



中信國際電訊  
CITIC TELECOM INTERNATIONAL



ANNUAL  
REPORT  
**2017**

STOCK CODE: 1883

## 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 Company's services cover international telecommunications services, providing mobile international roaming, international voice, international SMS, international data and international value-added telecommunications services, etc. to global carriers (including mobile operators, fixed line operators, virtual network operators, Internet operators and OTT operators). The Company is one of the largest telecommunications hubs in Asia Pacific, with "DataMall 自由行", the world's first mobile trading platform and SIMN as our self-developed products. The Company owns the whole CITIC Telecom Tower (with a floor area of approximately 340,000 sq. ft.) and two large-scale data centres in Hong Kong.

The Company's subsidiary, Acclivis Technologies and Solutions Pte. Ltd., is based in Singapore and its business covers peripheral countries including Thailand, Malaysia and Indonesia. It provides one-stop cross-regional enterprise ICT services including Internet access, Cloud, disaster recovery and system and network integration. It also owns the reputable Internet service brand "Pacific Internet" in Singapore and Thailand, as well as data centres and Cloud computing centres in Singapore, Thailand and Indonesia.

Through its wholly-owned subsidiary, CITIC Telecom International CPC Limited ("CPC"), the Group provides one-stop ICT solutions to multinational and business enterprises, including VPN, EPL, Internet access, Cloud computing, information security, Cloud data centre and a series of value-added services, etc. CPC is one of the most trusted partners of leading multinational and business enterprises in the Asia-Pacific region. CPC has gained a foothold in the Mainland China market through its subsidiary, China Enterprise ICT Solutions Limited ("CEC"), providing comprehensive ICT services for sizable multinational and business enterprises in Mainland China. CEC possesses various nationwide licenses in value-added telecommunications services in Mainland China, including nationwide Ethernet VPN, and has built Cloud data centres in various cities such as Beijing, Shanghai and Guangzhou.

The Group holds 99% equity interest in Companhia de Telecomunicações de Macau, S.A.R.L. ("CTM"). CTM is one of the leading integrated telecommunications services providers in Macau, and is the only full telecommunications services provider in Macau (including mobile, Internet, fixed line, data centre, enterprise ICT and international telecommunications). As a market leader, it has long provided quality telecommunications and ICT services to the residents, government and enterprises of Macau, and plays an important role in the ongoing development of Macau.

"Wisdom and Integrity Foster Prosperity" is the core value of the Group. As at the end of 2017, the Group has established branch organisations in 21 countries and regions. The number of staff reached above 2,460, with network covering more than 130 countries and regions, connecting to over 600 operators globally, and serving over 3,000 MNCs and 40,000 local enterprises. The Group has a number of ISO quality and network security accreditations, and we have been recognised as the best employer and green enterprise for years.

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, development of enterprises and a higher quality of life.

## Mission

- Rooted in Mainland China, taking Hong Kong and Macau as the base and connection, providing communications and ICT services with global coverage.
- Customer-oriented, with an acute observation of their needs, continuing to generate new value for our customers.
- Market-oriented and innovative, continuing to increase the company's competitiveness.
- With value creation as our goal, providing sustainable return for our shareholders.

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# MILESTONES 2017

## JANUARY

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- CITIC Telecom International CPC Limited ("CPC") won the "Outstanding ICT Solution Provider 2016" at "Quamnet Outstanding Enterprise Awards 2016" by Quamnet
- CPC received the Grand Award and three Product Awards from "Sing Tao Daily IT Square Editors' Choices 2016" in Hong Kong
  - Grand Award:
    - The Best Integrated ICT Services Partner
  - Three Product Awards:
    - The Best Managed Security Services Provider
    - The Best Cloud Infrastructure Service Provider
    - The Best Enterprise Cloud Datacenter Provider
- China Enterprise ICT Solutions Limited ("CEC") received "Enterprise Credit Evaluation – AAA Credit Level" under the highest level category of value-added service providers from China Association of Communications Enterprises
- CEC's SmartCLOUD™ Cloud computing solution received "2016 Product of the Year (Cloud Computing Solution)" award from Internet Weekly

## FEBRUARY

2

- Launched YouCLink for an integrated trading and distribution enterprise operating in Asia
- CPC announced it has finalised the acquisition of CITIC Telecom CPC Netherlands B.V. (formerly known as Linx Telecommunications B.V.), following completion of all regulatory clearances

## MARCH

3

- Companhia de Telecomunicações de Macau, S.A.R.L. ("CTM") officially launched "Macau Good Hands" – a one-stop e-commerce platform combining the features of big data, search engine and electronic payment
- CTM showcased an array of network technologies as well as various achievements and application services, including the deployment of carrier aggregation technology; applications for "e-educations"; "e-health"; "e-commerce platform"; "Macau Good Hands"; "Smart Home", etc.

## APRIL

4

- Launched the brand "ChinaOne" with "Local or IDD Talk Prepaid SIM Card" in Hong Kong
- Extended "DataMall自由行" coverage to Singapore and Thailand
- CEC received the "Most Influential Enterprise of the Year in Cloud Computing" award from the Organizing Committee of China Financial Transaction Technology Conference at Financial Trading Tech Conference 2017
- With its DataHOUSE™ cloud data centre solutions, CEC won "The Best Cloud Data Center of the Year" award at the "World Hosting Day"
- CEC received "Partner of the Year Award" from CIO Association of Zhongshan which is a recognition of its effort in providing the best solutions over the years and the contribution to boost the IT development of the local enterprises
- CTM launched the world's first VoLTE / ViLTE IDD services with telecoms operator, further affirmed its leading position in Macau as well as overseas
- CTM launched a new prepaid card "Social Card", focusing on local unlimited data with speed control and intra-network voice for domestic workers, labour, students and the elderly market
- Acclivis Technologies and Solutions Pte. Ltd. ("Acclivis") officially launched the Equinix-Acclivis Business Resiliency Centre (EABRC), a purpose build Disaster Recovery (DR) facility for enterprise market in Singapore

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4



# MILESTONES 2017

## MAY

5

- CPC became the first Infrastructure-as-a-Service (IaaS) provider in Hong Kong to receive "ISO 27017 Code of Practice for Information Security Controls for Cloud Services"
- CEC received "Good Faith Demonstration Enterprise of Guangdong Province (2012–2016 five consecutive years)" awarded from Guangdong Provincial Enterprise Confederation and Guangdong Provincial Association of Entrepreneurs as a recognition on delivering the quality and trustable products and services to the local enterprises
- CTM was the pioneer to launch the 3 Carrier Aggregation technology in Macau, leading the Macau mobile market development by enhancing the speed of LTE up to 300Mbps
- CTM launched the free CTM Wi-Fi hotspots for Macau Social housing, providing supports to the disadvantaged

## JUNE

6

- Extended "DataMall自由行" coverage to Korea
- Awarded the "Most Trusted Service Partner Award" from a China operator
- CPC won "Best Full-Service ICT Solutions Company – Hong Kong" at "2017 Business Excellence Awards" by Acquisition International
- CPC and CEC received "The Distinguished Salesperson Award (DSA)" from Hong Kong Management Association. CPC has won the award for the 14th consecutive year
- Won "Customer Relationship Excellence (CRE) Award 2016" winning categories from Asia Pacific Customer Service Consortium:
  - CPC
    - Customer Service Manager of the Year (Network Communications – Technical Centre)
  - CEC
    - Customer Service Professional of the Year (Network Communications – Technical Centre)
    - Customer Service Team Leader of the Year (Network Communications – Contact Centre)

- CPC won the 1st Grand Award "Technology Company of the Year – Mature", and the Product Award "Managed Security Services Provider" for the 6th consecutive year at the "Computerworld Hong Kong Awards 2017" by Computerworld Hong Kong
- CPC won "The Distinguished Cloud Computing Solutions" and "The Distinguished Information Security Services" awards at "The Distinguished SME Partners Award 2017" by Hong Kong Economic Journal and PR Asia
- CTM launched "The Greater China Data Sharing Plan" to further cover Taiwan region, completed the sharing data coverage of Greater China
- CTM launched the Taipa Free Wi-Fi service with Direcção dos Serviços de Economia (DSE) to cope with the Government direction on stimulating e-Commerce development and the image of Digital Macau
- Acclivis was awarded "Marketing Excellence Award (Asia Pacific)" by Equinix for exceptional marketing initiatives in Southeast Asia for 2016
- Pacific Internet (S) Pte. Ltd. ("Pacific Internet") launched Pacific – Equinix Cloud Exchange (PacEX) to facilitate enterprise customers' connection to the public cloud located in Equinix from three Southeast Asian markets

## JULY

7

- Extended "DataMall自由行" coverage to Indonesia
- Launched YouCLink "Portable fixed line" product
- Cooperated with a mobile operator in China to launch "Auto Roaming Systems" and extended coverage to Taiwan
- CTM launched the 40GB 4G+ Unlimited Data Plan to meet customers' needs with higher data usage consumption

## AUGUST

8

- Cooperated with a mobile operator in China to launch Phase 1 service of "Auto Roaming System" which covers 9 countries, including Australia and Southeast Asian countries
- CTM launched "Telecom Facilities Aid Scheme" for the needy residents and SMEs after typhoon "Hato" swept across Macau which provides repair services for damaged telecom equipments free of charge
- Pacific Internet officially launched Global SD-WAN (software-defined networking in a wide area network) to enterprise in the Southeast Asian markets





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Annual Report 2017

# MILESTONES 2017

## SEPTEMBER 9

- Cooperated with a mobile operator in China to launch Phase 2 service of "Auto Roaming System" which covers 12 countries/area including Macau and European countries
- CPC won "Cloud Excellence Award 2017" from Computerworld Hong Kong. Winning categories:
  - Grand Award – Cloud Company of the Year
  - Best Cloud Project – Backup and Disaster Recovery Project (joint project with a customer)
  - Best Infrastructure-as-a-Service

## NOVEMBER 11

- Extended "DataMall自由行" coverage to Malaysia
- CPC received the awards "Best SMB Cloud Services" and "Best Data Center Services Provider – SMB market" of the "SMBWorld Awards 2017" from SMBWorld
- CEC received "The Most Innovative Enterprise of the Year" by "The Global Outstanding Achievement Award of 2017" from Global Future Technology Conference Council and iiMedia Research as a recognition on its continuous effort to deliver innovative ICT products and services

## OCTOBER 10

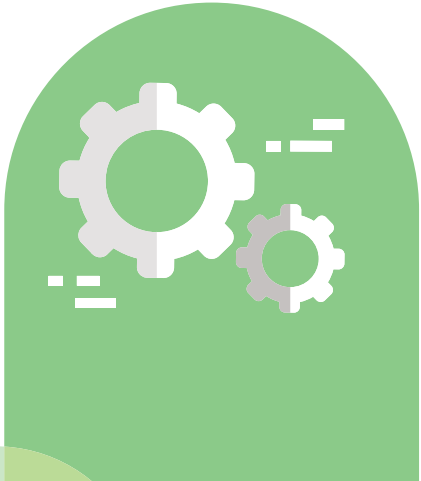
- 10th Listing Anniversary Cocktail held to celebrate the achievements in the past decade
- Extended the service of "DataMall自由行" for more end-users with another operator in China
- CPC won "Best Cloud Services Provider" of the "Readers' Choice Product Excellence Awards 2017" by NetworkWorld Asia
- CPC won the "Best Enterprise Service – Gold" of the "2017 CAHK STAR Award" organised by Communications Association of Hong Kong
- CEC was awarded the "Leading ICT Services for Fintech Industry" during Inaugural Global Fintech & Blockchain China Summit 2017
- Published a research report on the comparative performances of optical fibre networks of network providers in Macau and neighbouring regions – CTM ranked the best or second best for all criteria of testing, reflecting sound performance
- CTM provided IaaS and DDoS protection service to 2017 Macau Grand Prix Event again

## DECEMBER 12

- CEC was ranked in the list of "2017 CLOUD 500" as "2017 Public Cloud Services Provider" by Business Partner Consulting
- CEC was awarded the "2017 Best Cloud Platform for Automotive Industry" and the "2017 Best Cloud Platform for Retail Industry" from China Internet Weekly and Chinese Academy of Social Sciences Information Research Center
- CEC was awarded the "China Communications Industry Leading ICT Service Provider of the Year" from Communications Weekly and China Center for Information Industry Department during the China Communications Industry Conference 2017 and The 12th Annual Conference of China Communications Technology
- CEC was awarded the "2017 Best Services in China IDC industry" and "2017 Best Cloud Service Provider in China IDC industry" from China IDCquan.com during the 12th China IDC Industry Annual Ceremony
- CTM cooperated with the mainstream telecoms operators in Mainland China and Hong Kong to launch the "Greater Bay Area Service Plan", where customers could share the usage of mobile data, voice and SMS within the region
- CTM launched a new "Entertainment package service" in collaboration with Television Broadcasts Limited ("TVB") from Hong Kong, in which CTM's customers can enjoy various TV services through OTT (Over The Top) box or "TVB Anywhere" Mobile APP
- Acclivis was awarded "APAC Top 25 Cloud Solutions Company – 2017" by CIO Advisor
- Acclivis was awarded "Top IBM Partner for Storage Systems for 2016 Achievement"
- Pacific Internet was awarded "Asia Pacific Top 10 Network Service Provider" by Industry Era



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5G TECHNOLOGIES

CLOUD COMPUTING

BIG DATA

SDN

OTT TV

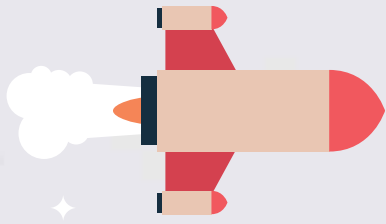
Fintech

DRaaS

DCI

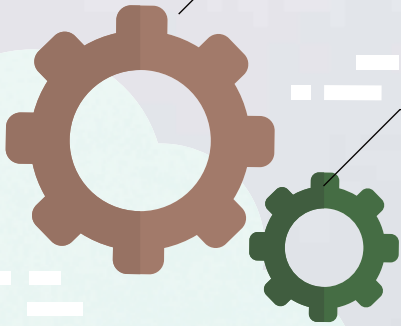
CPaaS





ARTIFICIAL INTELLIGENCE

IOT



# NEW DEVELOPMENT NEW TECHNOLOGY

# NEW DATA CENTRE

CITIC Telecom International Holdings Limited



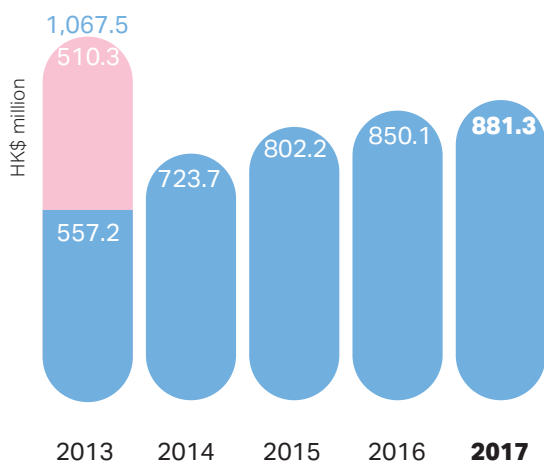




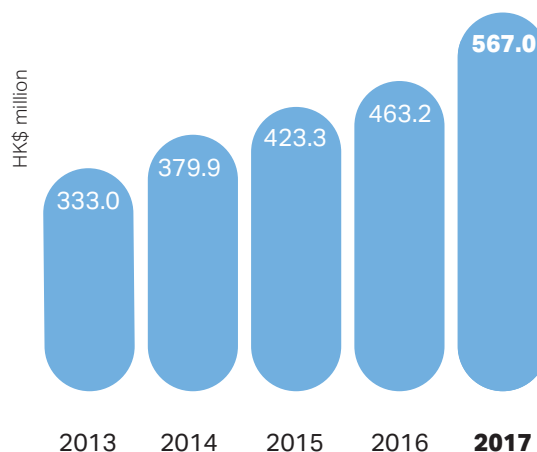
# FINANCIAL HIGHLIGHTS

- Profit attributable to equity shareholders of the Company for the year 2017 amounted to HK\$881.3 million, a year-on-year increase of 3.7%.
- Dividends per share for the year 2017 totaled HK16.00 cents, a year-on-year increase of 21.2%.
- The Group's net debt as at 31 December 2017 was HK\$6,192.8 million, a decrease of 4.0% when compared to last year.

Profit Attributable to Equity Shareholders of the Company



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



- 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.

Note: The dividends payable to equity shareholders of the Company for the year ended 31 December 2017 includes final dividend payable based on the number of shares in issue as at 31 December 2017 which may differ from the number of shares at the closing date of the register of members.

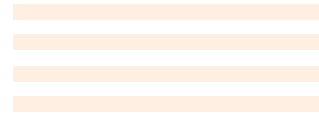
# FINANCIAL HIGHLIGHTS

In HK\$ million	2017	2016	
Revenue			
Fees from the provision of telecommunications services	<b>6,340.6</b>	6,005.8	Increase 5.6%
Sale of equipment and mobile handsets	<b>1,110.2</b>	1,693.3	Decrease 34.4%
	<b>7,450.8</b>	7,699.1	Decrease 3.2%
Profit attributable to equity shareholders of the Company	<b>881.3</b>	850.1	Increase 3.7%
EBITDA <sup>#</sup>	<b>2,067.3</b>	2,004.3	Increase 3.1%
Earnings per share (HK cents)			
Basic	<b>24.9</b>	24.9	Same level as last year
Diluted	<b>24.8</b>	24.7	Increase 0.4%
Dividends per share (HK cents)			
Interim dividend	<b>3.00</b>	2.85	Increase 5.3%
Final dividend	<b>13.00</b>	10.35	Increase 25.6%
	<b>16.00</b>	13.20	Increase 21.2%
Total assets	<b>18,584.2</b>	18,182.9	Increase 2.2%
Total equity attributable to equity shareholders of the Company	<b>8,396.4</b>	7,870.5	Increase 6.7%
Total bank and other borrowings	<b>7,825.1</b>	7,901.4	Decrease 1.0%
Obligations under finance leases	<b>3.3</b>	6.0	Decrease 45.0%
Total debt	<b>7,828.4</b>	7,907.4	Decrease 1.0%
Less: Cash and bank deposits	<b>(1,635.6)</b>	(1,459.1)	Increase 12.1%
Net debt	<b>6,192.8</b>	6,448.3	Decrease 4.0%
Net gearing ratio <sup>*</sup>	<b>42%</b>	45%	Decrease 3.0%

<sup>#</sup> EBITDA represents earnings before interest, taxes, depreciation and amortisation.

<sup>\*</sup> 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

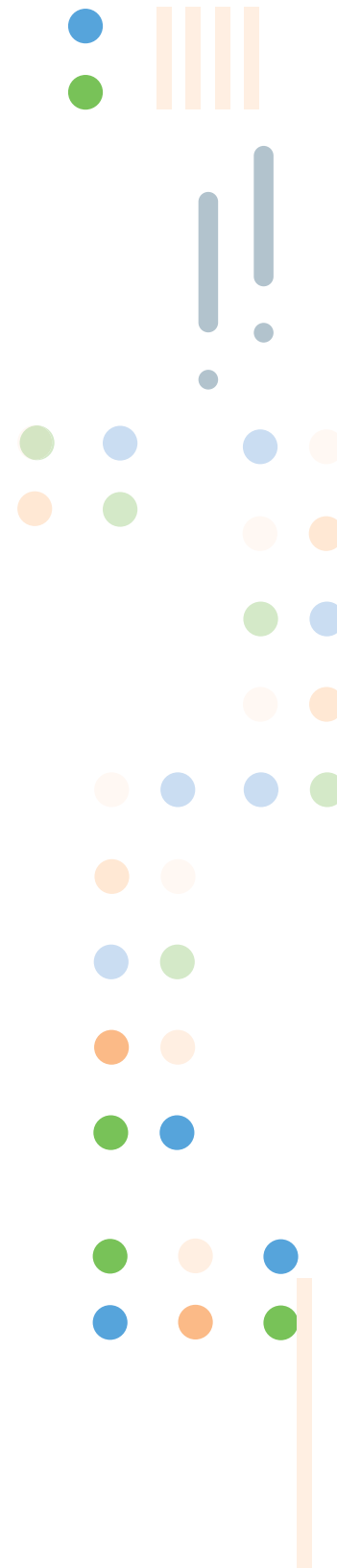
# CHAIRMAN'S STATEMENT



## Dear Shareholders,

As we bid farewell to 2017 and welcome 2018, let us give a special mention of the remarkable events that took place in what proves to be an extraordinary year for CITIC Telecom International Holdings Limited (the "Group").

Year 2017 marked the 10th anniversary of the Group's listing in Hong Kong. In the last ten years, the Group has achieved remarkable growth in many aspects. Comparing year 2017 with year 2007, the Group's revenue has increased by 4.0 times, profit attributable to equity shareholders has increased by 2.4 times. Dividend distributions have been maintained at a stable growth over the past ten years. An array of celebratory activities were held in connection with the 10th anniversary of the Group's listing. The highlight of our celebrations was the cocktail reception held on 27 October 2017, being the largest publicity event held by the Group in recent years. About 400 guests, comprising officials of the Hong Kong SAR Government and the Macau SAR Government, delegates of our substantial shareholder CITIC Group Corporation, China's big three carriers, local and overseas operators and corporate clients, investors, members of the media, and colleagues from CITIC companies in Hong Kong and financial institutions, joined us for celebrations. The warm wishes extended by our friends and associates at the party will be a great source of encouragement as we venture forward.



CITIC Telecom International Holdings Limited

Since the second quarter of 2017, the Group's subsidiary Companhia de Telecomunicações de Macau, S.A.R.L. ("CTM") has embarked on upgrading efforts on all fronts with the aim of enhancing its network quality and servicing capabilities. The 6-month initiative has resulted in notable achievements. Meanwhile, in response to customers' request, we have further adjusted the rates of selected services, a move which has been generally welcomed by the public in Macau. On 23 August 2017, Macau was battered by a devastating super typhoon rarely seen in its history. In critical hours when water and electricity supply were cut off and traffics were blocked in vast areas, CTM ensured smooth telecommunications connection during the typhoon which was crucial to rescue and relief actions, on the back of superior network technologies and contingency plans developed with continuous investments over the years and, not least, the diligent work of our colleagues who showed courage, commitment and dedication by putting public interests above their personal concerns. The calibre and strengths of a company are appreciated at turbulent times like these, as CTM was praised by expert members of the

National Committee for Disaster Reduction, who described the company as an "effective overseer of the proper functioning of telecommunications". Subsequently, we announced the implementation plan for the grand scheme of "Digital Macau" at the CTM "Digital Macau" Forum held on 17 October 2017, which received enthusiastic response from the public in Macau.

In terms of business development, the Group has made various progresses in 2017. For the mobile sales & services business, the Group strives to seize the opportunities emerging from the national strategy of the "Guangdong-Hong Kong-Macau Bay Area" while CTM has launched the "Guangdong-Hong Kong-Macau Bay Area" service plan on 6 December 2017 in collaboration with carriers in Guangdong and Hong Kong. As the first telecoms enterprise riding on the concept of the "Guangdong-Hong Kong-Macau Bay Area", CTM received support from customers and the government alike. Meanwhile, CTM's 4G roaming services cover 227 carriers around the world, ranking the first among the Bridge Alliance, an industry group formed by leading telecoms operators.

For the Internet services business, the cloud data centre in Beijing was commissioned in May 2017 upon completion of construction, increasing the number of the Group's global Cloud computing platforms to 15. Sound progress was made for the data centre conversion of CITIC Telecom Tower, Hong Kong, and the centre is expected to provide the market with new capacity this coming August. The Group's Internet market share in Macau was around 98%, and 74% of all CTM broadband customers were on fibre based packages as at the end of 2017. In December 2017, CTM partnered with Television Broadcasts Limited ("TVB") to introduce the "TVB Anywhere" service to mobile broadband customers and fixed line broadband customers in Macau. The service not only enhances the Group's advantage in broadband services, but also opens for it a new front on media advertising.

As for the enterprise solutions business, after the Group completed the acquisition of Linx Telecommunications B.V. and integrated it into CPC Europe (CITIC Telecom CPC Netherlands B.V.) during the year, the business had started to contribute revenue to the Group. In the case of the income from Macau being excluded from the Group's enterprise solutions business, the revenue would increase by 34.6% when compared with 2016 on the back of the good performance of the China market and the inclusion of the full-

# CHAIRMAN'S STATEMENT

year results of Acclivis Technologies and Solutions Pte. Ltd. and the results of CPC Europe since its acquisition. In addition, the Group continued to expand its Points-of-Presence for VPN services. The Group has further improved its advantage in global reach and is among the first batch of Asian telecoms enterprises possessing a wide range of capabilities in the "One Belt One Road" region.

In the international telecommunications services business, the A2P SMS market grew rapidly, with a revenue increase of 32.4% when compared with 2016. Revenue from "DataMall 自由行" reached HK\$69.5 million for the year, which is more than four times of the revenue for 2016 as the geographic coverage was expanded to Singapore, Malaysia, Indonesia, Thailand and Korea from Hong Kong, Macau and Taiwan. In addition to China Mobile, the "DataMall 自由行" platform forged a partnership with another carrier in Mainland China. "CloudSMS", a new Internet-based SMS service platform developed by the Group, went online during the year to drive improvements in its standards for development towards a "Communications Platform as a Service" (CPaaS).

In recent years, the Group has spent effort to adjust and upgrade its business, cement its foundation, facilitate staff development and foster strengths in preparation for the new stage of full-scale, leapfrog development. As such, I am fully confident in the future development prospects of the Group.

A more detailed review of business operations in 2017 is set out in the Annual Report. In the meantime, I am pleased to announce the annual results of CITIC Telecom International Holdings Limited for 2017 as follows.

## Annual Results

Profit attributable to equity shareholders for 2017 amounted to HK\$881.3 million, increasing by 3.7% compared to the corresponding period of the previous year.

Basic earnings per share for 2017 amounted to HK24.9 cents, which was the same as that in 2016. This was attributable to the issue of new shares in connection with the acquisition of the remaining floors of CITIC Telecom Tower in October 2016.

