acquisition of assets through acquisition of a subsidiary

On 16 August 2016, the Company as the purchaser entered into an agreement (the "Agreement") with Talisgold Limited as the vendor, a fellow subsidiary of the Company, to acquire the entire share capital of its wholly-owned subsidiary, namely Neostar Investment Limited ("Neostar"), and all outstanding loan owing by Neostar to Eltonford Limited, a fellow subsidiary of the Company, at the date of completion of the aforesaid acquisition at the consideration of \$850,000,000 (the consideration is subject to adjustment as defined in the Agreement) (the "Neostar Acquisition"). The adjusted consideration was \$813,181,000, of which, \$427,848,000 was paid by the Company to Talisgold Limited in cash and \$385,333,000 was satisfied by the issue of 141,666,667 new shares of the Company to Perfect New Holdings Limited, a fellow subsidiary of Talisgold Limited, which was nominated by Talisgold Limited to take up the new shares issued by the Company. Considering the cash acquired from Neostar Acquisition, the net outflow of cash and cash equivalents in respect of this acquisition was \$426,823,000. All the conditions of the Neostar Acquisition were fulfilled and the completion of the Neostar Acquisition took place on 28 October 2016. Upon completion, the Company holds a 100% equity interest in Neostar, which became a wholly-owned subsidiary of the Company.

Neostar is principally engaged in property holding in Hong Kong and up to the date of acquisition, Neostar has not carried out any significant business transaction except for holding certain properties in Hong Kong. The Neostar Acquisition has been accounted for by the Group as acquisition of assets.

The fair value of the net assets acquired at the date of acquisition amounted to \$813,181,000, of which, the fair values of the investment property and other property, plant and equipment amounted to \$762,233,000 were based on the valuation carried out by an independent firm of surveyors, Centaline Surveyors Limited, who have among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued.

The acquisition of Neostar had the following effect on the Group's assets and liabilities:

	<b>Fair value \$'000</b>
Investment property	<b>635,328</b>
Other property, plant and equipment	<b>126,905</b>
Trade and other receivables and deposits	<b>8,166</b>
Cash and cash equivalents	<b>1,025</b>
Trade and other payables	<b>(6,344)</b>
Deferred tax assets	<b>48,101</b>
<b>Net assets acquired</b>	<b>813,181</b>
<b>Satisfied by:</b>	
Consideration paid (note 30(a)(ii))	<b>813,181</b>
Total consideration	<b>813,181</b>
Issue of shares	<b>(385,333)</b>
Cash and cash equivalents acquired	<b>(1,025)</b>
<b>Net outflow of cash and cash equivalents in respect of the Neostar Acquisition (note (c))</b>	<b>426,823</b>

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 26 ACQUISITIONS OF SUBSIDIARIES (CONTINUED)

#### (b) Acquisition of subsidiaries

On 12 October 2016, CITIC Consultancy 1616 Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Declout Limited, Eradite International Pte. Ltd. and Marcus Cheng Mun Yip to acquire their entire equity interests in Acclivis Technologies and Solutions Pte. Ltd. ("Acclivis") for a total cash consideration of SG\$75,000,000 (approximately \$418,170,000), subject to adjustments as set out in the relevant sale and purchase agreement (together referred to as the "Acclivis Acquisition"). The adjustments were subject to confirmation by reference to the completion accounts to be prepared in accordance with the relevant sale and purchase agreement, the performance of Acclivis and its subsidiaries (collectively referred to as the "Acclivis Group") and the various adjustments stated in the relevant sale and purchase agreement. All the conditions of the Acclivis Acquisition were fulfilled and the completion of the Acclivis Acquisition took place on 22 November 2016. Upon completion, the Acclivis Group became subsidiaries of the Company.

- (i) For the year ended 31 December 2016, the Acclivis Group contributed turnover of \$79,384,000 and profit of \$6,014,000 to the Group's results. The effect on turnover and profit of the Acclivis Group as if the acquisition had occurred at the beginning of the year ended 31 December 2016 to the Group were \$327,669,000 and \$29,012,000 respectively.

These amounts have been calculated using the Group's accounting policies and by adjusting the results of the relevant subsidiaries to reflect any additional depreciation and amortisation that would have been charged assuming the fair value adjustments to other property, plant and equipment and intangible assets had been applied from 1 January 2016 together with the consequential tax effects.

#### (ii) The acquisition of Acclivis Group had the following effect on the Group's assets and liabilities:

	Fair value \$'000
Other property, plant and equipment	22,584
Intangible assets (note 12 and note (b)(iii))	43,707
Non-current other receivables and deposits	14,257
Inventories	7,856
Trade and other receivables and deposits	115,057
Cash and cash equivalents	18,103
Pledged deposits	843
Trade and other payables	(65,112)
Current tax payable	(3,454)
Bank and other loans	(66,167)
Obligations under finance leases	(3,610)
Other non-current liabilities	(553)
Net deferred tax liabilities	(1,122)
Net identifiable assets and liabilities	82,389
Goodwill on the Acclivis Acquisition (note 13 and note (b)(iv))	335,781
	<b>418,170</b>
<b>Satisfied by:</b>	
Cash consideration paid/payable	418,170
Total cash consideration	418,170
Cash consideration payable	(144,944)
Cash and cash equivalents acquired	(18,103)
Net outflow of cash and cash equivalents in respect of the Acclivis Acquisition (note (c))	<b>255,123</b>



## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 26 ACQUISITIONS OF SUBSIDIARIES (CONTINUED)

#### (b) Acquisition of subsidiaries (Continued)

##### (iii) Measurement of fair values

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Assets acquired	Valuation technique
Other property, plant and equipment	<i>Replacement cost method:</i> Replacement cost method considers the replacement cost which reflects adjustment for physical deterioration as well as functional and economic obsolescence.
Intangible assets – Trade names/trademarks	<i>Relief from royalty method:</i> The relief from royalty method considers the notional sale of the trademarks with continued use through a royalty or licensing agreement with arm's-length third parties.
Intangible assets – Customer relationships	<i>Multi-period excess earnings method:</i> The multi-period excess earnings method considers the present value of net cash flows expected to be generated by the customer relationships, by excluding any cash flows related to contributory assets.

If new information obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date identifies adjustments to the above amounts, or any adjustments to be made according to the relevant sale and purchase agreement, then the acquisition accounting will be revised.

- (iv) The goodwill is attributable mainly to the skills and technical talent of Acclivis Group's work force, and the synergies expected to be achieved from integrating Acclivis Group into the Group's existing telecommunications business. None of the goodwill is expected to be deductible for tax purposes.

#### (c) Payment for the acquisitions of subsidiaries (net of cash and cash equivalents acquired):

	2016 \$'000	2015 \$'000
Neostar Acquisition (note (a))	426,823	–
Acclivis Acquisition (note (b)(ii))	255,123	–
	<b>681,946</b>	–

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

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. Trade debtors are due within 7 to 180 days from the date of billing. Impairment losses are recorded for those overdue balances where there is objective evidence of impairment.

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.

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:

	2016	2015
	%	%
Due from the Group's largest customer	34.4	27.4
Due from the Group's five largest customers	43.9	39.3

Other than those disclosed in note 29, the Group does not provide any financial guarantees which would expose the Group to credit risk.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

#### (b) Liquidity risk

Individual business units within the Group are responsible for their own cash management, including the short term investment of cash surpluses. The raising of loans to cover their expected cash demands, must be approved by the finance committee or the board of directors of the Company. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, 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 following table shows the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which is based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

	2016						2015					
	Contractual undiscounted cash outflow						Contractual undiscounted cash outflow					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total contractual undiscounted cash flow	Carrying amount at 31 December	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total contractual undiscounted cash flow	Carrying amount at 31 December
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Trade and other payables	1,718,038	-	-	-	1,718,038	1,718,038	1,767,454	-	-	-	1,767,454	1,767,454
Bank and other loans	45,057	-	-	-	45,057	43,739	100,103	-	-	-	100,103	100,000
Finance lease liabilities	3,127	1,526	1,722	-	6,375	5,991	-	-	-	-	-	-
Non-current interest-bearing borrowings	236,868	618,181	4,912,041	4,259,385	10,026,475	7,857,680	229,333	803,184	4,148,255	4,473,495	9,654,267	7,372,492
	2,003,090	619,707	4,913,763	4,259,385	11,795,945	9,625,448	2,096,890	803,184	4,148,255	4,473,495	11,521,824	9,239,946

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (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 and total debt which are interest-bearing at fixed or 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 interest-earning financial assets and interest-bearing financial liabilities at the end of the reporting period:

	2016		2015	
	Effective interest rate %	\$'000	Effective interest rate %	\$'000
<b>Fixed rate borrowings:</b>				
Guaranteed bonds	6.10	3,483,365	6.10	3,480,098
Finance lease liabilities	4.26	5,991	–	–
Bank and other loans	3.15	7,601	–	–
		<b>3,496,957</b>		3,480,098
<b>Variable rate borrowings:</b>				
Bank and other loans	2.39	4,410,453	2.49	3,992,394
<b>Total debt</b>		<b>7,907,410</b>		7,472,492
Cash and bank deposits	0.72	(1,459,050)	0.58	(1,222,979)
<b>Net debt</b>		<b>6,448,360</b>		6,249,513

#### (ii) Sensitivity analysis

At 31 December 2016, it is estimated that interest rates will not decrease and a general increase of 50 (2015: 50) basis points in interest rates, with all other variables held constant, would have decreased the Group's profit for the year and retained profits by approximately \$14,711,000 (2015: \$13,847,000). Other components of consolidated equity would not be affected (2015: \$Nil) by the changes in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit for the year and retained profits that would arise assuming that the change in interest rates had occurred at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit for the year and retained profits is estimated as an annualised impact on interest income and expenses of such a change in interest rates. The analysis is performed on the same basis for 2015.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

#### (d) Currency risk

- (i) The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate.

Certain operating companies of the Group have certain transactions in USD and the telecommunications services provided by these companies to their 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 current assets, current liabilities and transactions are mainly denominated in USD, MOP, HKD or RMB.

#### (ii) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period 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 end of the reporting period. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

	<b>2016</b>	2015
	<b>RMB</b>	RMB
	<b>\$'000</b>	\$'000
Trade and other receivables and deposits	<b>114,063</b>	44,800
Cash and bank deposits	<b>162,674</b>	194,905
Trade and other payables	<b>(19,474)</b>	(99,595)
	<b>257,263</b>	140,110

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (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 end of the reporting period. In this respect, as the HKD is linked to the USD and the MOP is pegged to the HKD, the Group is not exposed to significant currency risks arising from USD and MOP denominated balances and transactions. Other components of consolidated equity would not be affected (2015: \$Nil) by the changes in the foreign exchange rates.

	2016		2015	
	Increase/ (decrease) in foreign exchange rates	Effect on profit for the year and retained profits \$'000	Increase/ (decrease) in foreign exchange rates	Effect on profit for the year and retained profits \$'000
RMB	5%	12,083	5%	7,458

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 end of the reporting period 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 end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies 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 2015.

#### (e) Fair values

No disclosure of fair value is required as all of the Group's financial instruments are carried at amounts not materially different from their fair values at 31 December 2016 and 2015.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 28 COMMITMENTS

#### (a) Capital commitments

Capital commitments outstanding at the end of the reporting period not provided for in the financial statements were as follows:

	2016 \$'000	2015 \$'000
Contracted for		
– Capital expenditure	46,888	110,270
– For an acquisition (note)	171,539	–
	<b>218,427</b>	110,270
Authorised but not contracted for		
– Capital expenditure	40,024	91,783

Note: Included in capital commitments is the consideration for the acquisition of the entire equity interest in Linx Telecommunications B.V.. On 28 April 2016, the Group, through CITIC Telecom International CPC Limited and its subsidiary, which are wholly-owned subsidiaries of the Company, entered into a share sale and purchase agreement with Linx Telecommunications Holding B.V., pursuant to which the Group will, upon satisfaction of certain conditions set out therein, acquire the entire equity interest in Linx Telecommunications B.V. at a cash consideration of EUR21,000,000 (equivalent to approximately \$171,539,000) (the cash consideration is subject to confirmation and adjustments by reference to the completion accounts to be prepared in accordance with the share sale and purchase agreement).

All the conditions of the acquisition were fulfilled and the completion of the acquisition took place on 1 February 2017 whereby Linx Telecommunications B.V. became a subsidiary of the Group. The final consideration will be adjusted based on the completion accounts when available.