The Board recommended a final dividend of HK13.00 cents per share for 2017. Together with the 2017 interim dividend of HK3.00 cents per share, total dividends per share for 2017 amounted to HK16.00 cents, representing a 21.2% growth over the previous year.

The Group's total revenue amounted to HK\$7,450.8 million, representing a decline of 3.2% compared to the corresponding period of the previous year. The Group's revenue from services (excluding sale of equipment and mobile handsets) increased by 5.6% compared to the corresponding period of the previous year.


## Outlook for 2018

In 2018, the Chinese economy will continue to progress in a stable manner and enter into a new age of high quality development dominated by innovation in accordance with the philosophy of development for the new age. The international economic landscape will remain complicated, underpinned by the rise of trade protectionism and further changes in the existing international economic order. Such developments will result in uncertainties in the business environment for various industries.


The communications and Internet industries are developing at an incredible pace. Cloud computing, big data, Internet of Things, artificial intelligence (AI), mobility and blockchain are only some of the endless and overwhelming array of new technologies and models coming on stream. As the tide of technology rolls on, members of the industry must determine which of these represent opportunities and which represent challenges, or challenges that could be turned into opportunities, and we must steep ourselves in it.

At the work conference of our substantial shareholder, CITIC Group, concluded in early February 2018, the paths taken by CITIC Group in the past 39 years had been reviewed and its vision upon incorporation had been revisited: "daring to innovate and striving to contribute". For CITIC Telecom International Holdings, innovation represents a fundamental driving force for development. We have been a pioneer in China's international telecommunications business and one of the earliest operators of multinational corporate communications services in the Asia Pacific; we are also a record maker and record holder in terms of acquisitions of overseas






basic telecoms operators by Chinese companies. In recent years, we have been engaged ahead of others in acquisitions or product innovation in connection with the "One Belt One Road" and "Guangdong-Hong Kong-Macau Bay Area" initiatives.



"He who is courageous will not fear; he who is wise will not be baffled." As we embrace the opportunities afforded to us by the new era, our Group will continue to "root in the Mainland market while accelerating expansion in and geographic coverage of international markets via Hong Kong and Macau as bases and connections", as we strive to achieve the goal of "growth in strength, excellence and scale, achievement of higher standards, and delivery of top-rated results". We will enhance our implementation efforts and step up with transformation towards an Internet-based telecommunications company, by engaging new ideas, developing new products and businesses, exploring new markets and securing new customers in a bid to sustain continuous, quality growth for the Group's business.

For example, in 2018, the Group will seize market opportunities presented by national strategic initiatives such as "One Belt One Road", "Guangdong-Hong Kong-Macau Bay Area" and "Internet Plus" and technological development to speed up its transformation towards becoming an Internet-based telecommunications company, and further bolster competitiveness. In Macau, the Group will also be evolving into a Smart City operator for "Digital Macau" on the basis of its position as the city's telecoms carrier, as it identifies potential to add value in CTM's digital assets.



Business scale is crucial to the development of the Group. A telecoms enterprise can achieve vital economies of scale and sustain long-term development to reach the centenary mark and beyond with unflinching vigour only if it reaches an optimal scale. Apart from organic business growth, we will also closely monitor chances to expand in the market, seek potential opportunities for development in the international market and take timely actions on the back of our financial strengths.

In my 2018 New Year speech to the staff, I made a special note to emphasise the importance of people: "For a company to achieve sustainable development, it is paramount to have a top-notch team; and to have a top-notch team, the critical key rests on high-calibre staff." Through years of development, the Group has built a multinational corporate team deployed in 21 countries and regions worldwide, with network nodes in more than 130 countries and regions connecting over 600 carriers across the globe. We have fostered a sound culture of international team work, with colleagues from different nations and cultural backgrounds working in harmony and achieving business success in united effort. The Group will continue to build first-rate management team, engineering, technical and R&D team and business team, nurturing and recruiting high-calibre talents while bringing its reward regime in closer tandem with its strategy to provide new vigour and energy for its innovative business ventures. I believe, in doing so, we will deliver greater value to the shareholders.

Over the past year, the staff members of the Group have achieved all targets for work and secured stable improvements in operating results in a concerted effort to overcome hurdles and engage in vigorous new ventures. All these would not have been possible without the support of our shareholders, the guidance of our Board and the dedication of our global staff team, as well as the support of our business partners and stakeholders concerned with our Group's development. To them, I would like to extend my sincere gratitude and appreciation.

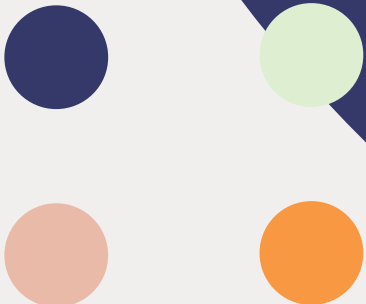
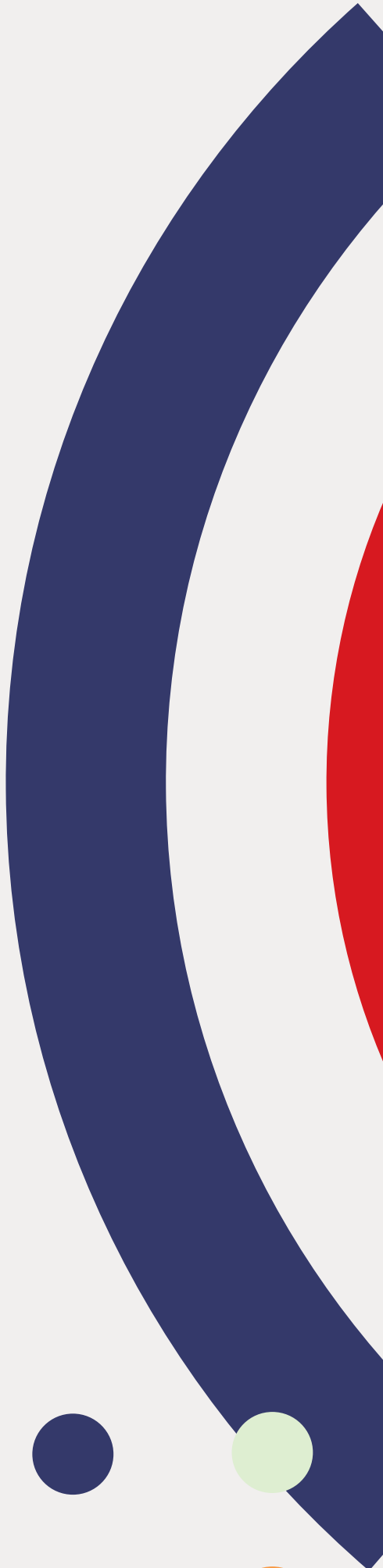
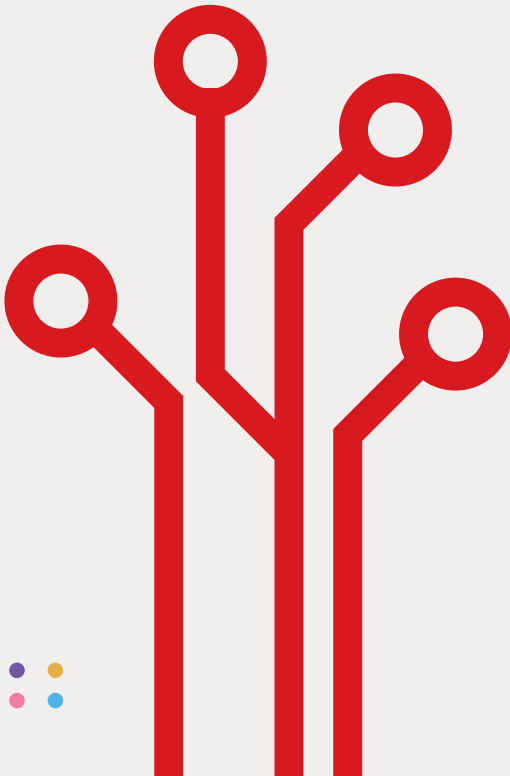
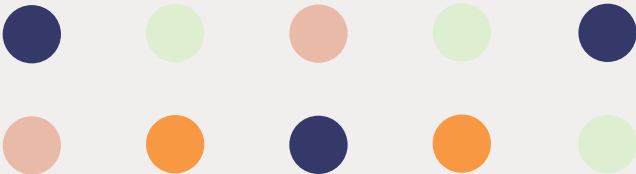
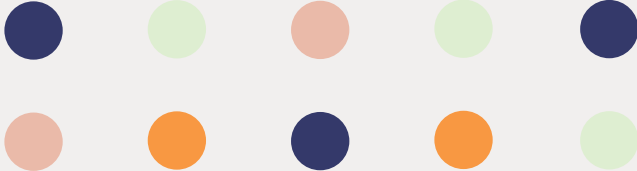
**Xin Yue Jiang**

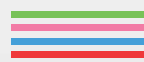
*Chairman*

Hong Kong, 1 March 2018

# NEW EXPANSION

ALONG "ONE BELT ONE ROAD"





# BUSINESS REVIEW

## MOBILE SALES AND SERVICES

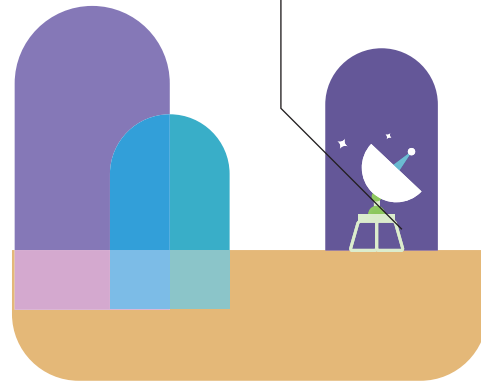


### The launch of "Guangdong-Hong Kong-Macau Bay Area Mobile Service Plan"

Following the signing of the "Framework Agreement on Deepening Guangdong-Hong Kong-Macau Cooperation in the Development of the Bay Area" by the governments of Guangdong, Hong Kong and Macau and the National Development and Reform Commission on 1 July 2017, the "Guangdong-Hong Kong-Macau Bay Area" has become an important national development strategy. The Group is well aware of the importance of inter-connected communication networks for the implementation of the "Guangdong-Hong Kong-Macau Bay Area" strategy. Our subsidiary Companhia de Telecomunicações de Macau, S.A.R.L. ("CTM") reached out to carriers in Guangdong and Hong Kong for a collaborated study on the development of relevant products and services. The telecommunications industry was the first sector responding to "Guangdong-Hong Kong-Macau Bay Area" development, as CTM became one of the first companies

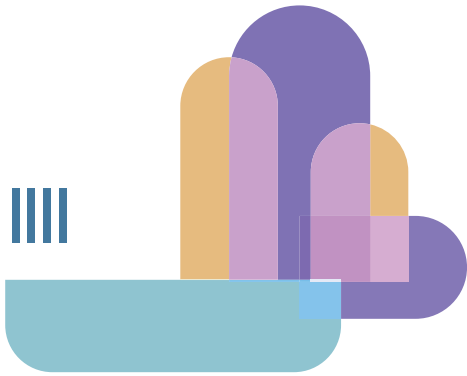
CITIC Telecom International Holdings Limited

5G Technologies



Wide Coverage





Fast Connection

Exclusive FREE CTM wi-fi available across Greater China



Go Anywhere, Anytime with Your Smartphone

- Through CTM Buddy App application more convenient
- No change of SIM
- Enjoy offer price with Bonus Points

*CTM... that little extra!*

Low Latency

to launch services for the “Guangdong-Hong Kong-Macau Bay Area” when it announced the “Guangdong-Hong Kong-Macau Bay Area Mobile Service Plan” on 6 December 2017 in association with China Mobile Hong Kong and China Mobile Guangdong to enable seamless, roam-free cross-border telecommunication via mobile services in the three areas for customers in Guangdong, Hong Kong and Macau, an initiative most welcomed by customers and strongly supported by the governments. To enhance the Group’s leading position in the high-end market, CTM has upgraded its data sharing plan for Mainland China, Hong Kong and Macau during the year to data sharing in Taiwan, allowing roam-free mobile data usage for frequent travelers in the Greater China region. As at the end of the year, CTM 4G service had a penetration rate of close to 90%, accounting for 46% of the Macau 4G market.







CITIC Telecom International Holdings Limited

### Ongoing application of advanced technologies

The Group believes that a secure and reliable network backed by advanced technologies is the cornerstone of quality services. During the year, CTM continued to upgrade its network with the latest technologies, such as carrier aggregation (CA), to enhance its network speed. Plans were also underway to adopt technologies in 5G, Internet of Things and artificial intelligence in order to provide the fastest Internet connection and download in Macau, hence putting CTM in the driving seat in the application of new mobile network technologies in Macau.

### Growth in mobile roaming business

The Group further strengthened its cooperation with major mobile carriers in Mainland China and other countries in 2017. Given robust growth in the number of cross-border travelers and the volume of roaming data usage by customers, there was substantial growth in mobile roaming-related services, resulting in stronger growth in revenue for the Group. However, mobile handset sales continued to decline, reflecting a longer replacement cycle for mobile handsets by customers.



# INTERNET SERVICES

## Substantially higher proportion of broadband services using optical fibre

With 100% FTTB (Fibre to the Building) and FTTH (Fibre to the Home) coverage in Macau and lower Internet service fee rates since late 2016, the Group encouraged customers to abandon copper wire cables in favour of optical fibre during the year, in a bid to increase the proportion of optical fibre-enabled Internet access and to mitigate the impact of lower rates by enabling customers to use Internet services with better quality and higher speed. As at the end of 2017, 74% of our broadband customers were using our optical fibre service, and the average upload and download speed of our network reached a new height. CTM maintained its position as the principal Internet service operator in Macau with a 98% market share, although revenue from Internet services in Macau for the year decreased as a result of price concessions.

CTM further extended the coverage of its WiFi broadband service, making WiFi hotspot available at major tourist spots and on buses and jetfoil fleets in a strong presence that complemented its fixed-line broadband and mobile broadband to form a seamless, dominant network.

According to research reports published by various professional institutions and independent research institutes, CTM ranks among the top carriers in Asia in terms of speed and quality of its broadband services.



100% FTTB/FTTH

Cloud



Feature information: Macau's global and regional ranking in Internet services

- In October 2017, the University of Macau published a research report on the comparative performances of optical fibre networks of network providers in Macau and neighbouring regions based on data collected from CTM, two network providers in Hong Kong and one network provider in Mainland China. CTM ranked the best or second best for all testing items, reflecting sound performance of CTM's network in terms of network coverage, speed and stability.
- Based on data released by Speedtest.net, an Internet speed test platform, Macau's broadband network ranked 7th in the world at 91.28Mbps in January 2018.
- According to the peak connection speed ranking for the 1Q 2017 published by Akamai, the world's largest content delivery system company, Macau ranked 2nd in the world at 132Mbps.
- According to the "DIGITAL IN 2018 GLOBAL OVERVIEW" published by social media administration organisations Hootsuite and We Are Social in January 2018, Macau's Internet connection speed ranked 7th among 120 countries and regions at 88.9Mbps.



Annual Report 2017

WiFi

# BUSINESS REVIEW

## “TVB Anywhere” services for broadband customers

The provision of live video broadcast and video-on-demand (VOD) services to broadband customers represents an important approach for extending the value chain of telecommunications carriers. It is also a new type of service providing a new growth niche for the carriers. In December 2017, CTM joined forces with Television Broadcasts Limited of Hong Kong (“TVB”) to provide “TVB Anywhere” television services for CTM’s mobile broadband and fixed-line broadband customers, whereby customers can watch a wide range of video contents supplied by TVB live or on demand, including Hong Kong and foreign movies, TV dramas, news and variety shows. This immensely popular service has not only strengthened the Group’s leading position in broadband services, but has also opened up a brand new frontier for the Group in the market of media advertising.

## Further expansion of data centres in terms of geographic coverage and business scale

Data centre is an essential infrastructure for Cloud computing, big data, artificial intelligence and other new developments in the Internet sector, as well as a market for the ICT business. The Group has confirmed data centre service as one of its strategic business segments.

In Hong Kong, the available racks at the CITIC Telecom Tower (CTT) data centre of the Group is close to being sold out. Following the acquisition of the remaining floors of CTT in 2016, the feasibility study and design for the extension of the CTT data centre was completed in 2017, and construction for the new phase of the data centre is scheduled for completion by the end of 2018, with new racks being available to the market by 2018.

In Macau, sound progress was reported for the capacity expansion project of CTM’s data centre with satisfactory sales.

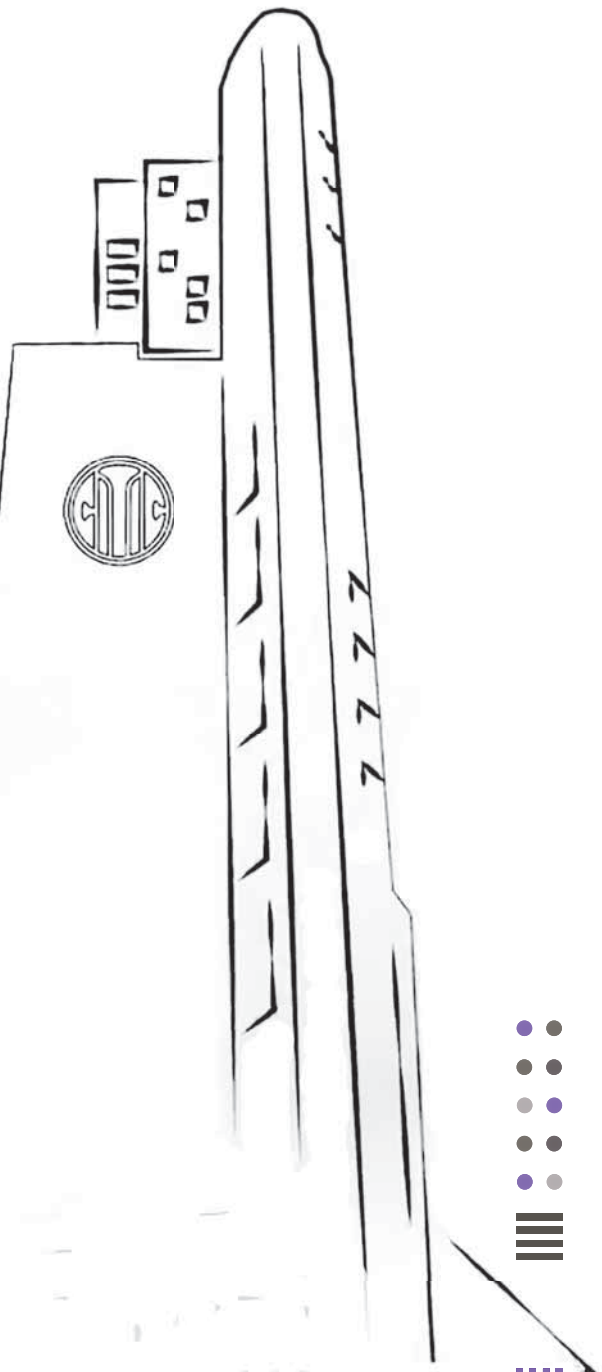
In Mainland China, the Group stepped up with its effort to enhance the strength of China Enterprise ICT Solutions Limited (“CEC”) with the construction and operation of a new Cloud computing data centre in Yizhuang, Beijing in 2017, completing a setup of 6 data centres of CEC located variously in Beijing, Shanghai and Guangzhou.

The Group has developed through CITIC Telecom International CPC Limited (“CPC”) 9 Cloud computing solutions around the world and 15 Cloud computing platforms located variously in the Greater China, Singapore, Japan, North America and Europe, enabling the Group to provide one-stop services comprising Cloud computing, information security, network and data centre.

CITIC Telecom International Holdings Limited







# INTERNATIONAL TELECOMMUNICATIONS SERVICES

## Number of "DataMall自由行" packages sold exceeded 4 million

"DataMall自由行" is a trading platform through which the Group provides Internet-based international data flow to carriers and consumers. In 2017, the "DataMall自由行" platform continued to support the extended coverage of China Mobile's "JegoTrip無憂行". In addition to Hong Kong, Macau and Taiwan, 5 popular outgoing destinations, namely, Singapore, Thailand, Indonesia, Korea and Malaysia, were added. The Group also lined up an important new partner during the year. Through strategic cooperation, we secured placement on a major Internet OTT platform in China via Internet-based API/SDK, which

CITIC Telecom International Holdings Limited

### Internet-Oriented

was welcomed by customers and vendors alike. In the year, the "DataMall自由行" platform recorded customer purchases of over 4 million packages with an increase in revenue of over 3 times that of prior year, providing a new growth niche for the Group's business. The Group is currently conducting a full upgrade to "DataMall自由行 2.0", with a view to further enhance its competitive edge and unleash its business potential.



User Friendly



Robust growth for global A2P SMS business

In tandem with the accelerating pace of global expansion of China's major Internet companies, the Group's A2P (Application to Person) SMS business reported a significant year-on-year growth, offsetting the decline in P2P (Person to Person) SMS business, resulting in a satisfactory financial contribution to the SMS business as a whole. The Group also provided SMS Firewall service to 2 major mobile carriers of Hong Kong during the year.

During the year, revenue from our traditional international voice business continued to decline. Yet, the Group continued to mitigate the decline with its capability and strength.

Annual Report 2017

Stable Connection



# ENTERPRISE SOLUTIONS



CITIC Telecom International Holdings Limited

Through its subsidiaries and business units, the Group provides specialised solutions enterprise services at global, regional and local levels to different corporate customers, in a full effort to grow and expand its corporate ICT services.

## Global enterprise solutions business extending its geographical coverage and connecting to "Digital Silk Road"

In 2017, Group subsidiary CPC completed the acquisition of CITIC Telecom CPC Netherlands B.V. (formerly known as Linx Telecommunications B.V.) and formed a consolidated group known as "CPC Europe Group", which became one of the first Asian ICT service providers to own PoPs with extensive coverage in countries along the "One Belt One Road" route, allowing CPC to gain a first-mover advantage in "Digital Silk Road" to establish a solid foundation for seizing the enormous opportunities in the high growth regions along the "One Belt One Road" route, such as Russia, Eastern Europe and Central Asia. CPC's virtual private network services – TrueCONNECT™ MPLS VPN – currently covers more than 130 countries and regions across the globe with over 130 PoPs.

In connection with products, CPC's ongoing efforts to extend its network connection services to one-stop ICT services comprising Cloud computing, information security, management services and industry solutions has won recognitions from medium- to large-scale enterprises, as evidenced by a number of exemplary cases in "Internet-Plus" and Big Data applications. In April 2017, CPC became the first Infrastructure as

a Service ("IaaS") supplier in Hong Kong to receive ISO27017 international certification in relation to cloud service security, in a further boost of its strengths in servicing and specialisation.

During the year, CPC enhanced cooperation with China's major carriers to help multinational corporations to set up their business in Mainland China with various resources support. Meanwhile, the direct marketing team made stronger efforts to assist an enormous number of Chinese enterprises in their overseas establishments. Revenue from our global enterprise solutions business for 2017 increased by more than 13%, as the segment continued to be an important growth driver for the Group.

## Enterprise solutions in Asia Pacific coming into shape to provide new growth drivers

On consolidation of the newly acquired Acclivis Technologies and Solutions Pte. Ltd. ("Acclivis") in 2017, the Group was able to augment its enterprise solutions business in the Asia Pacific by adding one-stop end-to-end enterprise solutions, comprising Internet access, data centre, management services, Cloud services and security back-up, on top of its existing voice and mobile services. A new market profile covering Southeast Asian and Asia Pacific markets such as Thailand, Malaysia and Indonesia from the hub of Singapore has been formed with significantly larger corporate customers base. The Group's enterprise solutions business in the Asia Pacific has taken shape to provide another growth driver for the Group.





During the year, Acclivis concluded strategic partnerships with a number of the world’s largest data centres and Cloud service providers and launched “EABRC” disaster-proof recovery service and “PacEX” data centre connection service to serve European and U.S. customers establishing their presence in Southeast Asia.

**CTM committed to Macau’s Smart City development**

As a large-scale technology enterprise in Macau, CTM has achieved progresses in a number of areas pertaining to the development of “Digital Macau”, such as government projects, e-commerce, smart healthcare and smart education, on the back of a strong infrastructure telecommunications network and superior corporate servicing abilities. During the year, CTM further cemented its close working relationship with corporate customers by lowering the rates for corporate lease lines. In particular, we secured a number of contracts for large-scale business solutions projects in the gaming and financial sectors, government departments and related organisations, including contracts for the supply of advanced audiovisual systems and provision of entrusted management services, as well as the “WiFi Go” service management contract with the Macau Government. “Macau Good Hands”, a one-stop e-commerce platform powered by CTM, officially commenced operation in March 2017 to provide a local e-commerce platform integrating Cloud computing, search and e-payment functions for local

companies and SMEs. In the aftermath of the typhoon, CTM launched an efficient and reliable Cloud service for SMEs in association with a well-established enterprise.

CTM has maintained close liaison with the Macau Government and its industry partners in its endeavor to become a Smart City operator for “Digital Macau”.

**FIXED LINE SERVICES**



**Slowdown in the decline for fixed line voice business**

As at the end of 2017, the number of the Group’s fixed telephone lines users in Macau decreased by approximately 5%, which represented a slowdown in decline compared to last year. Following agreements with the Macau Government, CTM lowered the IDD rates for fixed line and mobile services in December 2017. CTM remains committed to the provision of telecommunications services to the citizens of Macau at affordable prices, in fulfilment of its mission of promoting the long-term and healthy development of Macau’s telecommunications industry.

# FINANCIAL REVIEW

## OVERVIEW

Profit attributable to equity shareholders amounted to HK\$881.3 million which represented a year-on-year increase of 3.7% when compared with 2016. Basic earnings per share for the year ended 31 December 2017 was the same as last year at HK24.9 cents per share.

The Group has continued to achieve solid financial results for the year ended 31 December 2017 with a net increase in profit of 3.8% to HK\$895.7 million when compared with 2016.

The Group's revenue decreased by 3.2% from HK\$7,699.1 million for the year ended 31 December 2016 to HK\$7,450.8 million for the year ended 31 December 2017 mainly due to the slow-down in mobile handset sales. Excluding equipment and mobile handset sales, the Group's revenue for the year increased by 5.6% to HK\$6,340.6 million when compared with 2016 due to the Group's efforts in sustaining growth in mobile services, Internet services and enterprise solutions.

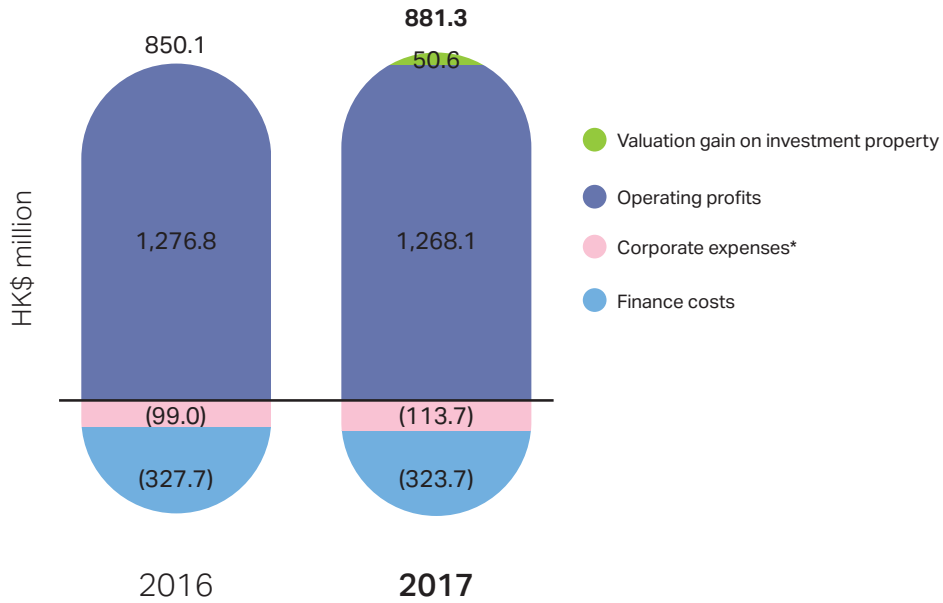
## Summary of Financial Results

In HK\$ million	Year ended 31 December			
	2017	2016	Increase/(Decrease)	
Revenue	<b>7,450.8</b>	7,699.1	(248.3)	(3.2%)
Valuation gain on investment property	<b>50.6</b>	–	50.6	N/A
Other income and net gain/(loss)	<b>54.1</b>	(10.1)	N/A	N/A
Cost of sales and services	<b>(3,852.8)</b>	(4,229.1)	(376.3)	(8.9%)
Depreciation and amortisation	<b>(695.6)</b>	(656.4)	39.2	6.0%
Staff costs	<b>(961.3)</b>	(851.0)	110.3	13.0%
Other operating expenses	<b>(658.9)</b>	(598.4)	60.5	10.1%
<b>Profit from consolidated activities</b>	<b>1,386.9</b>	1,354.1	32.8	2.4%
Share of joint venture results	<b>(2.0)</b>	1.7	N/A	N/A
Finance costs	<b>(323.7)</b>	(327.7)	(4.0)	(1.2%)
Income tax	<b>(165.5)</b>	(165.4)	0.1	0.1%
<b>Profit for the year</b>	<b>895.7</b>	862.7	33.0	3.8%
Less: Non-controlling interests	<b>(14.4)</b>	(12.6)	1.8	14.3%
<b>Profit attributable to equity shareholders of the Company</b>	<b>881.3</b>	850.1	31.2	3.7%
<b>EBITDA *</b>	<b>2,067.3</b>	2,004.3	63.0	3.1%

\* EBITDA represents earnings before interest, taxes, depreciation and amortisation.



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.

Profit attributable to equity shareholders of the Company for the year ended 31 December 2017 amounted to HK\$881.3 million, an increase of HK\$31.2 million or 3.7% when compared with 2016. During the year, exceptional item was incurred as a result of the recovery work from Typhoon-Hato which struck both Hong Kong and Macau in 2017 but was more than offset by the valuation gain on investment property.

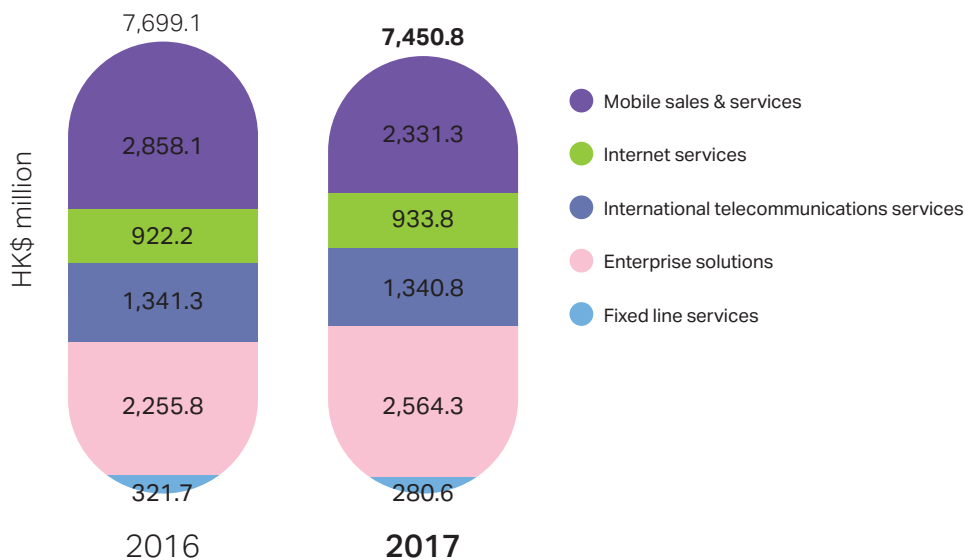
Acquisition during the year

On 1 February 2017, the Group completed the acquisition of the entire equity interest in CITIC Telecom CPC Netherlands B.V. (formerly known as Linx Telecommunications B.V.) for a final consideration of EUR22.1 million (approximately HK\$181.3 million). The financial results of CITIC Telecom CPC Netherlands B.V. and its subsidiaries (collectively referred to as "CPC Europe Group") had been consolidated into the Group's financial results subsequent to the acquisition completion. CPC Europe Group is engaged in the provision of data networks across Western Europe, Central and Eastern Europe, as well as Central Asia.

# FINANCIAL REVIEW

## Revenue by Services

The Group provides services for carriers, corporate clients and individual customers which cover five categories, including mobile sales & services, Internet services, international telecommunications services, enterprise solutions and fixed line services.

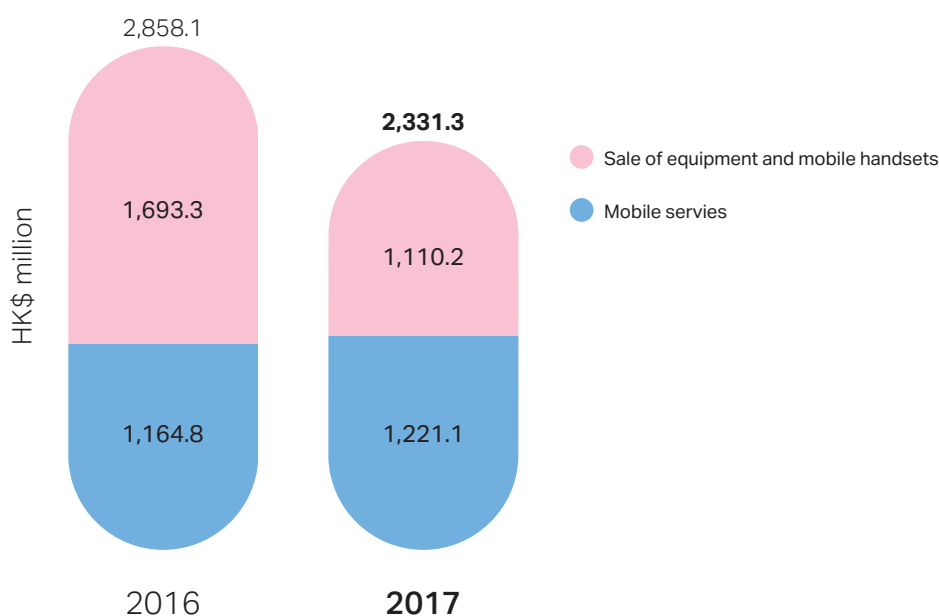


The decrease in the Group's overall revenue was mainly due to the drop in equipment and mobile handset sales by HK\$583.1 million, down from HK\$1,693.3 million in 2016 to HK\$1,110.2 million in 2017.

The Group's enterprise solutions revenue for the year amounted to HK\$2,564.3 million which represented an increase of HK\$308.5 million or 13.7% when compared with 2016. The increase was due to the good performance of the China market, the inclusion of CPC Europe Group's results since acquisition and the full year results of Acclivis Technologies and Solutions Pte. Ltd. ("Acclivis"), but was partly offset by the decrease in enterprise solutions in Macau as a result of the slow-down of new projects completion. Revenue from Internet services increased by 1.3% or HK\$11.6 million to HK\$933.8 million in 2017 as a result of the increase in the number of subscribers, good fibre broadband uptake and the increase in data centre revenue despite the adverse impact from the Group's tariff reduction in Macau since October 2016.

## 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\$2,331.3 million for the year ended 31 December 2017, a decrease of 18.4% when compared to last year. The decrease was mainly due to the drop in equipment and mobile handsets sales. Excluding the handset sales, mobile services revenue increased from HK\$1,164.8 million in 2016 to HK\$1,221.1 million for the year ended 31 December 2017. The Group was able to attain growth in mobile services revenue due to effective promotion of data plans, growth in outbound roaming and Internet of Things revenues, as well as control on customer acquisition and retention costs.



Postpaid ARPU (excluding Internet of Things and Single IMSI Multiple Number (SIMN)) increased by 1.8% to HK\$206.3 when compared to HK\$202.7 in 2016 as a result of good uptake of outbound roaming data packages. Postpaid ARPU for Internet of Things and SIMN was HK\$30.4 in 2017, a slight increase of 0.7% when compared to 2016. The prepaid ARPU remained stable at HK\$10.9 in 2017 when compared to 2016. The overall number of subscribers as at 31 December 2017 increased by 13.3% as compared to 31 December 2016 to around 970,000 subscribers, of which approximately 89.0% were 4G subscribers. The Group's mobile market share in Macau was around 43.1% as at 31 December 2017 (31 December 2016: 43.5%), while the Group had around 46.2% market share in the 4G subscribers of Macau mobile market as at 31 December 2017 (31 December 2016: 57.0%).

## Internet services

Internet services revenue including the Group's data centre revenue amounted to HK\$933.8 million for the year which represented an increase of HK\$11.6 million or 1.3% when compared with 2016. The increase was mainly due to the revenue contributed by CPC Europe Group since February 2017 which amounted to HK\$27.1 million and the growth in data centre revenue, which has more than countered the adverse impact of the Group's tariff reduction on Internet services in Macau since late 2016. Overall broadband ARPU for 2017 decreased year-on-year by only 15.5% to HK\$278.5 in 2017 as efforts were made to upgrade the customers' service plans so as to reduce the impact of the high tariff reduction. As at 31 December 2017, the total number of broadband subscribers increased by approximately 4.2% to over 182,000 subscribers.

The Group's Internet market share and broadband market penetration rate in Macau was similar to last year at around 97.6% (31 December 2016: 98.2%) and 88.3% (31 December 2016: 84.8%) respectively as at 31 December 2017.

# FINANCIAL REVIEW

## *International telecommunications services*

Total international telecommunications services revenue was similar to that in 2016.

Voice services revenue decreased by HK\$122.4 million or 11.0% to HK\$990.8 million for the year ended 31 December 2017 over the same period in 2016, which is in-line with the global trend in decreasing tariffs and traffic volume for wholesale voice market. Total traffic of 3.0 billion minutes was handled by the Group, representing a 31.9% reduction compared with 2016. Total China inbound and outbound traffic for the year has decreased by 49.3% but total international traffic have increased by 10.4% when compared to 2016. Despite the intensely competitive market conditions, the Group has continued to focus its efforts in regions with higher profit margins. With the Group's success, the average revenue per minute was HK\$0.33 for the year ended 31 December 2017 which represented an increase of 30.5% when compared with 2016.

The Group has successfully realigned its focus and strategy to target the A2P SMS market, resulting in an increase in SMS revenue of HK\$68.7 million or 32.4% when compared with 2016 to HK\$280.5 million for 2017.

The Group also achieved promising results from its new service, namely "DataMall自由行", with revenue reaching HK\$69.5 million for the year ended 31 December 2017, which was more than 4 times of the revenue for 2016.

## *Enterprise solutions*

Enterprise solutions revenue increased by 13.7% from HK\$2,255.8 million in 2016 to HK\$2,564.3 million for the year ended 31 December 2017. The increase was mainly contributed by the good performance of the China market and the inclusion of Acclivis' full year results and CPC Europe Group's results since its acquisition, but was partly reduced by the impact of the tariff reduction for leased line services in Macau near the end of 2016. During the year, Acclivis and CPC Europe Group contributed HK\$296.3 million (2016: HK\$79.4 million) and HK\$83.0 million (2016: HK\$Nil) to the Group's revenue respectively.

The Group continued to expand its Points-of-Presence ("PoPs") for VPN services. The Group has global coverage with over 130 PoPs, including 5 new PoPs established in 2017 which are located in Cape Town, Melbourne, Ningbo, Chongqing and Hefei.

## *Fixed line services*

Consistent with global trends of declining fixed IDD traffic volumes and the decrease in fixed residential lines as it is gradually being replaced by mobile services, fixed line services revenue was down by 12.8% to HK\$280.6 million for the year ended 31 December 2017 when compared to 2016.

## Profit for the year

The Group achieved HK\$895.7 million in profit for the year, an increase of HK\$33.0 million when compared with 2016. The increase was mainly due to the combined impact of the following factors:

### *Revenue*

Revenue for the year decreased by HK\$248.3 million or 3.2% when compared with last year as a result of the decrease in mobile sales & services, international telecommunications services and fixed line services revenue. Mobile services, Internet services and enterprise solutions revenue have sustained solid growth during the year and have substantially offset the decrease in revenue of other services.

### *Cost of sales and services*

Cost of sales and services included costs of goods sold, and network, operations and support expenses. In line with the decrease in revenue, cost of sales and services amounted to HK\$3,852.8 million, a decrease of HK\$376.3 million when compared with 2016. During the year, the Group has stepped up its efforts in achieving greater cost efficiency, and as a result the decrease in cost of sales and services was greater than the decrease in revenue.

### *Valuation gain on investment property*

Certain floors of the property held by the Group were leased out to third parties and an affiliate of the Group. These floors were revalued as at the end of the year by the Group's independent valuer with a gain of HK\$50.6 million (2016: HK\$Nil) for the year ended 31 December 2017.

### *Staff costs*

Staff costs for the year increased by 13.0% to HK\$961.3 million when compared with 2016. The increase was mainly contributed by the increase in headcount as a result of the Group's acquisitions of subsidiaries in late 2016 and early 2017, and the increase in equity-settled share-based payment expenses of HK\$11.8 million when compared with 2016.

### *Depreciation and amortisation*

Depreciation and amortisation expenses totaled HK\$695.6 million for the year ended 31 December 2017, an increase of HK\$39.2 million or 6.0% when compared with 2016. The increase was mainly contributed by the newly acquired Acclivis and CPC Europe Group.

### *Other income and net gain/(loss)*

Included in other income and net gain/(loss) was mainly the net foreign exchange gain of HK\$11.1 million (2016: net loss of HK\$22.5 million), and rental income of HK\$23.2 million (2016: HK\$4.7 million) as certain floors of the property held by the Group were leased out to third parties and an affiliate of the Group since the acquisition of the property in October 2016.

### *Other operating expenses*

Other operating expenses for the year ended 31 December 2017 amounted to HK\$658.9 million, an increase of HK\$60.5 million or 10.1% when compared with 2016. The increase was mainly contributed by the newly acquired Acclivis and CPC Europe Group.

### *Finance costs*

Despite additional borrowings for the Group's acquisitions of subsidiaries in late 2016 and early 2017, finance costs decreased by HK\$4.0 million to HK\$323.7 million for the year as a result of the Group's effective management of funding costs.

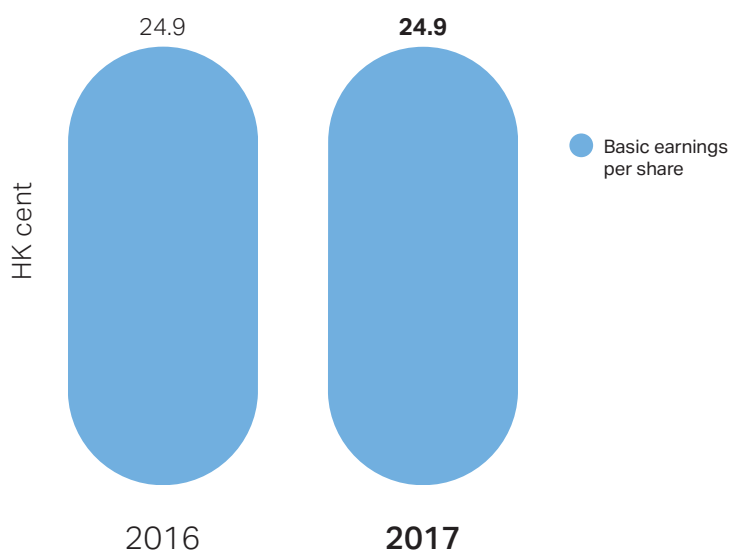
# FINANCIAL REVIEW

## Income tax

Income tax for the year amounted to HK\$165.5 million representing an effective tax rate of approximately 15.6% which was similar to last year. This included the reversal of the over-provision of tax of HK\$20.1 million and HK\$22.4 million for the year ended 31 December 2017 and 2016 respectively.

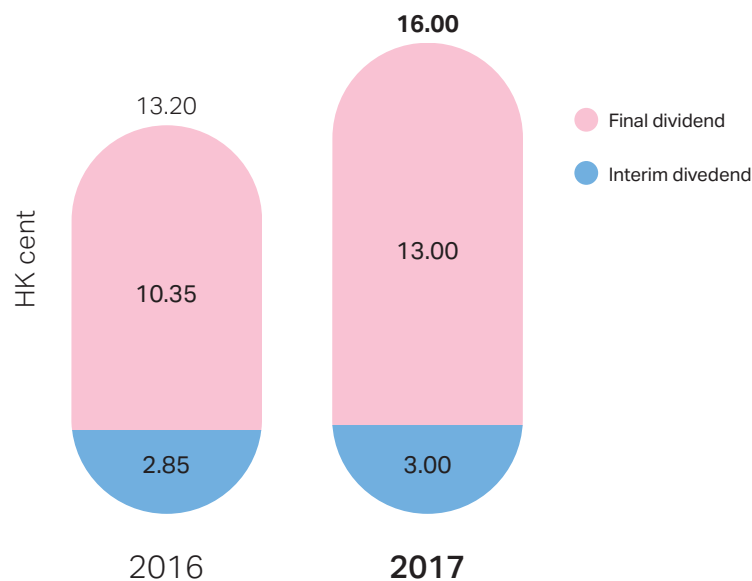
## Earnings per share ("EPS")

Basic EPS and diluted EPS amounted to HK24.9 cents and HK24.8 cents respectively which were comparable with last year.



## Dividends per share

Final dividend of HK13.00 cents per share is proposed for the year ended 31 December 2017.





## Cash flows

In HK\$ million	Year ended 31 December		Increase/(Decrease)	
	2017	2016		
<i>Source of cash:</i>				
Cash inflows from business operations	<b>1,853.9</b>	1,882.6	(28.7)	(1.5%)
Net cash inflows from borrowings	–	82.7	(82.7)	N/A
Other cash inflows	<b>26.6</b>	30.8	(4.2)	(13.6%)
<b>Sub-total</b>	<b>1,880.5</b>	1,996.1	(115.6)	(5.8%)
<i>Use of cash:</i>				
Net capital expenditure*	<b>(548.9)</b>	(608.1)	(59.2)	(9.7%)
Dividends paid to equity shareholders and non-controlling interests	<b>(483.3)</b>	(436.5)	46.8	10.7%
Acquisitions of subsidiaries	<b>(241.6)</b>	(681.9)	(440.3)	(64.6%)
Net cash outflows on loan repayments & borrowing cost	<b>(456.4)</b>	–	456.4	N/A
Other cash outflows	<b>(54.1)</b>	(56.1)	(2.0)	(3.6%)
<b>Sub-total</b>	<b>(1,784.3)</b>	(1,782.6)	1.7	0.1%
<b>Net increase in cash</b>	<b>96.2</b>	213.5	(117.3)	(54.9%)

\* 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, proceeds from sales of other property, plant and equipment and others.

Profit before taxation amounted to HK\$1,061.2 million for the year ended 31 December 2017. 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\$96.2 million for the year ended 31 December 2017.

## Capital expenditure

The Group's total capital expenditure increased from HK\$496.5 million for the year ended 31 December 2016 to HK\$524.9 million for the year ended 31 December 2017. As the Group continued to expand its data centres, HK\$10.4 million fitting-out costs were incurred in 2017 with the remainder of the capital expenditure for network development and upgrade projects.

## Capital commitments

As at 31 December 2017, the Group had outstanding capital commitments of HK\$92.2 million, mainly for the purchase of telecommunications equipment which had yet to be delivered to the Group and construction costs of the networks. Of these commitments, HK\$18.5 million were outstanding contractual capital commitments and HK\$73.7 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's net debt decreased to HK\$6,192.8 million, the net gearing ratio decreased from 45% as at 31 December 2016 to 42% as at 31 December 2017.

As at 31 December 2017, total debt and net debt of the Group were as follows:

In HK\$ million equivalents	Denomination							Total
	HKD	USD	SGD	EUR	RMB	MOP	Others	
Total bank and other borrowings	3,682.9	3,523.5	382.4	210.9	23.9	-	1.5	<b>7,825.1</b>
Obligations under finance leases	-	-	3.3	-	-	-	-	<b>3.3</b>
<b>Total debt</b>	<b>3,682.9</b>	<b>3,523.5</b>	<b>385.7</b>	<b>210.9</b>	<b>23.9</b>	<b>-</b>	<b>1.5</b>	<b>7,828.4</b>
Less: Cash and bank deposits	(695.6)	(312.1)	(51.1)	(24.8)	(209.1)	(284.0)	(58.9)	<b>(1,635.6)</b>
<b>Net debt/(cash)</b>	<b>2,987.3</b>	<b>3,211.4</b>	<b>334.6</b>	<b>186.1</b>	<b>(185.2)</b>	<b>(284.0)</b>	<b>(57.4)</b>	<b>6,192.8</b>

As at 31 December 2017, the Group's net gearing ratio was as follows:

In HK\$ million	31 December 2017	31 December 2016
Total bank and other borrowings	<b>7,825.1</b>	7,901.4
Obligations under finance leases	<b>3.3</b>	6.0
<b>Total debt</b>	<b>7,828.4</b>	7,907.4
Less: Cash and bank deposits	<b>(1,635.6)</b>	(1,459.1)
<b>Net debt</b>	<b>6,192.8</b>	6,448.3
Total equity attributable to equity shareholders of the Company	<b>8,396.4</b>	7,870.5
<b>Total capital</b>	<b>14,589.2</b>	14,318.8
<b>Net gearing ratio</b>	<b>42%</b>	45%

As at 31 December 2017, the principal of total debt amounted to HK\$7,879.1 million, of which HK\$286.0 million will mature in the coming year, against cash and bank deposits of HK\$1,635.6 million.

The maturity profile of the Group's total debt in principal amount as at 31 December 2017 was as follows:

In HK\$ million	2018	2019	2020	2021	2022	2023 & beyond	Total
Bank and other borrowings	284.5	563.3	3,118.0	400.0	-	-	4,365.8
Obligations under finance leases	1.5	1.0	0.8	-	-	-	3.3
US\$450 million 6.1% guaranteed bonds	-	-	-	-	-	3,510.0	3,510.0
	<b>286.0</b>	<b>564.3</b>	<b>3,118.8</b>	<b>400.0</b>	<b>-</b>	<b>3,510.0</b>	<b>7,879.1</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.

The Group's total debt in principal decreased to HK\$7,879.1 million which was mainly due to the early repayment of HK\$420.0 million bank loans from its surplus cash during the year, which was partly offset by a EUR22.1 million (approximately HK\$181.3 million) new bank loan drawn down for the payment for the acquisition of CITIC Telecom CPC Netherlands B.V. (formerly known as Linx Telecommunications B.V.) and its subsidiaries, which headquarters is in the Netherlands. Other than the above-mentioned loan, the balance of the EUR borrowings of the Group as at 31 December 2017 was used to support the liquidity requirements of the Group's operation over Europe.

#### *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 as at 31 December 2017 are more than sufficient to cover the repayments of principal amount of total debt of HK\$286.0 million in the coming year and contractual capital commitments of HK\$18.5 million as at 31 December 2017.

As at 31 December 2017, the Group had available trading facilities of HK\$574.3 million. Amount of HK\$364.4 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\$219.7 million of the utilised facilities were required to be secured by pledged deposits or other property, plant and equipment as at 31 December 2017.

# RISK MANAGEMENT

As at 31 December 2017, 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	4,114.5	4,114.5	–
– <b>Uncommitted facilities:</b>			
Short-term facilities	625.0	251.3	373.7
	4,739.5	4,365.8	373.7
<b>Obligations under finance leases – Committed facilities</b>	3.3	3.3	–
<b>Guaranteed bonds – Committed facility</b>			
US\$450 million 6.1% guaranteed bonds	3,510.0	3,510.0	–
<b>Trading facilities – Uncommitted facilities</b>	574.3	364.4	209.9
<b>Total</b>	<b>8,827.1</b>	<b>8,243.5</b>	<b>583.6</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. As at 31 December 2017, the Group was in compliance with the relevant requirements.

## 4. Contingent liabilities

As at 31 December 2017, the Group had no significant contingent liabilities.

## 5. Performance bonds, guarantees and pledged assets

As at 31 December 2017, performance bonds provided to the Macau Government and other customers for which no provision has been made in the consolidated financial statements amounted to HK\$85.2 million.

As at 31 December 2017, guarantees of HK\$273.1 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\$208.6 million were required to be secured by pledged deposits of HK\$225.7 million. In addition, bank deposits of HK\$6.4 million and other property, plant and equipment of HK\$5.0 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.