#### (b) Commitments under operating leases

At 31 December 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2016 \$'000	2015 \$'000
<b>Land and buildings</b>		
Within 1 year	104,225	62,753
After 1 year but within 5 years	105,075	75,812
Over 5 years	8,085	–
	<b>217,385</b>	138,565
<b>Leased circuits</b>		
Within 1 year	144,489	95,563
After 1 year but within 5 years	3,355	11,732
	<b>147,844</b>	107,295

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.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 29 PERFORMANCE BONDS AND GUARANTEES

- (a) At 31 December 2016, performance bonds provided to the Macau Government and other customers for which no provision has been made in the consolidated financial statements amounted to \$90,034,000 (2015: \$81,952,000). At 31 December 2016, the directors do not consider it probable that a claim will be made against the Group under any of the performance bonds. The maximum liability of the Group at the end of the reporting period is the total amount guaranteed by the performance bonds of \$90,034,000 (2015: \$81,952,000).
- (b) At 31 December 2016, the Group issued a guarantee of \$34,366,000 (2015: \$34,366,000) to a contractor for the performance under a construction contract. At 31 December 2016, the directors do not consider it probable that a claim will be made against the Group under this guarantee. The maximum liability of the Group at the end of the reporting period is the guaranteed amount of \$34,366,000 (2015: \$34,366,000).
- (c) At 31 December 2016, guarantees of \$260,874,000 (31 December 2015: \$146,097,000) were issued by the Group to secure the bank loans drawn by a fellow subsidiary from the commercial banks under the offshore-security-onshore-loan arrangements, of which, \$152,482,000 (31 December 2015: \$146,097,000) were required to be secured by pledged deposits of \$171,324,000 (31 December 2015: \$146,097,000) (see notes 18(c) and 30(a)(vi)). At 31 December 2016, the directors do not consider it probable that a claim will be made against the Group under these guarantees. The maximum liability of the Group at the end of the reporting period is the total guaranteed amount of \$260,874,000 (31 December 2015: \$146,097,000).

### 30 MATERIAL RELATED PARTY TRANSACTIONS

#### (a) Transactions with affiliates of the Group and its holding companies

##### (i) Recurring transactions

	2016 \$'000	2015 \$'000
Management consultancy and technical services fee received/receivable from a fellow subsidiary	11,735	9,229
Telecommunications services and related expenses paid/payable to		
– a fellow subsidiary	21,572	18,712
– an associate of the ultimate holding company	7,820	8,966
Professional fees paid/payable to a controlling shareholder for the provision of internal audit and company secretarial services	4,980	4,850
Operating lease charges, building management fees, water and electricity fees, air conditioning charges and car parking spaces rental paid/payable to fellow subsidiaries	25,475	24,689
Rental income received/receivable from a fellow subsidiary	3,173	–

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 prices which the Group paid for the relevant services were fair and reasonable with reference to market price.



## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 30 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

#### (a) Transactions with affiliates of the Group and its holding companies (Continued)

##### (ii) Non-recurring transaction

	2016 \$'000	2015 \$'000
Consideration paid in respect of the acquisition of a subsidiary from a fellow subsidiary (note 26(a))	<b>813,181</b>	–

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

	2016 \$'000	2015 \$'000
Advance payment paid to the ultimate holding company for the acquisition of the remaining equity interest in a subsidiary included in:		
– Trade and other receivables and deposits	<b>69,295</b>	73,988
Amount due from/(to) a fellow subsidiary included in:		
– Trade and other receivables and deposits	<b>20,027</b>	9,447
– Trade and other payables	<b>(7,426)</b>	(10,236)

##### (iv) Commitments under operating leases payable to fellow subsidiaries

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

	2016 \$'000	2015 \$'000
Within 1 year	<b>16,248</b>	16,382
After 1 year but within 5 years	<b>12,215</b>	20,152
	<b>28,463</b>	36,534

The leases related to the fellow subsidiaries typically run for an initial period of 2 to 3 years and the related commitments are included in note 28(b).

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 30 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

#### (a) Transactions with affiliates of the Group and its holding companies (Continued)

##### (v) Assets leased out under operating leases to a fellow subsidiary

Total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2016 \$'000	2015 \$'000
Within 1 year	18,183	–
After 1 year but within 5 years	7,576	–
	<b>25,759</b>	–

The leases related to a fellow subsidiary typically runs for an initial period of 3 years and the related commitments are included in note 11(e).

##### (vi) Arrangements under funding and loan support agreement

On 25 April 2014, the Company and a fellow subsidiary of the Group entered into a funding and loan support agreement (as amended and supplemented by a first supplemental agreement dated 22 April 2015 and a second supplemental agreement dated 1 September 2016) pursuant to which the Company agreed to provide financial support of not more than RMB340,000,000 (equivalent to approximately \$380,086,000) to the fellow subsidiary if and when a shortage of funds arises in the operation of a network in the PRC. The Company entered into the offshore-security-onshore-loan arrangements with commercial banks (see note 18(c) and 29(c)) whereby loans in the total principal amount of RMB220,000,000 (equivalent to approximately \$245,938,000) were drawn by the fellow subsidiary as at 31 December 2016 (2015: RMB113,000,000 (equivalent to approximately \$134,877,000)).