As at 31 December 2017, the Company has issued guarantees for its subsidiaries in respect of the bank and other loans in an amount of HK\$631.9 million and obligations under finance leases 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 significant 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 fixed rate borrowing or through use of interest rate swap, if necessary. As at 31 December 2017, approximately 54.9% 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*

As at 31 December 2017, the average borrowing costs, which is after the inclusion of amortisation of transaction costs, was approximately 4.2%.

# 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 revenue 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 39.8% and 43.9% of the Group's total trade debtors as at 31 December 2017 and 31 December 2016 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

As at 31 December 2017, 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. As at 31 December 2017, the Group has HK\$1,589.8 million cash balance in the above-mentioned financial institutions, representing approximately 97.2% 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 revenue 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.



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.

## 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

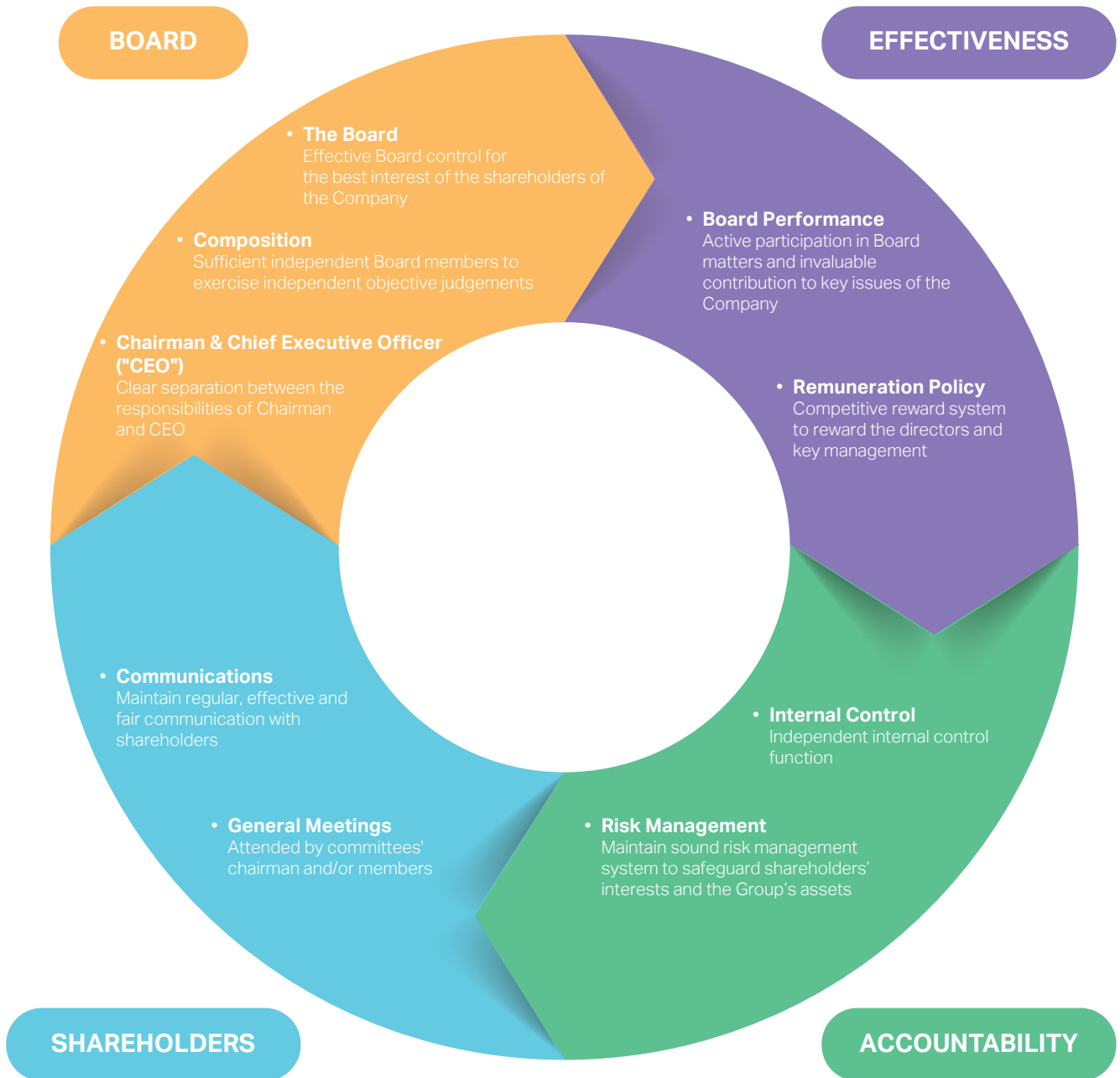
	At 31 December				
	2013 HK\$'000	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000
<b>Assets and liabilities</b>					
Investment property	–	–	–	635,328	685,969
Other property, plant and equipment	1,884,339	2,105,909	2,404,952	2,553,923	2,625,731
Intangible assets	2,342,878	2,167,628	2,005,221	1,878,846	1,722,074
Goodwill	9,283,688	9,281,625	9,276,511	9,596,599	9,729,268
Interest in a joint venture	6,264	6,265	5,541	7,367	5,972
Non-current other receivables and deposits	164,974	215,612	163,862	198,920	207,509
Deferred tax assets	33,011	33,141	33,227	85,764	81,428
Net current assets	552,947	1,109,669	983,496	1,243,178	1,289,492
Non-current interest-bearing borrowings and obligations under finance leases	(7,616,565)	(7,867,586)	(7,372,492)	(7,860,743)	(7,542,491)
Non-current other payables	(80,424)	(73,040)	(65,656)	(77,594)	(61,808)
Net defined benefit retirement obligation	(72,302)	(103,729)	(117,307)	(112,878)	(68,303)
Deferred tax liabilities	(310,859)	(281,218)	(260,297)	(249,024)	(244,643)
<b>NET ASSETS</b>	<b>6,187,951</b>	<b>6,594,276</b>	<b>7,057,058</b>	<b>7,899,686</b>	<b>8,430,198</b>
<b>Capital and reserves</b>					
Share capital and other statutory capital reserves (note)	3,697,638	3,780,941	3,848,565	4,262,457	4,280,542
Other reserves (note)	2,465,633	2,787,417	3,180,822	3,608,047	4,115,865
<b>Total equity attributable to equity shareholders of the Company</b>	<b>6,163,271</b>	<b>6,568,358</b>	<b>7,029,387</b>	<b>7,870,504</b>	<b>8,396,407</b>
<b>Non-controlling interests</b>	<b>24,680</b>	<b>25,918</b>	<b>27,671</b>	<b>29,182</b>	<b>33,791</b>
<b>TOTAL EQUITY</b>	<b>6,187,951</b>	<b>6,594,276</b>	<b>7,057,058</b>	<b>7,899,686</b>	<b>8,430,198</b>

	For the year ended 31 December				
	2013 HK\$'000	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000
<b>Results</b>					
Revenue	6,018,543	8,183,607	8,349,811	7,699,147	7,450,760
Profit before taxation	1,201,125	914,294	1,010,443	1,028,089	1,061,233
Income tax	(130,826)	(179,339)	(195,611)	(165,368)	(165,477)
Profit for the year	1,070,299	734,955	814,832	862,721	895,756
Attributable to:					
Equity shareholders of the Company	1,067,506	723,734	802,213	850,088	881,338
Non-controlling interests	2,793	11,221	12,619	12,633	14,418
Profit for the year	1,070,299	734,955	814,832	862,721	895,756
Basic earnings per share (HK cents)	36.5	21.7	23.8	24.9	24.9
Diluted earnings per share (HK cents)	36.2	21.5	23.6	24.7	24.8
Dividends per share					
Interim dividend (HK cents)	2.40	2.70	2.80	2.85	3.00
Final dividend (HK cents)	7.60	8.60	9.70	10.35	13.00
	10.00	11.30	12.50	13.20	16.00

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

## Key Corporate Governance Performance Overview





# CORPORATE GOVERNANCE

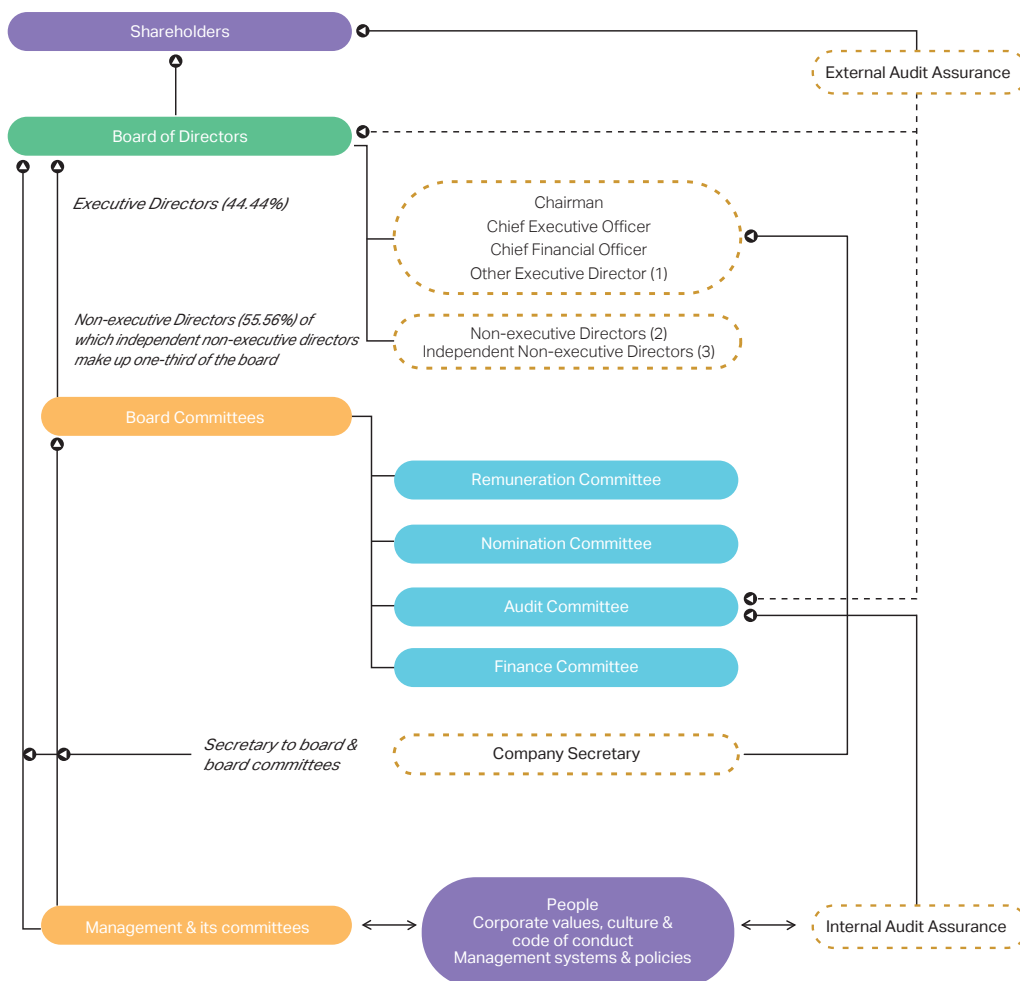
## Corporate Governance Practices

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 2017. In respect of the code provision A.6.7 of the Code, Messrs. Luo Ning and Liu Li Qing were unable to attend the annual general meeting of the Company held on 1 June 2017 ("2017 AGM") 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

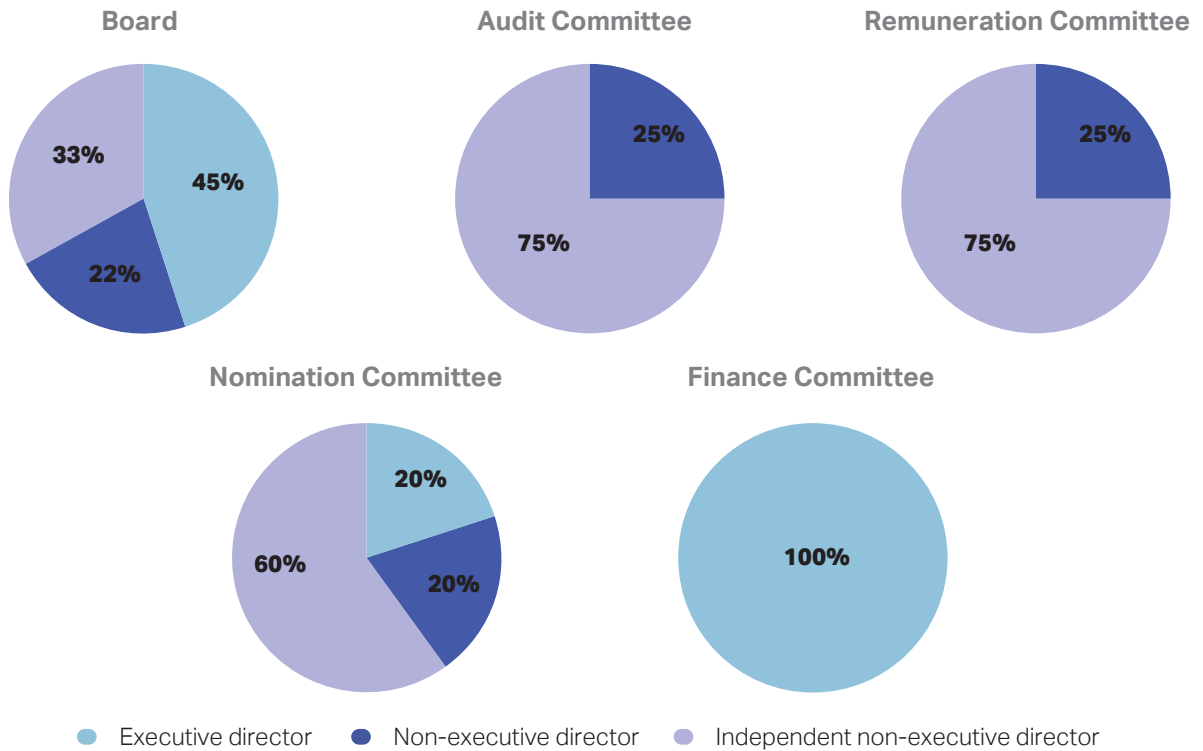


**Board of Directors**

**Key features of our Board**

*Independence*

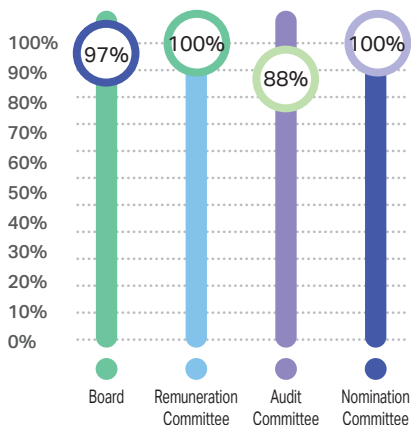
The Company emphasises on independence and objectivity of the Board and all committees. With the services of four executive directors, two non-executive directors and three independent non-executive directors, the Board would have a prudential oversight on the Company's businesses and developments.



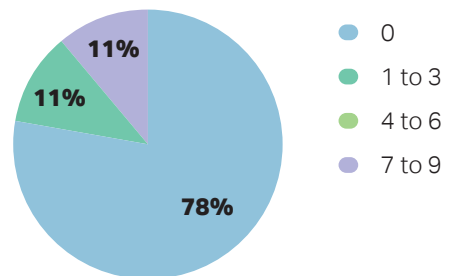
*Commitment*

The Company attaches importance to the level of directors' commitment to the Company and the Board. Each director has actively participated in the Board and committees' meetings with a high attendance rate. More than half of the directors hold no other directorship at other listed companies outside the CITIC Group. It enables the directors to devote sufficient time to the Company and closely monitor the Company's businesses.

**Attendance Rate at Meetings**



**Directors' Other Directorships at Other Listed Companies Outside the CITIC Group**



# CORPORATE GOVERNANCE

## Attendance at Meetings

The following table summarises directors' attendance at Board, Committee and general meetings held in 2017:

✓ Attended    ✗ Absent    – Not Applicable

	Meetings Held/Attended				
	Board	Remuneration Committee	Audit Committee	Nomination Committee	General Meeting
	(Total: 4)	(Total: 1)	(Total: 2)	(Total: 2)	(Total: 1)
<b>Executive Directors</b>					
Mr. Xin Yue Jiang – <i>Chairman</i>	✓✓✓✓	–	--	✓✓	✓
Dr. Lin Zhenhui – <i>Chief Executive Officer</i>	✓✓✓✓	–	--	--	✓
Mr. Luo Ning	✓✓✓✓	–	--	--	✗
Dr. David Chan Tin Wai – <i>Chief Financial Officer</i>	✓✓✓✓	–	Note 3	--	✓
<b>Non-executive Directors</b>					
Mr. Liu Jifu	✓✓✓✓	✓	--	✓✓	✓
Mr. Fei Yiping	✓✓✓✗	–	✓✗	--	✓
<b>Independent Non-executive Directors</b>					
Mr. Liu Li Qing	✓✓✓✓	✓	✓✓	✓✓	✗
Mr. Gordon Kwong Che Keung <sup>(Note 1)</sup>	✓---	–	✓-	✓-	✓
Mr. Zuo Xunsheng	✓✓✓✓	✓	✓✓	✓✓	✓
Mr. Lam Yiu Kin <sup>(Note 2)</sup>	-✓✓✓	✓	-✓	-✓	–

Notes:

1. Mr. Gordon Kwong Che Keung retired as an independent non-executive director with effect from 1 June 2017.
2. Mr. Lam Yiu Kin was appointed as an independent non-executive director with effect from 1 June 2017.
3. Dr. David Chan Tin Wai also attended the audit committee meetings as the Chief Financial Officer of the Company.

## Overall Accountability

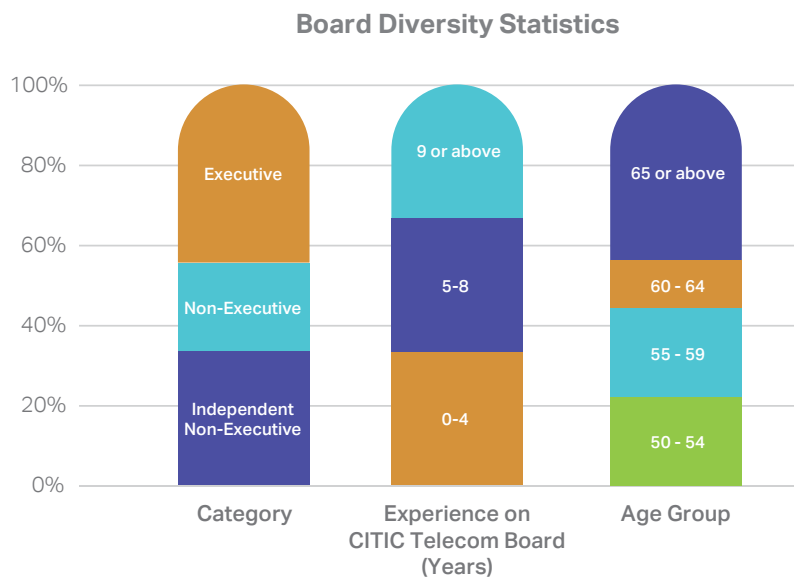
Members of the Board are individually and collectively accountable to the shareholders for the success and sustainable development of the Company. The Board provides direction and approval in relation to matters concerning the Company's business strategies, policies and plans whilst the day-to-day business 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, Diversity and Balance**

The Company believes that diversity in all aspects, including experience and expertise, provides the Company with a high level of corporate governance and penetrating insights into the Company’s businesses and industry. The Company continues to promote and support diversity and balance within the Board and the Group. The balance of skills, experience and diversity of perspectives of the Board members are beneficial to the Company’s businesses.

The Board currently comprises four executive and five non-executive directors of whom three are independent as defined in the Listing Rules. The directors are of diverse academic background in the areas of communications, engineering, accounting, law, business administration and management. Brief biographical particulars of the directors are set out on pages 70 to 72 of this Annual Report.



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 (the “Independence Guidelines”) 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 (“AGM”). 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. Liu Li Qing, an independent non-executive director of the Company since March 2007, has served the Company for more than nine years, and will retire by rotation and, being eligible, has offered himself for re-election at the forthcoming AGM of the Company (“2018 AGM”). The nomination committee considered that his long service will not affect his exercise of independent judgment and was satisfied that he has the required character, integrity and experience to continue fulfilling the role of an independent non-executive director. Taking into consideration the above and Mr. Liu’s confirmation of his independence in accordance with the Independence Guidelines, the Board is of the view that Mr. Liu remains independent notwithstanding the length of his service and should be re-elected at the 2018 AGM. In accordance with the Code, the re-election of Mr. Liu will be subject to a separate resolution to be approved at the 2018 AGM.

# CORPORATE GOVERNANCE

## Roles of the Board

- Determines the overall strategies of the Company
- Monitors the performance of delegated Board Committees
- Sets strategic vision and long-term goals
- Reviews the management performance
- Oversees risks and internal controls of the Group

## Board Responsibilities and Delegation

The Board collectively determines the overall strategies of the Company, monitors performance and the related risks and internal 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.

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 51 to 61 of this Annual Report.

## 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 2017. 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 report 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 more than 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 meeting in 2017 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	1/1
Dr. Lin Zhenhui – <i>Chief Executive Officer</i>	4/4	1/1
Mr. Luo Ning	4/4	0/1
Dr. David Chan Tin Wai – <i>Chief Financial Officer</i>	4/4	1/1
<b>Non-executive Directors</b>		
Mr. Liu Jifu	4/4	1/1
Mr. Fei Yiping	3/4	1/1
<b>Independent Non-executive Directors</b>		
Mr. Liu Li Qing	4/4	0/1
Mr. Gordon Kwong Che Keung (retired with effect from 1 June 2017)	1/1	1/1
Mr. Zuo Xunsheng	4/4	1/1
Mr. Lam Yiu Kin (appointed with effect from 1 June 2017)	3/3	N/A

The Company's external auditor also attended the 2017 AGM.

## 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 relating to corporate governance and accounting matters conducted by Messrs. Mayer Brown JSM and KPMG respectively for the directors of the Company.



# CORPORATE GOVERNANCE

According to the records 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:

<b>Directors</b>	<b>Type of continuous professional development programme</b>
<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 (retired with effect from 1 June 2017)	A, B
Mr. Zuo Xunsheng	A, B
Mr. Lam Yiu Kin (appointed with effect from 1 June 2017)	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

## Board Committees

Board Committees	Composition	Members
Remuneration Committee ("RC")	<ul style="list-style-type: none"> <li>Four members: All NEDs</li> <li>Three out of four members, including the RC Chairman, are INEDs</li> </ul>	<ul style="list-style-type: none"> <li>Mr. Liu Li Qing (Chairman)</li> <li>Mr. Liu Jifu</li> <li>Mr. Zuo Xunsheng</li> <li>Mr. Lam Yiu Kin</li> </ul>
Audit Committee ("AC")	<ul style="list-style-type: none"> <li>Four members: All NEDs</li> <li>Three out of four members, including the AC Chairman, are INEDs</li> </ul>	<ul style="list-style-type: none"> <li>Mr. Lam Yiu Kin (Chairman)</li> <li>Mr. Fei Yiping</li> <li>Mr. Liu Li Qing</li> <li>Mr. Zuo Xunsheng</li> </ul>
Nomination Committee	<ul style="list-style-type: none"> <li>Five members</li> <li>Three out of five members are INEDs</li> </ul>	<ul style="list-style-type: none"> <li>Mr. Xin Yue Jiang (Chairman)</li> <li>Mr. Liu Jifu</li> <li>Mr. Liu Li Qing</li> <li>Mr. Zuo Xunsheng</li> <li>Mr. Lam Yiu Kin</li> </ul>
Finance Committee	<ul style="list-style-type: none"> <li>Three members</li> </ul>	<ul style="list-style-type: none"> <li>Mr. Xin Yue Jiang</li> <li>Dr. Lin Zhenhui</li> <li>Dr. David Chan Tin Wai</li> </ul>

Abbreviations: NED – Non-executive director  
INED – Independent non-executive director

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.

# CORPORATE GOVERNANCE

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 (retired with effect from 1 June 2017)	N/A
Mr. Zuo Xunsheng	1/1
Mr. Lam Yiu Kin (appointed with effect from 1 June 2017)	1/1
<b>Non-executive Director</b>	
Mr. Liu Jifu	1/1

A meeting was held and a resolution in writing was passed during the year. The remuneration committee has reviewed the remuneration policies and approved, inter alia, the granting of share options and 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 99 of this Annual Report, and directors' emoluments and employee retirement benefits are disclosed on pages 153 to 154 and 174 to 178 of this Annual Report respectively. Share options granted under the Company's share option plan are disclosed on pages 84 to 89 and 179 to 184 of this Annual Report.

The remuneration paid to the directors of the Company, by name, for the year ended 31 December 2017 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 2017 is set out below:

## Remuneration of senior management other than directors for the full year of 2017

<b>Total Remuneration Bands</b>	<b>Number of Executives</b>
HK\$3,000,001 – HK\$6,000,000	3
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. Lam Yiu Kin, 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 2017. The agenda and accompanying committee papers were sent to the committee members more than 3 days prior to each meeting.

The Audit Committee discussed with the management and the external auditor on the key audit matters summarised below and procedures performed by the external auditor. Please refer to pages 118 to 119 of this Annual Report for details of procedures performed by the external auditor.

Key Audit Matters	How did the Audit Committee address the matters
Assessment of potential impairment of goodwill, intangible assets and other property, plant and equipment	<p>The Audit Committee considered the methodology, estimates and assumptions used in assessing the potential impairment of goodwill, intangible assets and other property, plant and equipment.</p> <p>The Audit Committee was satisfied that the methodology, estimates and assumptions adopted were reasonable.</p>
Revenue recognition	<p>The Audit Committee considered the implemented policies and internal controls in connection with the Group's revenue cycles and was satisfied that adequate internal controls are in place to ensure the accuracy, existence and completeness of the Group's revenue recognition.</p> <p>The Audit Committee was satisfied that the key internal controls were operating effectively throughout 2017.</p>

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> (retired with effect from 1 June 2017)	1/1
Mr. Lam Yiu Kin – <i>Chairman</i> (appointed with effect from 1 June 2017)	1/1
Mr. Liu Li Qing	2/2
Mr. Zuo Xunsheng	2/2
<b>Non-executive Director</b>	
Mr. Fei Yiping	1/2

During 2017, 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 risk management and 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 report 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 2017. 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.



Two meetings were held in 2017. 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>Attendance/ Number of Meetings</b>
<b>Members</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 (retired with effect from 1 June 2017)		1/1
Mr. Zuo Xunsheng		2/2
Mr. Lam Yiu Kin (appointed with effect from 1 June 2017)		1/1

In 2017, the nomination committee reviewed the policy for the nomination of directors and recommended the appointment of an independent non-executive director of the Company for consideration by the Board. The nomination committee has assessed the independence of independent non-executive directors and also made recommendations to the Board on the re-election of the directors retiring at the 2017 AGM 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 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 2017, a few resolutions in writing were passed by the finance committee to approve the financial transactions of the Company such as acceptance of banking facilities.

# CORPORATE GOVERNANCE

## 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 financial performance 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.

The responsibilities of the external auditor with respect to the financial statements for the year ended 31 December 2017 are set out in the Independent Auditor's Report on pages 117 to 122 of this Annual Report.

### 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\$6,012,000. In addition, approximately HK\$1,369,000 was charged by KPMG for non-audit services. The non-audit services mainly consist of taxation services, interim review, 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\$1,869,000 and HK\$81,000 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 unauthorised use and disposition, ensure the maintenance of proper accounting records and the truth and fairness of the financial statements, and ensure compliance with relevant legislation and regulations. It provides reasonable, but not absolute, assurance against material misstatement or loss, and management rather than elimination of risks associated with its business activities.

## *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 organisation, and prioritise 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.

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 40 to 47 of this Annual Report.

# CORPORATE GOVERNANCE

The major risk factors assessed by the Group are listed as follows:

Risk factors	Impacts to the Group	Risk Mitigation Measures
Competitive market conditions	Rapid changes in telecommunications technology are lowering barriers to entry and increasing the level of competition in the industry. The effect of increasingly competitive market conditions, including any decline in the Group's revenue and margins of our products and services, may adversely impact on the Group's financial condition and results of operations.	<ul style="list-style-type: none"> <li>Striving to promote the development and transition from existing services into new services with new technology.</li> <li>Providing new services to customers by partnering with industry leaders.</li> <li>Monitoring the market conditions proactively to facilitate the Group's business strategies, as well as new business developments.</li> </ul>
Major regulatory changes	Regulatory or policy changes (e.g. open telecommunication market, price cut, tariff reduction, privacy policy, etc.) may directly impact our strategy and business model as well as increase complexity, and may continue to adversely affect the Group's profitability and financial conditions.	<ul style="list-style-type: none"> <li>Developing and maintaining relationships with relevant regulatory stakeholders and policy makers proactively, in an effort to minimise potential adverse effects of policy and regulatory decisions.</li> <li>Establishing clear, transparent and timely communications with our stakeholders (including customers, government and regulators) about our company and corporate strategy, and seeking to understand their views and maintain good relationships.</li> </ul>
Cyber security	With the advent of information technology and its increased application, the frequency and intensity of cyber-attacks are on the rise. The Group's critical information assets are exposed to threats, damage or unauthorized access in the digital world. Any system breakdown or breach in security may have adverse impact on the integrity, accuracy and confidentiality of data and information about the Group and our customers.	<ul style="list-style-type: none"> <li>Reviewing and updating the security controls on our network continually, especially in times of global ransomware and other cyber-crime events.</li> <li>Providing training in relation to data security and privacy awareness for all employees.</li> <li>Conducting regular cyber security drills across the organisation to test the level of staff compliance and vigilance.</li> </ul>
Business resilience	There are multiple threats to Group's ability to ensure resilience and continuity of key processes, system and people, including extreme weather events, natural disasters, terrorist attacks, etc.. These events could harm the Group's revenue and prospects.	<ul style="list-style-type: none"> <li>Maintaining business capabilities, strategies, and plans in place which seek to prevent, respond to and recover from disruptions of critical network/service.</li> <li>Partnering with our external vendors to deliver improved management of our technology asset lifecycles and resilience.</li> </ul>

<b>Risk factors</b>	<b>Impacts to the Group</b>	<b>Risk Mitigation Measures</b>
Interest rate risk	The Group is exposed to interest rate risk through the impact of rate changes on interest – bearing assets and liabilities. The Group may be affected by changes in the prevailing interest rates of the global credit market. Any increase in interest rate in connection with the currencies the Group borrows will increase the Group’s finance costs and may adversely affect the Group’s financial condition and results of operations.	<ul style="list-style-type: none"> <li>Performing 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.</li> </ul>

*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 summarised 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.

**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.

# CORPORATE GOVERNANCE

## 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 Group 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 by email or by post to the Head of Internal Control and Compliance Department; or 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, or (iv) Head of Finance Department. All allegations received shall be registered and will be evaluated to determine the credibility, materiality and verifiability. To this end, the allegation will be evaluated to determine whether there is a legitimate basis to warrant an investigation. 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 2017. The interests held by individual directors in the Company's securities at 31 December 2017 are set out in the Directors' Report on page 90 of this Annual Report.

## 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 2017, the Company has issued announcements in respect of, inter alia, some connected transactions and has also issued an update on a discloseable and connected transaction. All these announcements can be viewed on the Company's website ([www.citictel.com](http://www.citictel.com)).



## General Meetings with Shareholders

The Company's 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;
- (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.

# CORPORATE GOVERNANCE

## *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.

- 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 2017.

## 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 69, 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 55, 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.® (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), Yunnan Provincial Labour Medal and China provincial management innovation award (first class).

**Mr. Luo Ning**, aged 59, 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). 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.

<sup>^</sup> **Dr. Chan Tin Wai, David**, aged 53, 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 29 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

<sup>△#</sup> **Mr. Liu Jifu**, aged 74, 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 54, 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 Vice Chairman 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 Pacific involved in special steel, property and energy, a director of certain member companies of CITIC Limited involved in iron ore mining, property and its interests in McDonald's mainland China and Hong Kong businesses (including, inter alia, Grand Food Holdings Limited), and also the Chairman of the Audit, Compliance, Risk Management Committee of Grand Food Holdings Limited. 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 22 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

<sup>\*△#</sup> **Mr. Liu Li Qing**, aged 77, 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. After 2003, Mr. Liu also served as the Deputy Director of the Committee for Economic Affairs of the Tenth National Committee of the Chinese People's Political Consultative Conference, the Chairman of Sino-French Life Insurance Co., Ltd., the Vice Chairman of China Optimization Society of Capital Construction, the Honorary President of China Institute of Communications, as well as the Chairman and Honorary Chairman of China Association of Communications Enterprises. Mr. Liu is now the Senior Consultant of China Association of Communications Enterprises.

<sup>\*△#</sup> **Mr. Zuo Xunsheng**, aged 67, 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.

## DIRECTORS AND SENIOR MANAGEMENT

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 Chief Executive Officer 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.

\*<sup>△</sup># **Mr. Lam Yiu Kin**, aged 63, joined the Company as an independent non-executive director in June 2017. Mr. Lam is a fellow member of each of the Association of Chartered Certified Accountants, the Institute of Chartered Accountants in England and Wales, the Chartered Accountants of Australia and New Zealand, and Hong Kong Institute of Certified Public Accountants ("HKICPA"). He graduated from The Hong Kong Polytechnic University with a higher diploma in Accountancy in 1975. He was conferred an Honorary Fellow of The Hong Kong Polytechnic University in 2002.

Mr. Lam has over 40 years of extensive experience in accounting, auditing and business consulting. Mr. Lam was previously a member of the Listing Committee and the Financial Reporting Advisory Panel of the Stock Exchange from 1997 to 2003, a committee member of HKICPA from 1994 to 2009, and a partner of PricewaterhouseCoopers from 1993 to 2013. Mr. Lam was an adjunct professor in the School of Accounting and Finance of The Hong Kong Polytechnic University from 2008 to 2016.

Mr. Lam is currently an independent non-executive director of each of (i) Global Digital Creations Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange; (ii) Spring Asset Management Limited as the manager of Spring Real Estate Investment Trust which is listed on the Main Board of the Stock Exchange; (iii) Vital Mobile Holdings Limited, a company listed on the Main Board of the Stock Exchange; (iv) Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd., a company listed on the Main Board of the Stock Exchange; (v) Shougang Concord Century Holdings Limited, a company listed on the Main Board of the Stock Exchange; (vi) COSCO SHIPPING Ports Limited, a company listed on the Main Board of the Stock Exchange; (vii) Nine Dragons Paper (Holdings) Limited, a company listed on the Main Board of the Stock Exchange; and (viii) WWPKG Holdings Company Limited, a company listed on the Growth Enterprise Market of the Stock Exchange. He is also an independent non-executive director of Bestway Global Holding Inc. (listed on the Main Board of the Stock Exchange with effect from 16 November 2017) since 18 October 2017. Mr. Lam was an independent non-executive director of Kate China Holdings Limited (now known as Royal Century Resources Holdings Limited), a company listed on the Growth Enterprise Market of the Stock Exchange, until 17 September 2015 and an independent non-executive director of Mason Financial Holdings Limited (now known as Mason Group Holdings Limited), a company listed on the Main Board of the Stock Exchange, until 24 May 2017.

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

⊙ *for identification purpose only*



## Senior Management

**Mr. Poon Fuk Hei**, aged 52, 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 31 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 become one of the few advanced cities in the world which achieved full fibre network coverage. Along with the popularisation of "Fibre to All" and "4G to all" in 2017, the penetration rate of fibre and 4G of Macau have been further enhanced, in addition, Mr. Poon has extended the CTM WiFi service to the land and sea public transports, which further substantiate the foundation of "Digital Macau".

Meanwhile, Mr. Poon is also committed to popularising 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 CTM. 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 59, 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 and iAdvantage Limited.

Mr. Ho's efforts and contribution to the technology sector are numerous and notable. Most recently, Mr. Ho has been appointed as the President and Chair on the Board of Governors of the US Pacific Telecommunications Council (PTC), and this is his third time to be elected to the position after 2014 & 2015. He also served as the Chairman of the Communications Association of Hong Kong (CAHK) since 2012 and one of the Government Appointed Directors of the Hong Kong Internet Registration Corporation Limited (HKIRC) since 2016. In 2018, Mr. Ho is appointed as one of the Board of Directors of Hong Kong Applied Science And Technology Research Institute (ASTRI) 2018-2020.

## DIRECTORS AND SENIOR MANAGEMENT

**Mr. Cheung Yuet Pun**, aged 45, 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 22 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 43, 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 21 years experience in the telecoms industry.

**Mr. Cai Dawei**, aged 40, 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 19 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 2017.

## 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 2017, 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 14 to 17, pages 20 to 31, pages 32 to 39 and pages 40 to 47 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 40 to 47, pages 49 to 69 and pages 96 to 116 of this Annual Report respectively.

## Dividends

The directors declared an interim dividend of HK3.00 cents (2016: HK2.85 cents) per share in respect of the year ended 31 December 2017 which was paid on 20 September 2017. The directors recommended, subject to the approval of the shareholders at the forthcoming annual general meeting of the Company to be held on 14 May 2018 (the "Annual General Meeting"), the payment of a final dividend of HK13.00 cents (2016: HK10.35 cents) per share in respect of the year ended 31 December 2017 payable on 4 June 2018 to shareholders on the Register of Members at the close of business on 23 May 2018.

## 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	5.4%	
Five largest customers in aggregate	15.4%	
The largest supplier		15.0%
Five largest suppliers in aggregate		45.8%

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.

# DIRECTORS' REPORT

## Charitable Donations

Charitable donations made by the Group during the year amounted to approximately HK\$1,596,000 (2016: HK\$1,167,000).

## Directors

The directors of the Company who held office during the year ended 31 December 2017 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  
Mr. Liu Li Qing  
Mr. Gordon Kwong Che Keung (retired with effect from 1 June 2017)  
Mr. Zuo Xunsheng  
Mr. Lam Yiu Kin (appointed with effect from 1 June 2017)

Pursuant to Article 104(A) of the Articles of Association of the Company, Dr. David Chan Tin Wai, Mr. Liu Li Qing and Mr. Zuo Xunsheng shall retire by rotation in the Annual General Meeting. All, being eligible, offer themselves for re-election. Mr. Liu Li Qing, an independent non-executive director since March 2007, has served the Company for more than nine years. Pursuant to the Corporate Governance Code of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), his re-election will be subject to a separate resolution to be approved 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 2017 or during the period from 1 January 2018 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 2017, 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.

## 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, lease or sale of satellite transponder 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 Listing Rules on the Stock Exchange are as follows:

1. The Group has provided the leasing of equipment and facilities services in relation to Internet data centres (the "Internet Data Centre Services") to CITIC Group and its subsidiaries and associates (excluding the Group) (collectively the "CITIC Group Companies", being a connected person of the Company) from time to time in the ordinary and usual course of business of the Group to fulfill the data centre business needs of CITIC Group Companies in Hong Kong and China.

The Internet Data Centre Services are generally provided on the basis of the Group's standard service order form, which has incorporated the general terms and conditions of service of the relevant members of the Group. The terms and conditions of such standard service order form may be modified to cater for specific requirements of some customers, when necessary.

In general, the duration of the initial service term ranges from one year to three years. The service charges for the provision of the Internet Data Centre Services usually include an one-off set up charge per equipment/facility (the "Set Up Charge") and a monthly rental charge (the "Rental Charge"). The Rental Charge comprises a fixed recurring charge and a variable charge (if any) which is determined based on the number of committed and additional equipment/facility and power consumption requested by the CITIC Group Companies and agreed by the Group during the service term, as more particularly specified in each individual service order form. The Set Up Charge is normally payable in full upon provision of service while the Rental Charge is normally settled monthly. As a general principle, the prices and terms of the aforesaid transactions shall be negotiated on arm's length basis and determined in the ordinary course of business on normal commercial terms.

For the 12-month period prior to and inclusive of 16 October 2017, being the date of the relevant announcement, the aggregate actual transaction amounts contemplated under the service order forms and recognised by the Group in respect of the Internet Data Centre Services amounted to HK\$9,310,000.

CITIC Group is the ultimate controlling shareholder of the Company, and, therefore, each member of the CITIC Group Companies is a connected person of the Company.

## DIRECTORS' REPORT

2. The Group has provided the virtual private network services (the "Virtual Private Network Services") to the CITIC Group Companies from time to time in the ordinary and usual course of business of the Group. The virtual private network services provide a highly secure and efficient network for transmission of voice, video and data applications with guaranteed quality-of-service.

The Virtual Private Network Services are generally provided on the basis of the Group's standard service order form, which has incorporated the general terms and conditions of service of the relevant members of the Group. The terms and conditions of such standard service order form may be modified to cater for specific requirements of some customers, when necessary.

In general, the duration of the initial service term ranges from one year to three years. The service charges for the provision of the Virtual Private Network Services usually include an one-off set up charge (the "VPN Set Up Charge") and a fixed recurring monthly service charge (the "Monthly Service Charge") during the service term, which is determined with reference to the subscribed bandwidth, locations, class of services and the requisite support services for provision of the Virtual Private Network Services. The VPN Set Up Charge is normally payable in full upon provision of service while the Monthly Service Charge is settled monthly. As a general principle, the prices and terms of the aforesaid transactions shall be negotiated on arm's length basis and determined in the ordinary course of business on normal commercial terms.

For the 12-month period prior to and inclusive of 27 November 2017, being the date of the relevant announcement, the aggregate actual transaction amounts contemplated under the service order forms and recognised by the Group in respect of the Virtual Private Network Services amounted to HK\$9,710,000.

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. Such service fee was agreed by CPC, CEC-HK and CEC on an arms' length basis and shall be settled monthly. 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\$44,650,000 and US\$23,440,000 for the financial year ended 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 financial year ended 31 December 2017 was approximately RMB292,422,000 (equivalent to approximately US\$42,700,000).



- 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", an associate of CITIC Group) 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 up to 18 February 2017. Guangdong Eastern Fibernet, of which CITIC Group held more than 30% equity interest, is a connected person of the Company.

As the 2014 Services Agreement expired on 18 February 2017, CEC and Guangdong Eastern Fibernet had entered into a new services agreement (the "2017 Services Agreement") on 17 February 2017 to continue to engage Guangdong Eastern Fibernet as service provider for the provision of SDH circuit services to CEC for a further term of three years from 19 February 2017 to 18 February 2020.

For each service order under both the 2014 Services Agreement and 2017 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 under the 2014 Services Agreement and RMB603,000 under the 2017 Services Agreement, both 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 the following annual caps: a) under the 2014 Services Agreement: RMB3,410,000 for the period from 1 January 2017 to 18 February 2017; and b) under the 2017 Services Agreement: RMB12,680,000 for the period from 19 February 2017 to 31 December 2017; RMB15,940,000 for the financial year ending 31 December 2018; RMB17,530,000 for the financial year ending 31 December 2019; and RMB2,410,000 for the period from 1 January 2020 to 18 February 2020.

The aggregate service fee paid by CEC to Guangdong Eastern Fibernet for the financial year ended 31 December 2017, which covered both the period from 1 January 2017 to 18 February 2017 under the 2014 Services Agreement and the period from 19 February 2017 to 31 December 2017 under the 2017 Services Agreement, were approximately RMB945,000 and RMB6,116,000 respectively.

- Pursuant to the management consultancy and technical service agreement dated 25 April 2014 entered into between the Company and CITIC Networks (as amended and supplemented by a supplemental agreement dated 22 April 2015 and a second supplemental agreement dated 1 September 2016) (collectively, the "Management Service Agreement"), the Company (or designated subsidiary(ies) of the Company as agreed by CITIC Networks) shall provide comprehensive technical support, business support and relevant consultancy services to CITIC Networks relating to China Express Network, being a nation-wide optical fibre backbone network in the PRC (the "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 "Management Consultancy and Technical Services") until 31 August 2019.

## DIRECTORS' REPORT

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.

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 financial year ended 31 December 2017, for the financial year ending 31 December 2018 and for the period from 1 January 2019 to 31 August 2019 shall not exceed the maximum amount of RMB10 million, RMB10 million and RMB6.67 million respectively.

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

During the financial year ended 31 December 2017, a service fee (inclusive of the PRC value added tax) of approximately RMB10 million under the Management Service 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.

4. 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 (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 period from 1 January 2017 to 14 September 2017 shall not exceed RMB50 million.

As the Funding Support Agreement expired on 14 September 2017, CPC and CEC entered into a new funding support agreement (the "New Funding Support Agreement") on 15 September 2017, pursuant to which CPC shall continue to make available funding support of not more than RMB35 million to CEC if and when a shortage of funds arises in the operation of the Cloud Data Centre during the period commencing from 15 September 2017 and ending on 14 September 2020. 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 period ended 31 December 2017, the two financial years ending 31 December 2018 and 2019 and the period from 1 January 2020 to 14 September 2020 shall not exceed RMB35 million.

The maximum balance of the funds advanced by CPC to CEC within the period from 1 January 2017 to 14 September 2017 under the Funding Support Agreement and within the period from 15 September 2017 to 31 December 2017 under the New Funding Support Agreement were RMB50 million and RMB35 million respectively.

5. 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, 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, 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 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 2017 and the period from 1 January 2018 to 19 September 2018 will be approximately HK\$12,000,000 and HK\$8,500,000 respectively.

Tendo 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 paid by CITIC Telecom to Tendo under the Main Premises Renewal Tenancy Agreement and the Other Premises Renewal Tenancy Agreement for the financial year ended 31 December 2017 was approximately HK\$11,227,000.

## DIRECTORS' REPORT

6. Pursuant to the telecoms services agreement dated 6 August 2016 (the "Telecoms Services Agreement") entered into between CEC and CITIC Networks, 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 from 7 August 2016 to 6 August 2019. 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 under the Telecoms Services Agreement for the financial year ended 31 December 2017, the financial year ending 31 December 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 under the Telecoms Services Agreement for the financial year ended 31 December 2017 was approximately HK\$27,065,000.

7. On 28 October 2016, ComNet Investment Limited (a wholly-owned subsidiary of the Company), Neostar Investment Limited ("Neostar", another wholly-owned subsidiary of the Company) 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 28 October 2016, 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 financial year ended 31 December 2017 and for the period from 1 January 2018 to 27 October 2018 shall be HK\$12,900,000 and HK\$14,200,000 respectively.

Hang Luen Chong is a wholly-owned subsidiary of CITIC Limited, 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 financial year ended 31 December 2017 was approximately HK\$12,043,000.

8. Upon completion of the acquisition on 28 October 2016 of, inter alia, the entire share capital of Neostar, which holds portions of ground floor, 1st floor to 3rd floor and car parking spaces thereof, the whole of 6th floor to 13th floor, 15th floor, 19th floor to 22nd floor, common areas and facilities of CITIC Telecom Tower, the transaction as subsisted under the tenancy agreement ("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 2017 and for the period from 1 January 2018 to 31 May 2018 shall be HK\$22,100,000 and HK\$9,200,000 respectively.

DCH is a non-wholly owned subsidiary of CITIC Limited, 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 financial year ended 31 December 2017 was approximately HK\$18,021,000.

#### 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 2017 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 78 to 83 of this 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.

# DIRECTORS' REPORT

## 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.
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 was 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.



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

<b>Date of grant</b>	<b>Number of share options</b>	<b>Exercise period</b>	<b>Exercise price per share</b> 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
24 March 2017	45,339,500	24 March 2018 to 23 March 2023	2.45
24 March 2017	45,339,500	24 March 2019 to 23 March 2024	2.45

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:

<b>Date of grant</b>	<b>Before Adjustments</b>		<b>After Adjustments</b>	
	<b>Number of outstanding share options</b>	<b>Exercise price per share</b> HK\$	<b>Number of outstanding share options</b>	<b>Exercise price per share</b> 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

The share options granted on 23 May 2007 and 17 September 2009 have expired. In addition, the first 50% of the share options granted on 19 August 2011 have expired at the close of business on 18 August 2017. 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.

The closing price of the Company's shares immediately before the grant on 24 March 2017 was HK\$2.39.

# DIRECTORS' REPORT

A summary of the movements of the share options during the year ended 31 December 2017 is as follows:

## A. Directors of the Company

Name of director	Date of grant	Exercise period	Number of share options					Balance as at 31.12.2017	Percentage to the number of issued shares %
			Balance as at 1.1.2017	Granted during the year ended 31.12.2017	Exercised during the year ended 31.12.2017	Cancelled during the year ended 31.12.2017	Lapsed during the year ended 31.12.2017		
Xin Yue Jiang	19.8.2011	19.8.2012-18.8.2017	1,377,701	-	1,377,000 (Note 1)	-	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	
	24.3.2017	24.3.2018-23.3.2023	-	1,787,500	-	-	-	1,787,500	
	24.3.2017	24.3.2019-23.3.2024	-	1,787,500	-	-	-	1,787,500	
							12,102,701	0.341	
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	
	24.3.2017	24.3.2018-23.3.2023	-	1,573,000	-	-	-	1,573,000	
	24.3.2017	24.3.2019-23.3.2024	-	1,573,000	-	-	-	1,573,000	
							6,292,000	0.178	
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	
	24.3.2017	24.3.2018-23.3.2023	-	500,000	-	500,000 (Note 2)	-	-	
	24.3.2017	24.3.2019-23.3.2024	-	500,000	-	500,000 (Note 2)	-	-	
							1,400,000	0.040	

# DIRECTORS' REPORT

Name of director	Date of grant	Exercise period	Number of share options					Balance as at 31.12.2017	Percentage to the number of issued shares %
			Balance as at 1.1.2017	Granted during the year ended 31.12.2017	Exercised during the year ended 31.12.2017	Cancelled during the year ended 31.12.2017	Lapsed during the year ended 31.12.2017		
David Chan Tin Wai	19.8.2011	19.8.2012–18.8.2017	1,047,052	-	1,047,052 (Note 3)	-	-	-	
	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	
	24.3.2017	24.3.2018–23.3.2023	-	1,358,500	-	-	-	1,358,500	
	24.3.2017	24.3.2019–23.3.2024	-	1,358,500	-	-	-	1,358,500	
								9,198,053	0.260
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	
	24.3.2017	24.3.2018–23.3.2023	-	1,000,000	-	-	-	1,000,000	
	24.3.2017	24.3.2019–23.3.2024	-	1,000,000	-	-	-	1,000,000	
								4,000,000	0.113
Fei Yiping	24.3.2017	24.3.2018–23.3.2023	-	500,000	-	-	-	500,000	
	24.3.2017	24.3.2019–23.3.2024	-	500,000	-	-	-	500,000	
								1,000,000	0.028
Liu Li Qing	24.3.2015	24.3.2017–23.3.2022	200,000	-	-	-	-	200,000	
	24.3.2017	24.3.2018–23.3.2023	-	200,000	-	-	-	200,000	
	24.3.2017	24.3.2019–23.3.2024	-	200,000	-	-	-	200,000	
								600,000	0.017
Gordon Kwong Che	26.6.2013	26.6.2013–25.6.2018	400,000	-	-	-	-	N/A	
Keung	24.3.2015	24.3.2016–23.3.2021	200,000	-	-	-	-	N/A	
(Note 4)	24.3.2015	24.3.2017–23.3.2022	200,000	-	-	-	-	N/A	
	24.3.2017	24.3.2018–23.3.2023	-	200,000	-	-	-	N/A	
	24.3.2017	24.3.2019–23.3.2024	-	200,000	-	-	-	N/A	
								N/A	N/A

# DIRECTORS' REPORT

Name of director	Date of grant	Exercise period	Number of share options					Balance as at 31.12.2017	Percentage to the number of issued shares %
			Balance as at 1.1.2017	Granted during the year ended 31.12.2017	Exercised during the year ended 31.12.2017	Cancelled during the year ended 31.12.2017	Lapsed during the year ended 31.12.2017		
Zuo Xunsheng	24.3.2015	24.3.2017-23.3.2022	200,000	-	-	-	-	200,000	
	24.3.2017	24.3.2018-23.3.2023	-	200,000	-	-	-	200,000	
	24.3.2017	24.3.2019-23.3.2024	-	200,000	-	-	-	200,000	
								600,000	0.017

## 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 31.12.2017
		Balance as at 1.1.2017	Granted during the year ended 31.12.2017	Exercised during the year ended 31.12.2017	Cancelled during the year ended 31.12.2017	Lapsed during the year ended 31.12.2017	
19.8.2011	19.8.2012-18.8.2017	2,974,568	-	2,893,171	-	81,397	-
19.8.2011	19.8.2013-18.8.2018	7,475,432	-	3,765,308	-	3,178	3,706,946
		(Note 7)					
26.6.2013	26.6.2013-25.6.2018	33,487,817	-	480,000	-	280,000	32,727,817
		(Note 7)					
24.3.2015	24.3.2016-23.3.2021	33,282,067	-	-	-	1,119,250	32,162,817
		(Note 7)					
24.3.2015	24.3.2017-23.3.2022	34,352,250	-	-	-	1,129,250	33,223,000
		(Note 7)					
24.3.2017	24.3.2018-23.3.2023	-	37,870,500	-	256,500	1,155,000	36,459,000
					(Note 8)		
24.3.2017	24.3.2019-23.3.2024	-	37,870,500	-	256,500	1,155,000	36,459,000
					(Note 8)		

C. Others (Note 9)

Date of grant	Exercise period	Number of share options					Balance as at 31.12.2017 (Note 4)
		Balance as at 1.1.2017	Granted during the year ended 31.12.2017	Exercised during the year ended 31.12.2017 (Note 10)	Cancelled during the year ended 31.12.2017	Lapsed during the year ended 31.12.2017 (Note 6)	
19.8.2011	19.8.2013-18.8.2018	200,518 (Note 7)	-	10,000	-	43	190,475
26.6.2013	26.6.2013-25.6.2018	2,866,000 (Note 7)	-	10,000	-	5,000	3,251,000
24.3.2015	24.3.2016-23.3.2021	386,500 (Note 7)	-	-	-	157,500	429,000
24.3.2015	24.3.2017-23.3.2022	329,000 (Note 7)	-	-	-	-	529,000
24.3.2017	24.3.2018-23.3.2023	-	150,000	-	-	-	350,000
24.3.2017	24.3.2019-23.3.2024	-	150,000	-	-	-	350,000

Notes:

- The weighted average closing price of the shares immediately before the date on which Mr. Xin Yue Jiang exercised the options was HK\$2.41.
- These are in respect of options granted to Mr. Luo Ning who had not accepted the options. These options had been cancelled during the year ended 31 December 2017.
- The weighted average closing price of the shares immediately before the date on which Dr. David Chan Tin Wai exercised the options was HK\$2.35.
- Subsequent to the retirement of Mr. Gordon Kwong Che Keung as an independent non-executive director of the Company in the annual general meeting of the Company held on 1 June 2017, his remaining share options (including 400,000 share options granted on 26 June 2013, 400,000 share options granted on 24 March 2015 and 400,000 share options granted on 24 March 2017) were reclassified and added to the closing balance as at 31 December 2017 under the above section of "Others".
- The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK\$2.34.
- 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 2016.
- These are in respect of options granted to some employees under continuous contracts who had not accepted the options. These options had been cancelled during the year ended 31 December 2017.
- These are in respect of options granted to i) some employees under continuous contracts who subsequently resigned/retired/passed away before 1 January 2017; ii) former director(s) of the Company who had retired; and iii) 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\$2.35.