In respect of the aforementioned agreement, the Group entered into the offshore-security-onshore-loan agreements, part of these were arranged with another fellow subsidiary as follows:

	2016 \$'000	2015 \$'000
Guarantees issued to a fellow subsidiary	104,413	–
Deposits pledged to a fellow subsidiary	123,254	–

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 30 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

	2016 \$'000	2015 \$'000
Interest income from bank deposits	5,801	5,066
Finance costs on interest-bearing borrowings	23,069	20,722
Fees received/receivable from the provision of telecommunications services	1,128,361	1,180,147
Fees paid/payable for network, operations and support services	(798,111)	(892,732)
Purchase of other property, plant and equipment	(7,986)	(24,997)

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 30 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

#### (b) Transactions with other government-related entities (Continued)

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

	2016 \$'000	2015 \$'000
Bank deposits	571,111	300,234
Trade debtors	656,362	567,422
Trade and other payables	(181,843)	(150,049)
Interest-bearing borrowings	(829,682)	(773,693)

The interest-bearing borrowings from state-controlled banks at 31 December 2016 bore interest at the prevailing market rates.

##### (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:

	2016 \$'000	2015 \$'000
Within 1 year	48,861	61,159

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 28(b).

#### (c) Key management personnel emoluments

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

	2016 \$'000	2015 \$'000
Short-term employee benefits	49,050	48,119
Share-based payments	5,582	8,695
Post-employment benefits	704	665
	55,336	57,479

Total emoluments are included in "staff costs" (see note 6(b)).

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 31 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2016

	Note	2016 \$'000	2015 \$'000
<b>Non-current assets</b>			
Property, plant and equipment		1,484	3,412
Investments in subsidiaries		11,155,844	11,155,844
Deferred tax assets		4,257	2,975
		<b>11,161,585</b>	11,162,231
<b>Current assets</b>			
Trade and other receivables and deposits		2,506,236	1,245,248
Cash and bank deposits		446,031	730,484
		<b>2,952,267</b>	1,975,732
<b>Current liabilities</b>			
Trade and other payables		239,305	229,743
Bank loans		–	100,000
Current tax payable		3,160	2,162
		<b>242,465</b>	331,905
<b>Net current assets</b>		<b>2,709,802</b>	1,643,827
<b>Total assets less current liabilities</b>		<b>13,871,387</b>	12,806,058
<b>Non-current liabilities</b>			
Amount due to a subsidiary		3,488,711	3,483,361
Interest-bearing borrowings		4,092,758	3,892,394
		<b>7,581,469</b>	7,375,755
<b>NET ASSETS</b>		<b>6,289,918</b>	5,430,303
<b>CAPITAL AND RESERVES</b>			
	25(a)		
Share capital		4,262,457	3,848,565
Reserves		2,027,461	1,581,738
<b>TOTAL EQUITY</b>		<b>6,289,918</b>	5,430,303

Approved and authorised for issue by the board of directors on 20 March 2017.

**Xin Yue Jiang**  
Director

**Lin Zhenhui**  
Director

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 32 NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

In addition to the event disclosed in note 28(a), after the end of the reporting period, the directors proposed a final dividend. Further details are disclosed in note 25(b)(i).

### 33 IMMEDIATE PARENT AND ULTIMATE CONTROLLING PARTY

At 31 December 2016, 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 intermediate holding company, CITIC Limited, which is incorporated and listed in Hong Kong, produces financial statements available for public use.

### 34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

	<b>Effective for accounting periods beginning on or after</b>
Amendments to HKAS 7, <i>Statement of cash flows: Disclosure initiative</i>	1 January 2017
Amendments to HKAS 12, <i>Income taxes: Recognition of deferred tax assets for unrealised losses</i>	1 January 2017
HKFRS 9, <i>Financial instruments</i>	1 January 2018
HKFRS 15, <i>Revenue from contracts with customers</i>	1 January 2018
Amendments to HKFRS 2, <i>Share-based payment: Classification and measurement of share-based payment transactions</i>	1 January 2018
HKFRS 16, <i>Leases</i>	1 January 2019

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements, except for the following.