# 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 2017 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	2,034,827	0.057
<b>CITIC Limited, an associated corporation</b>		
David Chan Tin Wai	40,000	0.0001
Liu Jifu	840,000	0.0029
<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)	0.00002

Note: 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 2017, none of the directors of the Company had nor were they taken to or deemed to have, under Part XV of the SFO, any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations or any interests which are required to be entered into the register kept by the Company pursuant to section 352 of the SFO or any interests which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.

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

**Substantial Shareholders**

As at 31 December 2017, 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	2,129,345,175	60.080
CITIC Polaris Limited	2,129,345,175	60.080
CITIC Glory Limited	2,129,345,175	60.080
CITIC Limited	2,129,345,175	60.080
CITIC Corporation Limited	2,129,345,175	60.080
CITIC Investment (HK) Limited	2,129,345,175	60.080
Silver Log Holdings Ltd.	2,129,345,175	60.080
CITIC Pacific Limited ("CITIC Pacific")	2,129,345,175	60.080
Crown Base International Limited	2,129,345,175	60.080
Effectual Holdings Corp.	2,129,345,175	60.080
CITIC Pacific Communications Limited	2,129,345,175	60.080
Douro Holdings Inc.	2,129,345,175	60.080
Ferretti Holdings Corp.	2,129,345,175	60.080
Ease Action Investments Corp.	2,129,345,175	60.080
Peganin Corp.	2,129,345,175	60.080
Richtone Enterprises Inc.	2,129,345,175	60.080
FIL Limited	212,374,000	5.992

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.


Out of the 212,374,000 shares held by FIL Limited, 107,428,000 shares are in respect of derivative interests.



# 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 2017:

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. 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.
4. Trademark licence agreement dated 17 November 2016 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  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.

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 2017.

## Equity-Linked Agreements

Save for the share option plan of the Company as set out above in the section of "Share Option Plan", 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 2017.

Particulars of borrowings of the Company and the Group at 31 December 2017 are set out in notes 20 to 22 to the financial statements.

## Share Capital

During the year ended 31 December 2017, a total of 9,582,531 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 2017 and the Company has not redeemed any of its shares during the year ended 31 December 2017.

## 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 48 of this Annual Report.

## Property

Particulars of the property held for investment of the Group are shown on page 209 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.

# DIRECTORS' REPORT

## 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:

<b>Name of director</b>	<b>Previous monthly salary</b>	<b>Monthly salary (with effect from 1 January 2018)</b>
Xin Yue Jiang	HK\$317,910	HK\$328,400
Lin Zhenhui	HK\$309,130	HK\$319,330
David Chan Tin Wai	HK\$220,070	HK\$227,330

Note: For information in relation to the 2017 full year emoluments of the directors of the Company, please refer to note 8 to the financial statements.

## Auditor

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

By Order of the Board

**Xin Yue Jiang**

*Chairman*

Hong Kong, 1 March 2018

# 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.

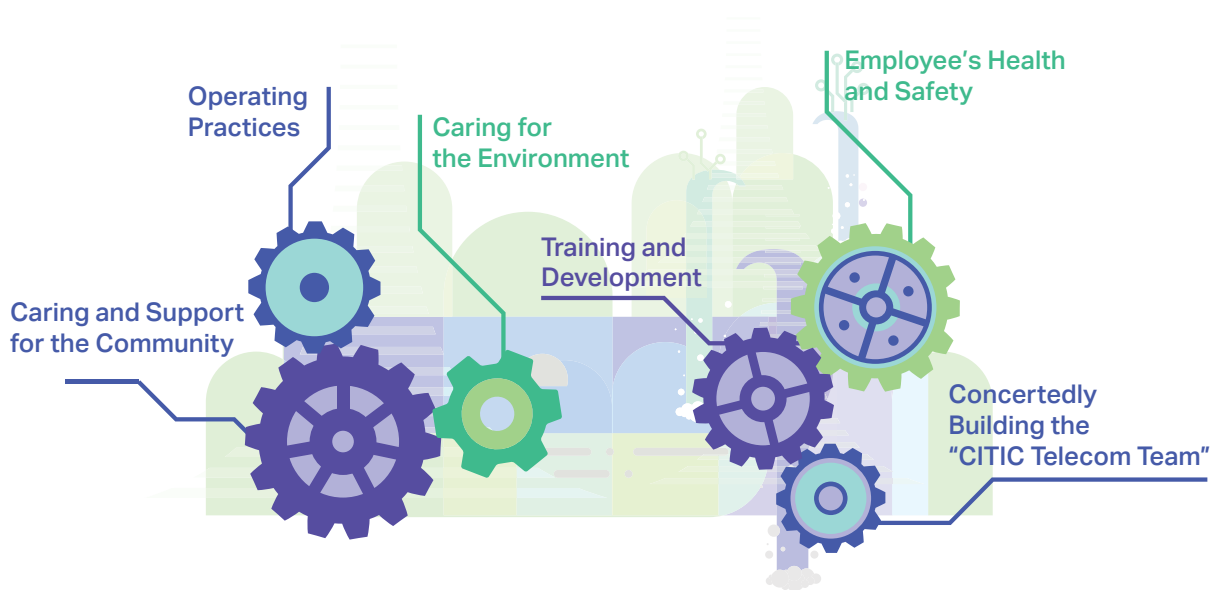
Forward looking statements involve inherent risks and uncertainties. Readers should be cautioned that a number of factors could cause actual results to differ, in some instances materially, from those expressed, implied or anticipated in any forward looking statement or assessment of risk.

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



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:



## Our Effort

### CITIC Telecom Team



Total number of employees amounted to 2,464 distributed across Asia, America, Europe and other regions

### Caring for the Community



- Volunteer service in 2017 reached 710 hours
- Charitable donations made in 2017 approximately HK\$ 1.6 million

### Business Ethics



Compliance with the Code of Conduct and Integrity Conduct Policy of the Group

### Greenhouse Gas Emissions



Reduction of 22.63% GHG emissions in Hong Kong Head office

### Employee's Training

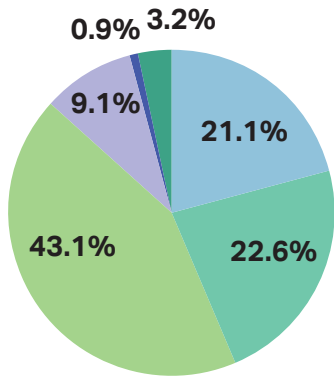


Continuous professional training accumulated to 48,000 hours

# SUSTAINABILITY REPORT

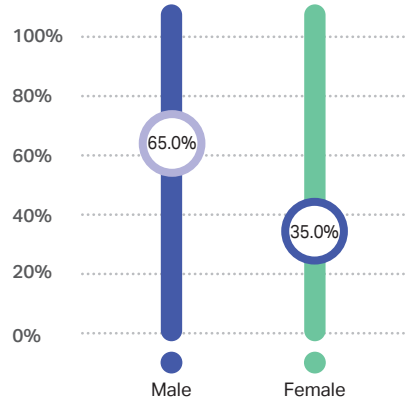
## Concertedly Building the "CITIC Telecom Team"

Employee distribution by geographical location

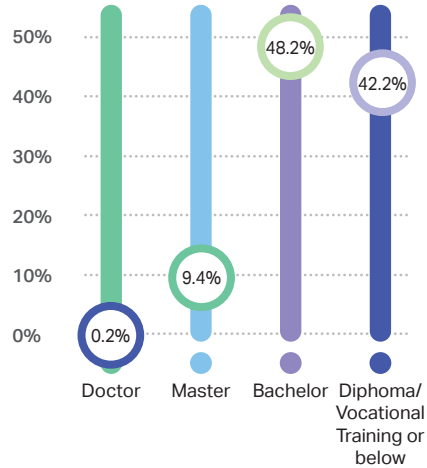


- Hong Kong
- Mainland China
- Macau
- Others Asian countries: Singapore, Japan, Taiwan, Malaysia, Thailand, Indonesia and Vietnam
- American countries: USA and Canada
- European countries & Others: UK, Holland, Poland, Estonia, Latvia, Lithuania and Russia

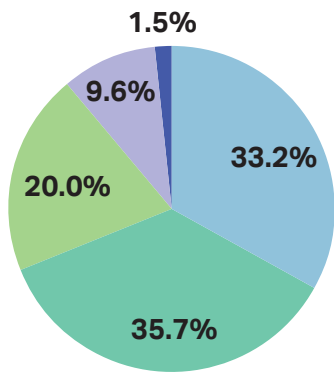
Employee distribution by gender



Employee distribution by educational background

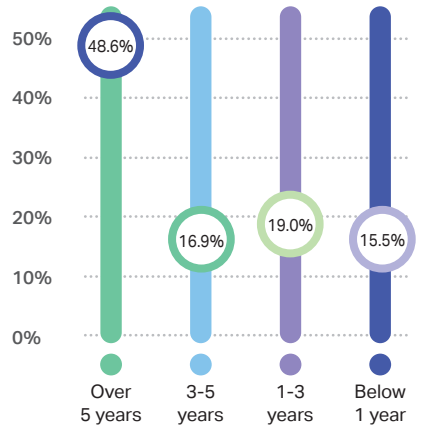


Employee distribution by age



- 30 or below
- 31-40
- 41-50
- 51-59
- 60 or above

Employee distribution by years of service





## People

As at the end of December 2017, the Group employed a total of 2,464 employees (2016: 2,360) for its headquarters in Hong Kong and its subsidiaries. Number of employees in Hong Kong was 520. Employees in Mainland China and Macau totaled 1,620. Employees in overseas regions totaled 324. The diverse workforce offers us the opportunity to learn from one another and to connect with a wide range of customers.

## 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.

## Comprehensive Benefits

The Group provides comprehensive benefits including medical plan, dental benefits, various leave entitlement, shuttle bus services, staff lunch, gifts celebrating the birth of employees' children and discount purchase to staff members of Hong Kong headquarters. For the members overseas, in Mainland China and Macau, we provide the benefits according to the local rules and market requirements.

## Retirement Benefits

For Hong Kong employees, the Group operates the Mandatory Provident Fund 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 was granted the "Good MPF Employer Award" and "Support for MPF Management Award" by the Mandatory Provident Fund Authority this year.

## 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.

## Employee's Health and Safety

### Healthy and Safe Working Environment

The Group strives to ensure that our staff enjoy a healthy, safe and positive environment in which to work and interact with others. There is zero fatal case arising from work injury. We have effective safety measures for employee protection according to the local rules and regulations in different locations and offices. Moreover, work safety training sessions have been regularly held to enhance the knowledge and awareness of employees.



# SUSTAINABILITY REPORT

## 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 challenges.

The Group supports and organises various kinds of outdoor sports activities and ball games competitions. The Group respectively organised basketball championship, badminton competition, table tennis competition and football match 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 has invested in employee's health through participation of "Innothon 10km 2017" and organising the activity of bubble soccer on ice. Our subsidiary in Macau continued to demonstrate its full support to "World Challenge Day" for the eleventh consecutive year and to organise different healthy activities, where the company has encouraged staff to actively participate in sporting event.

The Group has also provided the fitness facilities of indoor sports centre and multi-functional recreation centre in our headquarters' building to allow our staff to enjoy all kinds of leisure and sports activities regardless of the weather conditions. Our subsidiary also held different health and interest classes 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.

The Group was continued to be awarded the "Happy Company" by the Hong Kong Productivity Council and the Promoting Happiness Index Foundation 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 "Family-Friendly Employers Award" organised by the Family Council. In addition, our subsidiary obtained the "Special Mention Award" and "Award for Innovation" in this programme. It is a direct recognition of our continuous effort and outstanding achievements in the implementation of family-friendly practices and policies. Our subsidiary of Macau received the "Family-Friendly Employers Gold Award" for two consecutive years. The Group will continue to promote the 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.

## Training and Development

Our staff is our greatest asset. The Group continues its effort in staff training and development to support the needs of its business and staff. In respect of training and development, the Group has been adopting "optimisation of professional performance, motivation of staff's potentials, and revitalisation of learning culture" as our approaches. As a result, "training" is based on the increment of knowledge, skills enhancement and improvement in management's capabilities, while "development" is oriented on the sustainable development of the company and our staff.



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, selling skills/key account management workshop, information technology, finance management and language, etc.

Our subsidiary organised different training schemes in this year including teambuilding, effective presentation and public speaking skills, key account management workshop and seminar on Competition Law, etc. It aimed at enhancing all-round skills of employees and ongoing talent development.

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. 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 2017, the Group provided a variety of training courses to employees, total accumulated over 48,000 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 our subsidiary have launched technical/management trainee scheme covering professional 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. During the year, the Group organised briefing sessions relating to corporate governance and accounting matters for the directors.

### *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.



## Operating Practices

### 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, determines 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. Moreover, the Group emphasises on Integrity Conduct Policy. There are training sessions to remind our employees on awareness of integrity behavior and anti-corruption as well as to strengthen overall corporate governance.

The Code of Conduct, Conflict of Interest, Integrity Conduct Policy 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 analysing of customers' feedback on our products and services. 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 products and 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 ten consecutive years. The award not only recognises our dedicated effort, but also encourages us to continue to excel in the industry as the role model of world-class service and technology innovation.

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.

The Group always emphasises on 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.

CITIC Telecom International Holdings Limited





## Caring and Support for the Community

### 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 “CITIC Telecom International Volunteer Service Team” 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 of approximately HK\$1.6 million in 2017.

	 Support for medical service	 Support for sports	 Support for environmental protection	 Support for education	 Support for social vulnerable groups	Total donation
(HK\$'000)	12	20	134	305	1,125	1,596

### 2017 Highlights of Community Services

Beneficiary	Community Services
<b>The Elderly</b>	<b>1</b> “Frost the Trail 2017”, charity run for donation to “Bright Hill Evergreen Home”
	<b>2</b> “New Year’s Greeting and Smartphone Briefing” to the elderly
	<b>3</b> Support to Macao Holy House of Mercy through donation and food hampers delivery
	<b>4</b> Hostel cleaning for Macao Martha Luna homes for the elderly
	<b>5</b> Singapore “Food Assistance Programme” for the elderly
<b>The Youth and Children</b>	<b>6</b> “CITIC Telecom Scholarship” to Singapore Polytechnic
	<b>7</b> Business-School Partnership Programme – “Job Shadowing 2017”
	<b>8</b> “Workplace Visit 2017” for students
	<b>9</b> “Youth Development Program”
	<b>10</b> Singapore fundraising run activity – “One-North Run 2017”
<b>The Disabled</b>	<b>11</b> ORBIS fundraising activity the “2017 Moonwalkers”
	<b>12</b> Technology sharing session for the hearing impaired citizens
<b>Others:</b>	
<b>– The residents of Macau</b>	<b>13</b> Maintain the uninterrupted network communication services during the typhoon period of Hato and step up their efforts to repair and rehabilitate aftermath
<b>– Environmental Protection · Planet Care</b>	<b>14</b> Volunteering service for the Mai Po Nature Reserve
	<b>15</b> “Earth Hour” by turning the lights off during the hour
	<b>16</b> “Green Power Hike”
	<b>17</b> Support for the “Energy Conservation Week 2017”

# SUSTAINABILITY REPORT



## Donations and Support

The Group has always been committed to participating and supporting a wide range of charitable activities. 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 2017 reached 710 hours.

The Group continued to support ORBIS in its fund-raising activity the “2017 Moonwalkers” to help the blind for years. We donated to WWF to contribute in environmental protection in this year. Our volunteer service team participated in the environmental preservation activity in the Mai Po Nature Reserve under the WWF for keeping ecological balance.

Our subsidiary joined the “Green Power Hike” and “Green Hero Alliance 2017” aiming at promoting continuous education on environmental protection and application of low carbon lifestyle in daily life. Moreover, the subsidiary supported events in helping to promote fair trade. The “Fair Trade Supporter” has been granted by the Fair Trade Hong Kong to recognize our commitment on support for fair trade.

Our subsidiary in Singapore continued to sponsor and take part in “Frost the Trail 2017”, the corporate charity run for donation to “Bright Hill Evergreen Home”, a local non-profit nursing home for the destitute elderly. The

subsidiary also joined “One-North Run 2017” in support of Singapore Children’s Society and Community Chest. The subsidiary also sponsored “CITIC Telecom Scholarship” at Singapore Polytechnic in this year again. Moreover, we supported the “Food Assistance Programme” for the elderly which was organised by the Learning Vision @ Fusionopolis (Solaris). Through different events in Singapore, we expressed our commitment in caring for the needy and made contribution to the local community.

Our subsidiary in Macau made donation to the Macau Holy House of Mercy for years to support the vulnerable populations. Our subsidiary continued to participate in “Walk for a Million” and Tung Sin Tong fundraising activities, by setting up different donation channels, aiming at expanding the fundraising network and fostering more fund for the needy. The subsidiary continued to promote sports development in Macau through supporting for the sports charitable events including sponsorship to “CTM Macau Touring Car Cup” of Grand Prix for fifteen consecutive years and forming team to take part in “Macau TrailHiker 2017”. The volunteer team of the subsidiary in Macau provided support to the underprivileged groups by visiting different organisations during the year. The volunteers participated in “New Year’s Greeting and Smartphone Briefing” to the elderly, “Caring the Community Campaign”, “Charity DIY Workshop” organised by Macau Special Olympics, Technology sharing session for the hearing impaired citizens and the Oxfam Rice Selling Activity, etc.





## Community Disaster Relief and Reconstruction of the Home



Typhoon Hato hit Macau in 2017, bringing great damage to the community. As a result, a wide range of power supply and water supply disruptions occurred in various districts and more serious flooding in some low-lying areas. In this ruthless storm, all staff in the subsidiary in Macau did their utmost to ensure the normal operation of the Macau network communication services in the emergency.

As professional employees of the telecoms industry with sense of commitment, even under harsh conditions, we work tirelessly to maintain the uninterrupted communication service. On the day after the typhoon Hato, three colleagues from the mobile network operation team of the subsidiary jointly worked together to lift the heavy mobile generator from the ground and moved to the 18th floor rooftop for electricity supply. On the other hand, the power maintenance team members volunteered to personally transport water to the rooftop and to support the affected rooftop generators due to insufficient hydraulic pressure of the building during the typhoon period. It helped to maintain continuous telecommunications services of the nearby district. Other colleagues of the power maintenance team immediately drove to the location to examine the submarine cable facilities affecting the Internet service at the night of the removal of typhoon signal. After the blocked roads were cleaned slightly, the maintenance colleagues walked in and out of the area of the cable station with flashlights and quickly completed the network facilities testing and repair works. The purpose of these front-line staff is to enable

the public to have immediate access to network services after the restoration of hydropower so as to stabilise the people's livelihood.

After the typhoon, our staff of the subsidiary took the time to step up their efforts to repair and rehabilitate aftermath. At each workstation and cable room, there were front-line employees who were busy repairing and replacing equipment. They worked overtime to complete the repair works as soon as they could.

The subsidiary provided timely assistance to meet the real needs of the residents in Macau. They launched the "Emergency Telecommunications Equipment Assistance Scheme" to help rebuilding community and restoring economy. In the meantime, other colleagues in the subsidiary, through their own efforts, took an active part in community rebuilding and went to the Macao Martha Luna Homes for the cleaning of broken glass and branches for the elderly and helped rebuilding their homes.

During the typhoon, the subsidiary endeavored to provide a steady communications service to all residents in Macau. The subsidiary received the recognition by experts from the National Disaster Reduction Committee and local government officials, and also obtained the commendable support of the general public.



## *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. The students from Pui Kiu College were paired with mentors from various departments of our subsidiary under "Job Shadowing Programme 2017" to observe and get familiarised with the workplace, while gaining hands-on 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 event of "Workplace Visit 2017". Moreover, we hosted the students to visit our data centre to enhance their understanding of recent development and operation of information technology industry.

Our subsidiary in Macau organised "Youth Development Program" for four consecutive years, aiming at helping the youngsters to broaden their horizon, unleash the potential and talent and 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 youngsters of the Industry and Commerce Association of Macau, students from Macao Polytechnic Institute and University of Saint Joseph. 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.

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" by Agency for Volunteer Service in recognition of our continuous commitment to community services.

The Group was also granted the logo of "Corporate Citizenship" and "Corporate Citizenship 5+" under the "Hong Kong Corporate Citizenship Award Scheme" organised by the Hong Kong Productivity Council in 2017, to recognise our contribution in social responsibilities. The Group also received the "Social Capital Builder Award" which was issued by the Community Investment and Inclusion Fund of the Labour and Welfare Bureau. It served as an encouragement of our fulfillment of corporate social responsibility by promoting social capital, and an appreciation to our contribution to the development of social capital.

With the significant contribution in helping the underprivileged, our subsidiary in Macau was awarded the "Excellent Volunteer Team", granted by the Macau Volunteer Association, in recognition of our active participation and contribution in local 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.

## *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.

# SUSTAINABILITY REPORT

## Promote the "Digital Macau"

In conjunction with the development of the "Digital Macau", our subsidiary has brought the telecom network with increased coverage, capacity and efficiency, together with stable and trustworthy quality to the Macau residents. During the year, the subsidiary launched the fiber-optic network covering the whole Macau city, the diversified 4G+ services with download speed over 300Mbps, full coverage at ports of entry, tourist attractions, convenience stores, non-profit making organisations, free Wi-Fi service in all public buses of Macau. Apart from laying a good foundation for building the "Digital Macau", the subsidiary also organised various promotional events including "CTM Digital Macau Forum", tour visit by a delegation from the Macao New Chinese Youth Association, view exchange with Legislators and the related parties. The subsidiary has been committed to promote the intelligent city of Macau by facilitating the ongoing development of the Internet plus and local economy, so as to upgrade the quality of life.

## Further Promote the Development of "Digital Campus"

The subsidiary continued to promote the "Digital Campus" service in order to support for the "Digital Macau", by providing an effective and convenient channel to facilitate instant communication and information exchange between schools, parents and students. The subsidiary worked closely with the local experts on the educational projects and has invested and launched the e-application of "Education Cloud" and "mSchool". It aimed at making contribution for the ongoing development of the "Digital Campus" for education in Macau.

## Support for the Industries of Tourism and Exhibition of Macau

The subsidiary in Macau has shown full support to boost tourism image of intelligent city and the Industries of Tourism and Exhibition of Macau. In 2017, apart from providing high quality telecoms services to different events of the industries, the subsidiary launched free CTM Wi-Fi hotspots in the tourist attractions. In addition, the subsidiary also provided short-term unlimited data roaming service to cater for the practical needs of the short-stay and travellers in Macau.

## Caring for the Environment

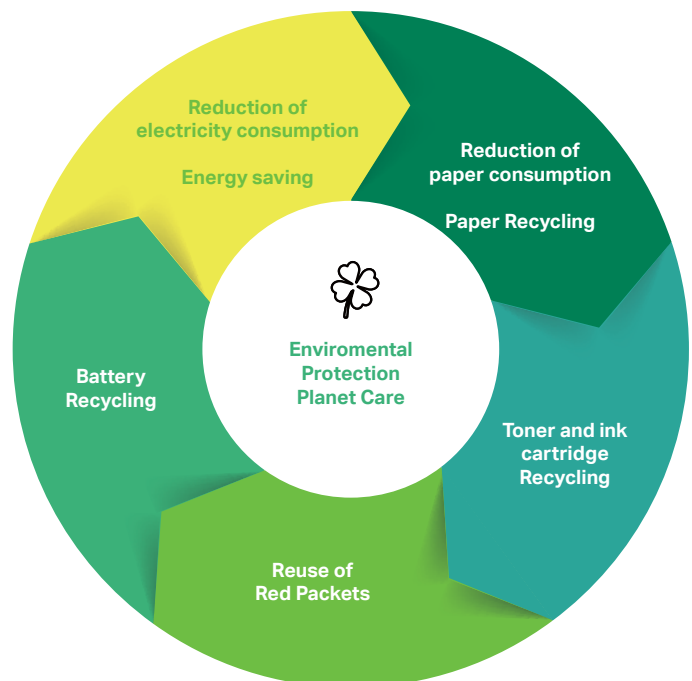
Climate change is one of the most important challenges facing mankind. The Group is committed to conduct business in an environmentally responsible manner. We have formulated and ongoing reviewed our policies of environmental protection and energy saving in order to achieve sustainable targets.



## 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

## Implementation of 4R in our operation:



The Group was continued to be 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 "Energywise 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" scheme for five consecutive years which 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 supported 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. We also joined the "Reuse of Red Packets Programme 2017" to demonstrate our implementation of 4Rs in our daily operations.

The Group obtained the Silver membership which was issued by WWF Hong Kong again in 2017 and supported the organisation on environment conservation and education work. Moreover, the Group participated in the volunteering service in the Mai Po Nature Reserve to help keeping ecological balance and biodiversity. The Group continued to support the event of "Earth Hour" by turning the lights off during the hour, aiming at drawing attention from the public on climate change.

Our subsidiary sponsored the 24th "Green Power Hike", 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 participated in the "Green Hero Alliance 2017" covering the activities of green facilities visit and green Contest Day which aim to equip and nurture staff as well as public to practice low carbon lifestyle continuously in their everyday life. Through obtaining green knowledge and practice from the events, we have been equipped and committed to protect our environment.

The subsidiary was awarded "the Green Office Label" and "Eco-Healthy Workplace" presented by the World Green Organisation. This is a direct 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 2017" 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.

# SUSTAINABILITY REPORT

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 headquarters. 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 22.63% GHG emissions compared to the year 2016/2017 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 headquarters. 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 headquarters and Ap Lei Chau. The total GHG emissions of the mentioned data centres of the year 2016/2017 were 11,501.33 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.

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 headquarters are as follows:

GHG Emissions/Removal Sources	April 2016 to March 2017	April 2013 to March 2014 (Base Year)	Difference
<b>GHG Emissions (in tonnes of CO<sub>2</sub>-equivalent)</b>			
<b>Scope 1: Direct GHG Emissions</b>			
Stationary Combustion Sources	–	–	–
Mobile Combustion Sources	31.58	39.92	(20.89%)
Fugitive Emissions	0.02	–	–
<b>Scope 2: Energy Indirect GHG Emissions</b>			
Electricity Purchased	278.32	355.03	(21.61%)
Towngas Purchased	–	–	–
<b>Scope 3: Other Indirect GHG Emissions</b>			
Methane Generation at Landfill due to Disposal of Paper Waste	7.75	16.53	(53.12%)
Electricity for Processing Fresh Water	0.73	0.35	+8.57%
Electricity for Processing Sewage	0.34	0.14	+42.86%
<b>GHG Offsets/removals (in tonnes of CO<sub>2</sub>-equivalent)</b>	–	–	–
<b>Total GHG Emissions (in tonnes of CO<sub>2</sub>-equivalent)</b>	<b>318.74</b>	<b>411.97</b>	<b>(22.63%)</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
- 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

## *Establish and Maintain Green Environment*

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

## *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 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 2017, we recycled over 980 kg wasted papers in the office floors of our headquarters, CITIC Telecom Tower, by reducing greenhouse gas emissions over 4.7 tonnes of CO<sub>2</sub>-equivalent
- Recycle computer hardware, toner cartridges and other e-waste

## ★ Our Award and Achievement

5 Years Plus "Caring Company"



"Corporate Citizenship Logo" and "Corporate Citizenship 5+ Logo"



"Social Capital Builder"



"Family-Friendly Employers Award" and "Special Mention"



"Family-Friendly Employers Gold Award"



"Excellent Volunteer Team"



"Happy Company"





Certificate of "ISO 14064"



"Bronze Award" of the Hong Kong Awards for Environmental Excellence



"Energywi\$e Certificate"



"Hong Kong Green Organisation Certification"



"Green Office Label" and "Eco-Healthy Workplace"



"Fair Trade Supporter"



"Good MPF Employer Award" and "Support for MPF Management Award"



## Sustainability Report Highlights 2017

JAN

- The Group was awarded the "Hong Kong Green Organisation Certification" by the Environmental Campaign Committee for recognition of our effort and achievement
- The Group participated in the "Reuse of Red Packets Programme 2017" to demonstrate our implementation of 4Rs in our daily operations
- Our subsidiary CPC sponsored and participated in the 24th "Green Power Hike" for promoting environmental education
- Our subsidiary CTM held the "New Year Greeting and Smartphone Briefing" to the elderly
- Our Singapore subsidiary sponsored "CITIC Telecom Scholarship" at Singapore Polytechnic

FEB

- The Singapore subsidiary was awarded the Eco-office certification to recognise the effort and result in displaying environmental consciousness in the daily operations

MAR

- The Group was continued to be awarded the 5 Years Plus "Caring Company" in recognition of our dedication to promote corporate social responsibility
- The Group organised the "CITIC Telecom International Friendship Football Match" to encourage our staff to actively join sports activities
- The Group participated in the programme, "Earth Hour" by turning the lights off during the hour, in order to promote environmental protection and energy saving
- CPC organised the staff activity of Bubble Soccer on Ice to provide opportunities for staff to interact with each other
- CTM promoted mSchool with the experts in the education sector, by providing a channel to facilitate exchange between schools, parents and students. We have been committed to support for the ongoing development of the "Digital Campus"
- CTM hosted the visit from the youngsters of the Industry and Commerce Association of Macau to deepen their knowledge of information technology application

APR

- The Group was awarded the "Happy Company" again
- CPC launched the "Workplace Visit 2017" together with Hong Kong Federation of Youth Group
- CTM hosted the briefing of company introduction and sharing of useful information during the visit of students from Macao Polytechnic Institute

MAY

- The Group was honored the Bronze Award again under the Media and Communications Sector of the Hong Kong Awards for Environmental Excellence in recognition of our outstanding results on "Green Leadership", "Programme & Performance" and "Partner Synergy"
- The Group supported recycling and reuse by continuous participation in the "Toner & Ink Cartridges Recycling & Reuse Programme"
- CPC hosted the IDC Visit for secondary students to give them a better understanding of ICT industry
- CTM participated in "World Challenge Day" for the 11th consecutive year
- CTM joined the "Charity DIY Workshop" organised by Macau Special Olympics

JUN

- Our volunteer service team participated in the volunteering service in the Mai Po Nature Reserve under WWF to contributing for environmental protection
- The Group participated in the “Energy Saving Charter 2017” scheme launched by Electrical and Mechanical Services Department of the Hong Kong Special Administrative Region
- CPC continued to obtain the “Customer Relationship Excellent Award” presented by the Asia Pacific Customer Service Consortium in the 10 consecutive years
- CPC supported the event of “Job Shadowing” by providing hands-on working experience to the students under the Business-School Partnership Program organised by the Hong Kong General Chamber of Commerce
- CTM was awarded the “Family Friendly Employers Gold Award” in two consecutive years
- CTM continually organised the “Youth Development Program” to train up all-rounded talent for making contribution to the sustainability development of Macau
- CTM fully supported the “Energy Conservation Week 2017” held by the Office for the Development of the Energy Sector of the Macau Special Administrative Region

JUL

- The Group obtained the Silver membership of WWF Hong Kong
- CPC was awarded the “Green Office Label” and “Eco-Healthy Workplace” logo by the World Green Organisation
- CPC launched “Technical Management Trainee Program” for nurturing graduates and helping them develop all-rounded knowledge and skills
- CTM provided full support to the charitable activity of “Caring the Community Campaign”
- CTM hosted the visit to students from University of Saint Joseph to deepen students’ understanding of information technology

AUG

- The Group was honored “the Good MPF Employer Award” and “Support for MPF Management Award” presented by the Mandatory Provident Fund Authority
- The Group continued to be granted the “Energywise Certificate” under the Hong Kong Green Organisation Certification presented by the Environmental Campaign Committee
- CPC took part in the green facilities visit under the “Green Hero Alliance 2017” to equip and nurture staff and public to practice low carbon lifestyle in their everyday life
- CTM maintained the uninterrupted telecommunication services during the typhoon period of Hato. The staff of the subsidiary took the time to step up their efforts to repair and rehabilitate aftermath. The staff paid the best effort to facilitate the community disaster relief and reconstruction of the home of the victim after the typhoon
- CTM provided the briefing of development of “Digital Macau” to the delegation of the Industry and Commerce Association of Macau
- The Singapore subsidiary continued to sponsor and participate in the “Frost the Trail 2017” for donation to “Bright Hill Evergreen Home”. It has shown our continued support for the needy of the community

SEP

- The Group hosted the “Basketball Championship” and “Badminton Competition” for the CITIC Telecom International Group to promote the importance of sports activities
- CPC formed the team to join the green Contest Day to gain green knowledge and practices
- CTM made donation to the Our Lady of Mercy Home and the volunteering team organised visit to the elderly of the organisation
- The Singapore subsidiary supported the “Food Assistance Programme” for the elderly which was organised by the Learning Vision @ Fusionopolis (Solaris)

OCT

- The Group organised the "Table Tennis Competition" to enhance employee belonging through the sports event
- CPC has invested in employee's health through participation of "Innothon 10km 2017"
- "CTM Digital Macau Forum" was held to draw on collective wisdom to foster the development of Digital Macau
- The Singapore subsidiary sponsored "the Singapore Environmental Achievement Award" to support green activities

NOV

- The Group organised outing activities for our employees and their families
- The Group continued to be granted the certificate of ISO 14064 under the international recognised standard for our office floors of CITIC Telecom Tower of Hong Kong headquarters
- CPC was awarded the "Fare Trade Supporter" by the Fare Trade Hong Kong
- CTM sponsored "CTM Macau Touring Car Cup" of Grand Prix for the 15th consecutive year
- CTM supported and took part in "Macau TrailHiker 2017" for the 8th consecutive year
- The Singapore subsidiary participated in the fundraising activity of the "One-North Run 2017"

DEC

- 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
- The Group sponsored and supported the "2017 Moonwalkers" held by ORBIS
- CTM supported the fundraising activity of Tung Sin Tong 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 123 to 208, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017 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 ("HKSA") 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 135 to 136.

The Key Audit Matter	How the matter was addressed in our audit
<p>The carrying values of the Group's goodwill, intangible assets and other PP&amp;E as at 31 December 2017, which amounted to HK\$9,729 million, HK\$1,722 million and HK\$2,626 million, respectively, were allocated to cash-generating units ("CGUs") which comprised: (i) Telecoms Business – Macau, (ii) Enterprise Solutions (outside Macau), and (iii) Other Telecommunications Services.</p> <p>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&amp;E may be impaired. Management compares the aggregate carrying values of the CGUs to which the goodwill, intangible assets and other PP&amp;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.</p> <p>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.</p> <p>We identified assessing potential impairment of goodwill, intangible assets and other PP&amp;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.</p>	<p>Our audit procedures to assess the potential impairment of goodwill, intangible assets and other PP&amp;E included the following:</p> <ul style="list-style-type: none"><li>evaluating management's identification of CGUs and the value of goodwill, intangible assets and other PP&amp;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;</li><li>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;</li><li>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;</li><li>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;</li><li>comparing the long term growth rates adopted in the discounted cashflow forecasts with those of comparable companies and external market data; and</li><li>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.</li></ul>





## KEY AUDIT MATTERS (CONTINUED)

### Revenue recognition: telecommunications billing systems

Refer to note 3 to the consolidated financial statements and the accounting policies on page 142.

The Key Audit Matter	How the matter was addressed in our audit
<p>The Group's revenue principally comprises income from mobile services, Internet services, international telecommunication services and fixed line services which amounted to HK\$3,776 million for the year ended 31 December 2017.</p> <p>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.</p> <p>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.</p>	<p>Our audit procedures to assess the recognition of revenue in respect of the telecommunications billing systems included the following:</p> <ul style="list-style-type: none"> <li>• 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: <ul style="list-style-type: none"> <li>– the capturing and recording of data usage;</li> <li>– authorisation of rate changes; and</li> <li>– calculating the amounts billed to customers.</li> </ul> </li> <li>• assessing the design, implementation and operating effectiveness of the key non-automated internal controls over the revenue recognition process;</li> <li>• 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</li> <li>• 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.</li> </ul>

# 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 THE 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.

## 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

1 March 2018



# CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2017 (Expressed in Hong Kong dollars)

	Note	2017 \$'000	2016 \$'000
<b>Revenue</b>	3	<b>7,450,760</b>	7,699,147
Valuation gain on investment property	11	<b>50,641</b>	–
Other income	4	<b>46,347</b>	12,672
Other net gain/(loss)	5	<b>7,763</b>	(22,787)
		<b>7,555,511</b>	7,689,032
Cost of sales and services		<b>(3,852,755)</b>	(4,229,077)
Depreciation and amortisation	6(c)	<b>(695,646)</b>	(656,415)
Staff costs	6(b)	<b>(961,255)</b>	(850,953)
Other operating expenses		<b>(658,917)</b>	(598,477)
		<b>1,386,938</b>	1,354,110
Finance costs	6(a)	<b>(323,669)</b>	(327,707)
Share of (loss)/profit of a joint venture		<b>(2,036)</b>	1,686
<b>Profit before taxation</b>	6	<b>1,061,233</b>	1,028,089
Income tax	7(a)	<b>(165,477)</b>	(165,368)
<b>Profit for the year</b>		<b>895,756</b>	862,721
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>881,338</b>	850,088
Non-controlling interests		<b>14,418</b>	12,633
<b>Profit for the year</b>		<b>895,756</b>	862,721
<b>Earnings per share (HK cents)</b>	10		
Basic		<b>24.9</b>	24.9
Diluted		<b>24.8</b>	24.7

Annual Report 2017

The notes on pages 128 to 208 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 2017 (Expressed in Hong Kong dollars)

	Note	2017 \$'000	2016 \$'000
<b>Profit for the year</b>		<b>895,756</b>	862,721
<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 liability	23(a)(v)	<b>49,745</b>	3,077
Deferred tax recognised on the remeasurement of net defined benefit liability	7(c)	<b>(5,877)</b>	(287)
		<b>43,868</b>	2,790
<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>28,368</b>	(13,790)
		<b>28,368</b>	(13,790)
<b>Other comprehensive income for the year</b>		<b>72,236</b>	(11,000)
<b>Total comprehensive income for the year</b>		<b>967,992</b>	851,721
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>952,897</b>	839,006
Non-controlling interests		<b>15,095</b>	12,715
<b>Total comprehensive income for the year</b>		<b>967,992</b>	851,721

The notes on pages 128 to 208 form part of these financial statements.



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2017 (Expressed in Hong Kong dollars)

	Note	2017 \$'000	2016 \$'000
<b>Non-current assets</b>			
Investment property	11	685,969	635,328
Other property, plant and equipment	11	2,625,731	2,553,923
		<b>3,311,700</b>	3,189,251
Intangible assets	12	1,722,074	1,878,846
Goodwill	13	9,729,268	9,596,599
Interest in a joint venture	15	5,972	7,367
Non-current other receivables and deposits	17	207,509	198,920
Deferred tax assets	7(c)	81,428	85,764
		<b>15,057,951</b>	14,956,747
<b>Current assets</b>			
Inventories	16	103,771	69,945
Trade and other receivables and deposits	17	1,783,151	1,691,446
Current tax recoverable	7(b)	3,701	5,687
Cash and bank deposits	18(a)	1,635,635	1,459,050
		<b>3,526,258</b>	3,226,128
<b>Current liabilities</b>			
Trade and other payables	19	1,739,334	1,706,100
Bank and other loans	20	284,438	43,739
Obligations under finance leases	22	1,541	2,928
Current tax payable	7(b)	211,453	230,183
		<b>2,236,766</b>	1,982,950
		<b>1,289,492</b>	1,243,178
<b>Net current assets</b>			
<b>Total assets less current liabilities</b>			
<b>Non-current liabilities</b>			
Interest-bearing borrowings	21	7,540,698	7,857,680
Obligations under finance leases	22	1,793	3,063
Non-current other payables	19	61,808	77,594
Net defined benefit retirement obligation	23(a)	68,303	112,878
Deferred tax liabilities	7(c)	244,643	249,024
		<b>7,917,245</b>	8,300,239
<b>NET ASSETS</b>			
<b>CAPITAL AND RESERVES</b>			
Share capital	25(c)	4,280,542	4,262,457
Reserves		4,115,865	3,608,047
<b>Total equity attributable to equity shareholders of the Company</b>			
<b>Non-controlling interests</b>			
<b>TOTAL EQUITY</b>			

Approved and authorised for issue by the board of directors on 1 March 2018.

**Xin Yue Jiang**  
Director

**Lin Zhenhui**  
Director

The notes on pages 128 to 208 form part of these financial statements.



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017 (Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Company					Non-controlling interests	Total equity	
	Note	Share capital \$'000	Capital reserve \$'000	Exchange reserve \$'000	Retained profits \$'000			Total \$'000
<b>Balance at 1 January 2016</b>		3,848,565	65,256	(24,890)	3,140,456	7,029,387	27,671	7,057,058
<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 declared 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>		4,262,457	78,520	(38,734)	3,568,261	7,870,504	29,182	7,899,686
<b>Balance at 1 January 2017</b>		4,262,457	78,520	(38,734)	3,568,261	7,870,504	29,182	7,899,686
<b>Changes in equity for 2017:</b>								
Profit for the year		-	-	-	881,338	881,338	14,418	895,756
Other comprehensive income for the year		-	-	28,129	43,430	71,559	677	72,236
Total comprehensive income for the year		-	-	28,129	924,768	952,897	15,095	967,992
Dividend paid to non-controlling interests		-	-	-	-	-	(10,486)	(10,486)
Shares issued under share option plan	24(b)(ii)	18,085	(4,253)	-	-	13,832	-	13,832
Equity-settled share-based transactions	6(b)	-	31,980	-	-	31,980	-	31,980
Dividends approved in respect of the previous financial year	25(b)(ii)	-	-	-	(366,503)	(366,503)	-	(366,503)
Release upon lapse of share options	24(b)(ii)	-	(1,653)	-	1,653	-	-	-
Dividends declared in respect of the current financial year	25(b)(i)	-	-	-	(106,303)	(106,303)	-	(106,303)
		18,085	26,074	-	(471,153)	(426,994)	(10,486)	(437,480)
<b>Balance at 31 December 2017</b>		4,280,542	104,594	(10,605)	4,021,876	8,396,407	33,791	8,430,198

The notes on pages 128 to 208 form part of these financial statements.



# CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2017 (Expressed in Hong Kong dollars)

	Note	2017 \$'000	2016 \$'000
<b>Operating activities</b>			
Cash generated from operations	18(d)	2,043,394	2,078,949
Tax paid:			
– Hong Kong Profits Tax paid		(36,508)	(35,272)
– Tax paid for jurisdictions outside Hong Kong		(159,270)	(161,423)
Tax refunded:			
– Hong Kong Profits Tax refunded		5,882	5
– Tax refunded for jurisdictions outside Hong Kong		385	341
<b>Net cash generated from operating activities</b>		<b>1,853,883</b>	<b>1,882,600</b>
<b>Investing activities</b>			
Payment for the purchase of other property, plant and equipment and others		(549,977)	(608,599)
Proceeds from sale of other property, plant and equipment		1,035	456
Settlement of cash consideration payable for acquisition of subsidiaries in prior year		(83,095)	–
Payment for the acquisitions of subsidiaries (net of cash and cash equivalents acquired)	26(b)	(158,485)	(681,946)
Payment for transaction costs for the acquisitions		(1,007)	(21,531)
Increase in pledged deposits		(52,981)	(34,493)
Interest received		12,732	9,017
<b>Net cash used in investing activities</b>		<b>(831,778)</b>	<b>(1,337,096)</b>
<b>Financing activities</b>			
Proceeds from new bank and other loans	18(e)	361,582	3,518,806
Proceeds from new shares issued under share option plan		13,832	21,818
Payment for transaction costs on bank and other loans		–	(3,376)
Capital element of finance lease rentals paid	18(e)	(3,097)	(960)
Repayment of bank and other loans	18(e)	(508,451)	(3,143,914)
Interest element of finance lease rentals paid	18(e)	(210)	(62)
Other borrowing costs paid	18(e)	(306,267)	(287,839)
Dividends paid to equity shareholders of the Company	25(b)	(472,806)	(425,260)
Dividend paid to non-controlling interests		(10,486)	(11,204)
<b>Net cash used in financing activities</b>		<b>(925,903)</b>	<b>(331,991)</b>
<b>Net increase in cash and cash equivalents</b>		<b>96,202</b>	<b>213,513</b>
<b>Cash and cash equivalents at 1 January</b>	18(a)	<b>1,283,675</b>	<b>1,073,683</b>
<b>Effect of foreign exchange rate changes</b>		<b>23,679</b>	<b>(3,521)</b>
<b>Cash and cash equivalents at 31 December</b>	18(a)	<b>1,403,556</b>	<b>1,283,675</b>

The notes on pages 128 to 208 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 2017 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 that investment property and contingent consideration are stated at their fair value as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

### (c) Changes in accounting policies

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group. However, additional disclosure has been included in note 18(e) to satisfy the new disclosure requirements introduced by the amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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



## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (d) Business combination, subsidiaries and non-controlling interests

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see note 1(k)). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

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.

# NOTES TO THE FINANCIAL STATEMENTS

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (d) Business combination, subsidiaries and non-controlling interests (continued)

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)).

### (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 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.



## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (f) Goodwill

Goodwill represents the excess of

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(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.

### (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 payments are accounted for as described in note 1(j).

# NOTES TO THE FINANCIAL STATEMENTS

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (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.

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:

- Freehold land is not depreciated.
- 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.

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.



## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (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	4–17 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

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (j) Leased assets (continued)

#### (ii) *Assets acquired under finance leases*

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 other 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 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 held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (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.



## 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 the 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

## 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.

## 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

## 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 the defined benefit retirement plan 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)).

## 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.



# NOTES TO THE FINANCIAL STATEMENTS

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (r) Income tax (continued)

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.

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.



## 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

## 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 that it is probable will be recovered.

(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.

## 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

## 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, 24, 26(c) and 27 contain information about the assumptions and their risk factors relating to valuation of investment property, goodwill impairment, defined benefit retirement obligation, fair value of share options granted, 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 revenue 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 revenue 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.



## 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

## 3 REVENUE AND SEGMENT REPORTING

### (a) Revenue

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.

Revenue represents fees from the provision of telecommunications services and sale of equipment and mobile handsets. The amount of each significant category of revenue is as follows:

	2017 \$'000	2016 \$'000
Mobile services	1,221,068	1,164,781
Internet services	933,805	922,189
International telecommunications services	1,340,751	1,341,297
Enterprise solutions	2,564,328	2,255,822
Fixed line services	280,618	321,705
Fees from the provision of telecommunications services	6,340,570	6,005,794
Sale of equipment and mobile handsets	1,110,190	1,693,353
	7,450,760	7,699,147

### (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.



3 REVENUE 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

	2017 \$'000	2016 \$'000
<b>Profit</b>		
Reportable segment profit	2,094,469	2,120,839
Net loss on disposal of other property, plant and equipment	(3,373)	(333)
Net foreign exchange gain/(loss)	11,136	(22,454)
Depreciation and amortisation	(695,646)	(656,415)
Finance costs	(323,669)	(327,707)
Share of (loss)/profit of a joint venture	(2,036)	1,686
Interest income	13,231	7,927
Rentals receivable from investment property less direct outgoings	20,218	3,516
Change in fair value of contingent consideration	9,931	-
Valuation gain on investment property	50,641	-
Unallocated head office and corporate expenses	(113,669)	(98,970)
<b>Consolidated profit before taxation</b>	<b>1,061,233</b>	1,028,089

# NOTES TO THE FINANCIAL STATEMENTS

## 3 REVENUE AND SEGMENT REPORTING (CONTINUED)

### (b) Segment reporting (continued)

(iii) Reconciliations of reportable segment assets and liabilities

	2017 \$'000	2016 \$'000
<b>Assets</b>		
Reportable segment assets	17,706,638	17,343,300
Investment property	685,969	635,328
Interest in a joint venture	5,972	7,367
Deferred tax assets	81,428	85,764
Current tax recoverable	3,701	5,687
Unallocated head office and corporate assets	100,501	105,429
<b>Consolidated total assets</b>	<b>18,584,209</b>	18,182,875
<b>Liabilities</b>		
Reportable segment liabilities	1,821,256	1,753,886
Bank and other loans	284,438	43,739
Obligations under finance leases	3,334	5,991
Current tax payable	211,453	230,183
Non-current interest-bearing borrowings	7,540,698	7,857,680
Deferred tax liabilities	244,643	249,024
Unallocated head office and corporate liabilities	48,189	142,686
<b>Consolidated total liabilities</b>	<b>10,154,011</b>	10,283,189

3 REVENUE 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	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Hong Kong (place of domicile)	2,789,123	2,564,223	1,682,369	1,679,050
Macau	3,467,245	4,367,905	12,234,471	12,340,141
Others	1,194,392	767,019	852,174	652,872
	7,450,760	7,699,147	14,769,014	14,672,063

4 OTHER INCOME

	2017 \$'000	2016 \$'000
Interest income from bank deposits	8,625	7,844
Other interest income	4,606	83
	13,231	7,927
Gross rental income from investment property	23,185	4,745
Change in fair value of contingent consideration (note)	9,931	–
	46,347	12,672

Note: During the year ended 31 December 2017, the Group remeasured the fair value of contingent consideration for the acquisition of subsidiaries in prior year with contingent consideration arrangements based on certain criteria stated in the sale and purchase agreement, and a gain of \$9,931,000 (2016: \$Nil) was recognised.