#### **HKFRS 16 Leases**

HKFRS 16 provides comprehensive guidance for the identification of lease arrangements and their treatment by lessees and lessors. In particular, HKFRS 16 introduces a single lessee accounting model, whereby assets and liabilities are recognised for all leases, subject to limited exceptions. It replaces HKAS 17 *Leases* and the related interpretations including HK (IFRIC)-Int 4 *Determining whether an arrangement contains a lease*.

The Group does not plan to early adopt the above new standards or amendments. With respect to HKFRS 16, given the Group has not completed its assessment of their full impact on the Group, their possible impact on the consolidated financial statements has not been quantified.

# PROPERTY

## PROPERTY HELD FOR INVESTMENT

Location	Existing use	Term of lease
4 Lorry Parking Spaces on 1st Floor, 2 Lorry Parking Spaces on 2nd Floor, 1 Lorry Parking Space on 3rd Floor, Unit 2101 to 2104, 2107 and 2108 on 21st Floor and 22nd Floor, CITIC Telecom Tower, 93 Kwai Fuk Road, Kwai Chung, New Territories, Hong Kong	Lorry Parking Space and Ancillary Office	Medium
6th to 13th Floors and 15th Floor, CITIC Telecom Tower, 93 Kwai Fuk Road, Kwai Chung, New Territories, Hong Kong	Industrial	Medium

# GLOSSARY

API	Application Programming Interface
Cloud/Cloud computing	Cloud/Cloud computing is a model for enabling ubiquitous, convenient, on-demand network access to a shared pool of configurable computing resources (e.g. networks, servers, storage, applications and services etc.) that can be rapidly provisioned and released with minimal management effort or service provider interaction
FDD	Frequency-division duplexing (FDD) means that the transmitter and receiver operate at different carrier frequencies
ICT	Information and Communications Technology (ICT), 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
IDC	Internet Data Centre
IPX	IP Packet Exchange (IPX), 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 (LTE), marketed as 4G LTE, is a standard for wireless communication of high-speed data for mobile phones and data terminals
Mobile VAS	Mobile Value-Added Service (Mobile VAS) is a suite of services provided to Mobile Network Operators for non-core services
MPLS VPN	MPLS VPN is a service to provide Virtual Private Networks (VPNs) over the Multiprotocol Label Switching (MPLS) backbone
MVNE(s)	Mobile Virtual Network Enabler(s) (MVNE(s)) provides business infrastructure solutions to mobile virtual network operators (MVNOs)
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
OTT	Over-the-top (OTT) 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 centres 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
SIM	SIM means subscriber identity module, commonly referred to as "SIM card". It is mainly used for storing a mobile phone user identification data and the user's personal content (such as phonebook, SMS, etc.)



## GLOSSARY

SIMN	Single IMSI Multiple Number (SIMN) service, a Mobile VAS which allows mobile operators' subscribers to hold multiple overseas mobile phone numbers on their existing SIM cards, providing frequent travelers and mobile roamers the choice of saving roaming charges in SIMN-enabled regions
SMS	Short Message Service (SMS), 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
ViLTE	Video over LTE (ViLTE) is an extension of VoLTE, which enhances voice services with a high quality video channel
VoLTE	Voice Over LTE (VoLTE) means connection of voice call through 4G LTE network
VPN	Virtual Private Network (VPN), 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	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

## HEADQUARTERS AND REGISTERED OFFICE

25th Floor, CITIC Telecom Tower  
93 Kwai Fuk Road  
Kwai Chung  
New Territories  
Hong Kong

Tel: 2377 8888  
Fax: 2376 2063

## WEBSITE

www.citictel.com contains a description of the Company'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 REGISTRAR

Shareholders should contact our Registrar, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong at 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: 26 May 2017 to 1 June 2017 and  
7 June 2017 to 9 June 2017

Annual General Meeting: 1 June 2017, 10:30 a.m.  
JW Marriott Ballroom, Level 3  
JW Marriott Hotel Hong Kong  
Pacific Place, 88 Queensway,  
Hong Kong

Final Dividend Payable: 20 June 2017

## ANNUAL REPORT 2016

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 Registrar, 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 Registrar.

Non-shareholders who wish to receive a copy of the Annual Report 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.



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CITIC TELECOM INTERNATIONAL

A member of CITIC Group Corporation