5 OTHER NET GAIN/(LOSS)

	2017 \$'000	2016 \$'000
Net loss on disposal of other property, plant and equipment	(3,373)	(333)
Net foreign exchange gain/(loss)	11,136	(22,454)
	7,763	(22,787)

# NOTES TO THE FINANCIAL STATEMENTS

## 6 PROFIT BEFORE TAXATION

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

	2017 \$'000	2016 \$'000
<b>(a) Finance costs</b>		
Interest on bank and other borrowings		
– wholly repayable within five years	92,127	73,086
– not wholly repayable within five years	214,110	214,110
	<b>306,237</b>	287,196
Finance charges on obligations under finance leases	210	62
Other finance charges	14,136	37,347
Other interest expense (note 23(a)(v))	3,086	3,102
	<b>323,669</b>	327,707
<b>(b) Staff costs (including directors' emoluments (note 8))</b>		
Contributions to defined contribution retirement plans	59,101	45,386
Expenses recognised in respect of defined benefit retirement plan (note 23(a)(v))	10,036	10,269
	<b>69,137</b>	55,655
Equity-settled share-based payment expenses (note 24(b)(iv))	31,980	20,220
Salaries, wages and other benefits	860,138	775,078
	<b>961,255</b>	850,953
<b>(c) Other items</b>		
Operating lease charges		
– leased circuits	1,028,746	835,259
– land and buildings	123,961	110,550
	<b>525,587</b>	487,894
Depreciation (note 11(a))	170,059	168,521
Amortisation (note 12)	695,646	656,415
Impairment losses		
– trade debtors, net (note 17(b))	2,728	3,306
Rentals receivable from investment property less direct outgoings of \$2,967,000 (2016: \$1,229,000)	(20,218)	(3,516)
Auditors' remuneration		
– audit services	7,881	5,906
– non-audit services	1,450	2,235
Transaction costs for the acquisitions	1,007	15,792

7 INCOME TAX

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

	2017 \$'000	2016 \$'000
<b>Current tax</b>		
Hong Kong Profits Tax		
– Provision for the year	63,367	50,508
– Over-provision in respect of prior years	(23)	(268)
	63,344	50,240
Jurisdictions outside Hong Kong		
– Provision for the year	129,819	154,498
– Over-provision in respect of prior years	(20,031)	(22,109)
	109,788	132,389
<b>Deferred tax</b>		
Origination and reversal of temporary differences (note 7(c))	(7,655)	(17,261)
	165,477	165,368

The provision for Hong Kong Profits Tax for 2017 is calculated at 16.5% (2016: 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 2016/2017 subject to a maximum reduction of \$20,000 for each business (2016: a maximum reduction of \$20,000 was granted for the year of assessment 2015/2016 and was taken into account in calculating the provision for 2016).

The provision for Macau Complementary Tax for 2017 is calculated at 12% (2016: 12%) of the estimated assessable profits for the year. Assessable profits of the first Macau Patacas ("MOP") 600,000 (equivalent to approximately \$583,000) (2016: 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:

	2017 \$'000	2016 \$'000
Profit before taxation	1,061,233	1,028,089
Notional tax on profit before taxation, calculated at the rates applicable to profits in the cities or countries concerned	138,774	125,473
Tax effect of non-taxable income and non-deductible expenses	50,539	64,523
Tax effect of unused tax losses not recognised	2,278	969
Tax effect of temporary differences previously not recognised and recognition of previous unused tax losses	(6,316)	(1,514)
Over-provision in respect of prior years	(20,054)	(22,377)
Others	256	(1,706)
Actual tax expense	165,477	165,368

# NOTES TO THE FINANCIAL STATEMENTS

## 7 INCOME TAX (CONTINUED)

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

	2017 \$'000	2016 \$'000
<b>Hong Kong Profits Tax</b>		
Provision for the year	63,367	50,508
Provisional profits tax paid	(34,781)	(41,227)
Balance of profits tax provision relating to prior years	38,988	25,575
	<b>67,574</b>	34,856
<b>Jurisdictions outside Hong Kong</b>		
Provision for the year	129,819	154,498
Profits tax paid	(13,043)	(6,228)
Through acquisitions of subsidiaries (note 26(b))	(99)	3,454
Balance of profits tax provision relating to prior years	23,767	38,863
Exchange adjustments	(266)	(947)
	<b>140,178</b>	189,640
	<b>207,752</b>	224,496
<b>Representing:</b>		
Current tax recoverable	(3,701)	(5,687)
Current tax payable	211,453	230,183
	<b>207,752</b>	224,496

### (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 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
At 1 January 2017	226,252	100,095	(13,545)	(143,350)	(6,192)	163,260
Through acquisition of subsidiaries (note 26(b))	2,089	-	-	(5,518)	7,284	3,855
(Credited)/charged to profit or loss (note 7(a))	(17,796)	(3,268)	(529)	10,045	3,893	(7,655)
Charged to reserves	-	-	5,877	-	-	5,877
Exchange adjustments	(173)	(114)	1	(1,299)	(537)	(2,122)
At 31 December 2017	210,372	96,713	(8,196)	(140,122)	4,448	163,215

7 INCOME TAX (CONTINUED)

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

Reconciliation to the consolidated statement of financial position

	2017 \$'000	2016 \$'000
Net deferred tax assets recognised in the consolidated statement of financial position	(81,428)	(85,764)
Net deferred tax liabilities recognised in the consolidated statement of financial position	244,643	249,024
	163,215	163,260

(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 \$250,290,000 (2016: \$277,546,000) at 31 December 2017 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. \$210,555,000 (2016: \$243,498,000) of the tax losses do not expire under the current tax legislation, and \$39,735,000 (2016: \$34,048,000) 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:

	2017							
	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	-	4,133	4,252	128	-	8,513	1,291	9,804
Lin Zhenhui	-	4,019	3,827	77	18	7,941	1,136	9,077
Luo Ning	-	-	-	-	-	-	-	-
Chan Tin Wai, David	-	2,861	3,421	81	18	6,381	981	7,362
<b>Non-executive directors</b>								
Liu Jifu	-	-	-	-	-	-	722	722
Fei Yiping	-	-	-	-	-	-	361	361
<b>Independent non-executive directors</b>								
Liu Li Qing	340	-	-	-	-	340	144	484
Kwong Che Keung, Gordon (retired on 1 June 2017)	142	-	-	-	-	142	251	393
Zuo Xunsheng	340	-	-	-	-	340	144	484
Lam Yiu Kin (appointed on 1 June 2017)	198	-	-	-	-	198	-	198
<b>Total</b>	<b>1,020</b>	<b>11,013</b>	<b>11,500</b>	<b>286</b>	<b>36</b>	<b>23,855</b>	<b>5,030</b>	<b>28,885</b>



# NOTES TO THE FINANCIAL STATEMENTS

## 8 DIRECTORS' EMOLUMENTS (CONTINUED)

	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>

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 2017 and 2016, 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. None of the directors has waived or agreed to waive any emoluments except for Mr. Luo Ning who had not accepted the options for 1,000,000 shares granted to him during the year.



## 9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2016: three) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other two (2016: two) individuals are as follows:

	<b>2017</b>	2016
	<b>\$'000</b>	\$'000
Salaries and other emoluments	<b>7,090</b>	6,919
Discretionary bonuses	<b>8,984</b>	8,834
Share-based payments	<b>1,016</b>	748
Retirement scheme contributions	<b>553</b>	540
	<b>17,643</b>	17,041

The emoluments of the two (2016: two) individuals with the highest emoluments are within the following bands:

	<b>2017</b>	2016
	<b>Number of individuals</b>	Number of individuals
\$		
6,000,001–6,500,000	<b>1</b>	1
10,500,001–11,000,000	<b>–</b>	1
11,000,001–11,500,000	<b>1</b>	–

During the years ended 31 December 2017 and 2016, 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

## 10 EARNINGS PER SHARE

	2017 \$'000	2016 \$'000
Profit attributable to equity shareholders of the Company	881,338	850,088

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

	Number of shares	
	2017 '000	2016 '000
Issued ordinary shares at 1 January	3,534,581	3,382,342
Effect of shares issued for acquisition of a subsidiary	–	25,159
Effect of share options exercised	6,026	5,652
Weighted average number of ordinary shares (basic) at 31 December	3,540,607	3,413,153
Effect of deemed issue of shares under the Company's share option plan	7,638	25,572
Weighted average number of ordinary shares (diluted) at 31 December	3,548,245	3,438,725
Basic earnings per share (HK cents)	24.9	24.9
Diluted earnings per share (HK cents)	24.8	24.7



# NOTES TO THE FINANCIAL STATEMENTS

## 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 (notes (b), (c) and (e)) \$'000	Total \$'000
<b>Cost or valuation:</b>							
At 1 January 2016	265,303	3,445,490	289,789	211,043	4,211,625	-	4,211,625
Additions							
– through acquisitions of subsidiaries	126,905	6,698	15,793	93	149,489	635,328	784,817
– others	-	74,012	13,933	408,558	496,503	-	496,503
Disposals	-	(25,296)	(4,466)	-	(29,762)	-	(29,762)
Reclassification and transfer to intangible assets (note 12)	-	439,954	3,258	(443,996)	(784)	-	(784)
Exchange adjustments	-	(15,152)	(3,177)	(2)	(18,331)	-	(18,331)
At 31 December 2016	392,208	3,925,706	315,130	175,696	4,808,740	635,328	5,444,068
<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
At 1 January 2017	<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>
Additions							
– through acquisition of subsidiaries (note 26(b))	3,335	57,595	2,704	-	63,634	-	63,634
– others	-	101,234	40,445	383,231	524,910	-	524,910
Disposals	-	(177,416)	(27,095)	-	(204,511)	-	(204,511)
Reclassification	-	309,666	10,478	(320,144)	-	-	-
Fair value adjustment	-	-	-	-	-	50,641	50,641
Exchange adjustments	147	37,644	5,588	367	43,746	-	43,746
At 31 December 2017	<b>395,690</b>	<b>4,254,429</b>	<b>347,250</b>	<b>239,150</b>	<b>5,236,519</b>	<b>685,969</b>	<b>5,922,488</b>
<b>Representing:</b>							
Cost	<b>395,690</b>	<b>4,254,429</b>	<b>347,250</b>	<b>239,150</b>	<b>5,236,519</b>	<b>-</b>	<b>5,236,519</b>
Valuation – 2017	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>685,969</b>	<b>685,969</b>
	<b>395,690</b>	<b>4,254,429</b>	<b>347,250</b>	<b>239,150</b>	<b>5,236,519</b>	<b>685,969</b>	<b>5,922,488</b>
<b>Accumulated depreciation:</b>							
At 1 January 2016	43,116	1,580,201	183,356	-	1,806,673	-	1,806,673
Charge for the year (note 6(c))	11,892	442,144	33,858	-	487,894	-	487,894
Written back on disposals	-	(24,563)	(4,410)	-	(28,973)	-	(28,973)
Exchange adjustments	-	(10,263)	(514)	-	(10,777)	-	(10,777)
At 31 December 2016	55,008	1,987,519	212,290	-	2,254,817	-	2,254,817
At 1 January 2017	<b>55,008</b>	<b>1,987,519</b>	<b>212,290</b>	<b>-</b>	<b>2,254,817</b>	<b>-</b>	<b>2,254,817</b>
Charge for the year (note 6(c))	<b>15,445</b>	<b>469,140</b>	<b>41,002</b>	<b>-</b>	<b>525,587</b>	<b>-</b>	<b>525,587</b>
Written back on disposals	<b>-</b>	<b>(173,396)</b>	<b>(26,707)</b>	<b>-</b>	<b>(200,103)</b>	<b>-</b>	<b>(200,103)</b>
Exchange adjustments	<b>76</b>	<b>29,115</b>	<b>1,296</b>	<b>-</b>	<b>30,487</b>	<b>-</b>	<b>30,487</b>
At 31 December 2017	<b>70,529</b>	<b>2,312,378</b>	<b>227,881</b>	<b>-</b>	<b>2,610,788</b>	<b>-</b>	<b>2,610,788</b>
<b>Net book value:</b>							
At 31 December 2017	<b>325,161</b>	<b>1,942,051</b>	<b>119,369</b>	<b>239,150</b>	<b>2,625,731</b>	<b>685,969</b>	<b>3,311,700</b>
At 31 December 2016	337,200	1,938,187	102,840	175,696	2,553,923	635,328	3,189,251

# NOTES TO THE FINANCIAL STATEMENTS

## 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 2017 \$'000	Fair value measurements as at 31 December 2017 categorised into		
		Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
<b>Recurring fair value measurement</b>				
Investment property:				
– Industrial – Hong Kong	685,969	–	–	685,969

	Fair value at 31 December 2016 \$'000	Fair value measurements as at 31 December 2016 categorised into		
		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 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2016: \$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 2017. The valuation was 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 has discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date.



## 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 technique	Major unobservable input	Input amount
Investment property Industrial – Hong Kong	Direct comparison approach	Market unit rate	\$3,436 per square foot (2016: \$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.

The movement during the year in the balance of the Level 3 fair value measurement is as follows:

	2017 \$'000	2016 \$'000
Investment property – Industrial – Hong Kong:		
At 1 January	635,328	–
Fair value adjustment	50,641	–
Through acquisition of a subsidiary	–	635,328
At 31 December	685,969	635,328

Fair value adjustment of investment property is recognised in the line item “valuation gain on investment property” on the face of the consolidated income statement. The gain recognised in profit or loss for the year arise from the investment property held at the end of the reporting period.

## NOTES TO THE FINANCIAL STATEMENTS

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

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

	2017 \$'000	2016 \$'000
In Hong Kong		
– medium-term leases	934,667	892,538
Outside Hong Kong		
– freehold	3,364	–
– medium-term leases	73,099	79,990
	<b>1,011,130</b>	972,528
<b>Representing:</b>		
Land and buildings carried at cost	325,161	337,200
Investment property carried at fair value	685,969	635,328
	<b>1,011,130</b>	972,528

(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, no addition of other property, plant and equipment by new finance lease (2016: \$6,835,000, which included an amount of \$2,342,000 additions to other assets through acquisition of subsidiaries and \$4,493,000 additions to construction in progress financed by a new finance lease). At the end of the reporting period, the net book value of \$5,029,000 (2016: \$6,215,000) was held under finance leases, which represented other assets of \$5,029,000 (2016: \$1,923,000) and construction in progress of \$Nil (2016: \$4,292,000).



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

### (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:

	2017 \$'000	2016 \$'000
Within 1 year	12,990	19,943
After 1 year but within 5 years	3,721	6,881
	<b>16,711</b>	26,824

- (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

## 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 2016	1,670,969	18,414	789,720	626	23,563	2,503,292
Additions through acquisition of subsidiaries	27,755	-	15,952	-	-	43,707
Transfer from other property, plant and equipment (note 11(a))	-	-	-	-	784	784
Exchange adjustments	(2,216)	(318)	(1,456)	-	-	(3,990)
At 31 December 2016	1,696,508	18,096	804,216	626	24,347	2,543,793
At 1 January 2017	<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>
Additions through acquisition of subsidiaries (note 26(b))	<b>8,355</b>	-	-	-	-	<b>8,355</b>
Exchange adjustments	<b>5,789</b>	<b>328</b>	<b>2,170</b>	-	<b>(2)</b>	<b>8,285</b>
At 31 December 2017	<b>1,710,652</b>	<b>18,424</b>	<b>806,386</b>	<b>626</b>	<b>24,345</b>	<b>2,560,433</b>
<b>Accumulated amortisation:</b>						
At 1 January 2016	391,417	16,498	80,300	626	9,230	498,071
Charge for the year (note 6(c))	132,944	1,229	30,297	-	4,051	168,521
Exchange adjustments	(1,095)	(257)	(293)	-	-	(1,645)
At 31 December 2016	523,266	17,470	110,304	626	13,281	664,947
At 1 January 2017	<b>523,266</b>	<b>17,470</b>	<b>110,304</b>	<b>626</b>	<b>13,281</b>	<b>664,947</b>
Charge for the year (note 6(c))	<b>135,766</b>	<b>634</b>	<b>30,895</b>	-	<b>2,764</b>	<b>170,059</b>
Exchange adjustments	<b>2,711</b>	<b>320</b>	<b>322</b>	-	-	<b>3,353</b>
At 31 December 2017	<b>661,743</b>	<b>18,424</b>	<b>141,521</b>	<b>626</b>	<b>16,045</b>	<b>838,359</b>
<b>Net book value:</b>						
At 31 December 2017	<b>1,048,909</b>	-	<b>664,865</b>	-	<b>8,300</b>	<b>1,722,074</b>
At 31 December 2016	1,173,242	626	693,912	-	11,066	1,878,846

13 GOODWILL

	2017 \$'000	2016 \$'000
<b>Cost and carrying amount:</b>		
At 1 January	9,596,599	9,276,511
Additions through acquisitions of subsidiaries (note 26(b))	121,818	335,781
Adjustment to purchase consideration payable for acquisition (note)	(38,759)	–
Exchange adjustments	49,610	(15,693)
At 31 December	9,729,268	9,596,599

Note: The adjustment was made to the purchase consideration payable for an acquisition of subsidiaries in the prior year, which were previously determined on a provisional basis. During the measurement period of twelve months following a transaction, the Group recognised adjustments to the provisional amounts as if the accounting for the business combination had been completed at the acquisition date. Save as the adjustment to goodwill arising from stated above, there was a corresponding adjustment to purchase consideration payable for an acquisition of \$38,759,000 (2016: \$Nil).

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

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

	2017 \$'000	2016 \$'000
Telecoms business – Macau	8,891,181	8,892,097
Enterprise solutions (outside Macau)	255,243	114,546
Other telecommunications services	582,844	589,956
	9,729,268	9,596,599

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:

	2017	2016
Long term growth rate	3.0%	3.0%
Discount rate	9.5%-10.5%	11.0%

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

# NOTES TO THE FINANCIAL STATEMENTS

## 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 CPC Estonia OÜ	Republic of Estonia	Euro ("EUR") 20,001*	-	100%	Provision of telecommunications services
CITIC Telecom CPC Netherlands B.V.	Netherlands	EUR131,056.71*	-	100%	Provision of wired telecommunications services and investment holding
CITIC Telecom CPC Poland Sp.z.o.o.	Republic of Poland	Polish Zloty 54,000*	-	100%	Provision of telecommunications services
CITIC Telecom International (Concept) Limited	Hong Kong	HK\$2*	-	100%	Provision of systems integration services
CITIC Telecom International CPC Limited	Hong Kong	HK\$402,712,186*	-	100%	Provision of telecommunications services
CITIC Telecom International CPC Japan Limited	Japan	Japanese Yen ("JPY") 10,000,000*	-	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



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	
CITIC Telecom International CPC (USA) LLC	United States of America	N/A #	-	100%	Provision of operational support 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 (Japan) Ltd.	Japan	JPY 10,000,000*	-	100%	Provision of telecommunications services
CITIC Telecom International Limited	Hong Kong	HK\$2*	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 (UK) Limited	United Kingdom	Pound Sterling 2*	-	100%	Provision of telecommunications services
ComNet Investment Limited	Hong Kong	HK\$2*	-	100%	Property and equipment holding, and investment holding
ComNet Telecom (Canada) Ltd.	Canada	Canadian Dollars 101**	-	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

# NOTES TO THE FINANCIAL STATEMENTS

## 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 (USA) LLC	United States of America	N/A***	-	100%	Provision of telecommunications services
Companhia de Telecomunicações de Macau, S.A.R.L.	Macau	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.

\*\* 100 Class A preference shares and 1 common share – the rights of which are set out in the Articles of ComNet Telecom (Canada) Ltd. respectively.

\*\*\* 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 2017 and 2016.



## 15 INTEREST IN A JOINT VENTURE

Details of the Group's interest in the joint venture, 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		
				Group's effective interest	Held by the Company	Principal activity
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 business solutions projects' parts and mobile handsets.

The amount of inventories recognised as an expense and included in profit or loss for the year ended 31 December 2017 is \$1,469,850,000 (2016: \$2,057,273,000).



# NOTES TO THE FINANCIAL STATEMENTS

## 17 TRADE AND OTHER RECEIVABLES AND DEPOSITS

	2017 \$'000	2016 \$'000
Trade debtors	1,330,736	1,312,809
Less: allowance for doubtful debts	(22,480)	(38,759)
Other receivables and deposits	1,308,256 682,404	1,274,050 616,316
	1,990,660	1,890,366
<b>Represented by:</b>		
Non-current portion	207,509	198,920
Current portion	1,783,151	1,691,446
	1,990,660	1,890,366

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 2017 amounted to \$32,003,000 (2016: \$31,329,000) which will not be recovered within a year.

At 31 December 2017 and 2016, included in other receivables and deposits were the following:

- (i) deferred expenditure of \$51,851,000 (2016: \$58,421,000) 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 \$74,155,000) (2016: RMB61,987,000 (equivalent to approximately \$69,295,000)).

### (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:

	2017 \$'000	2016 \$'000
Within 1 year	1,175,884	1,196,840
Over 1 year	154,852	115,969
	1,330,736	1,312,809

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).

## 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:

	2017 \$'000	2016 \$'000
At 1 January	38,759	45,567
Through acquisitions of subsidiaries	539	1,301
Impairment loss recognised	7,749	7,354
Impairment loss reversed	(5,021)	(4,048)
Uncollectible amounts written off	(20,731)	(9,498)
Exchange adjustments	1,185	(1,917)
At 31 December	22,480	38,759

At 31 December 2017, trade debtors of \$79,779,000 (2016: \$128,350,000) 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 \$22,480,000 (2016: \$38,759,000) 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:

	2017 \$'000	2016 \$'000
Within 1 year	1,113,666	1,098,979
Over 1 year	137,291	85,480
	1,250,957	1,184,459

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

## 18 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

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

	2017 \$'000	2016 \$'000
Cash at bank and in hand	1,134,240	823,342
Time deposits with banks	501,395	635,708
Cash and bank deposits in the consolidated statement of financial position (note (b))	1,635,635	1,459,050
Less: pledged deposits (note (c))	(232,079)	(175,375)
Cash and cash equivalents in the consolidated cash flow statement	1,403,556	1,283,675

(b) Included in cash and bank deposits were \$46,494,000 (2016: \$57,861,000) 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 2017, the Group pledged deposits of \$225,733,000 (2016: \$171,324,000) 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(b) and 30(a)(vi)).

At 31 December 2017, bank deposits of \$6,346,000 (2016: \$4,051,000) were pledged to secure parts of the trading facilities of the Group.

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

	Note	2017 \$'000	2016 \$'000
Profit before taxation		1,061,233	1,028,089
Adjustments for:			
Depreciation and amortisation	6(c)	695,646	656,415
Valuation gain on investment property	11	(50,641)	–
Net loss on disposal of other property, plant and equipment	5	3,373	333
Share of loss/(profit) of a joint venture		2,036	(1,686)
Transaction costs for the acquisitions	6(c)	1,007	15,792
Finance costs	6(a)	323,669	327,707
Interest income	4	(13,231)	(7,927)
Equity-settled share-based payment expenses	6(b)	31,980	20,220
Foreign exchange (gain)/loss		(16,599)	4,000
		2,038,473	2,042,943
Changes in working capital:			
(Increase)/decrease in inventories		(33,826)	112,074
(Increase)/decrease in trade and other receivables and deposits		(83,792)	102,628
Increase/(decrease) in trade and other payables		120,448	(174,242)
Increase/(decrease) in net defined benefit retirement obligation		2,091	(4,454)
Cash generated from operations		2,043,394	2,078,949

18 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (CONTINUED)

(e) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Bank and other loans \$'000 (Notes 20 & 21)	Finance leases \$'000 (Note 22)	Total \$'000
<b>At 1 January 2017</b>	<b>7,901,419</b>	<b>5,991</b>	<b>7,907,410</b>
<b>Changes from financing cash flows:</b>			
Proceeds from new bank and other loans	361,582	–	361,582
Repayment of bank and other loans	(508,451)	–	(508,451)
Capital element of financial lease rentals paid	–	(3,097)	(3,097)
Interest element of finance lease rentals paid	–	(210)	(210)
Other borrowing costs paid	(306,267)	–	(306,267)
<b>Total changes from financing cash flows</b>	<b>(453,136)</b>	<b>(3,307)</b>	<b>(456,443)</b>
<b>Exchange adjustments</b>	<b>53,370</b>	<b>440</b>	<b>53,810</b>
<b>Other changes:</b>			
Finance charges on obligations under finance leases (note 6(a))	–	210	210
Interest expenses and other finance charges	320,373	–	320,373
Through acquisition of subsidiaries (note 26(b))	4,397	–	4,397
Other non-cash items	(1,287)	–	(1,287)
<b>Total other changes</b>	<b>323,483</b>	<b>210</b>	<b>323,693</b>
<b>At 31 December 2017</b>	<b>7,825,136</b>	<b>3,334</b>	<b>7,828,470</b>

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19 TRADE AND OTHER PAYABLES

	2017 \$'000	2016 \$'000
Trade creditors	895,489	751,836
Other payables and accruals	905,653	1,031,858
	<b>1,801,142</b>	1,783,694
<b>Represented by:</b>		
Non-current portion	61,808	77,594
Current portion	1,739,334	1,706,100
	<b>1,801,142</b>	1,783,694

# NOTES TO THE FINANCIAL STATEMENTS

## 19 TRADE AND OTHER PAYABLES (CONTINUED)

At 31 December 2017 and 2016, included in other payables were the following:

- (i) a deferred revenue of \$58,272,000 (2016: \$65,656,000) 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; and
- (ii) purchase consideration payable of SG\$1,750,000 (equivalent to approximately \$10,224,000) (2016: SG\$25,996,000 (equivalent to approximately \$139,482,000)), of which SG\$1,750,000 (equivalent to approximately \$10,224,000) (2016: SG\$3,500,000 (equivalent to approximately \$18,781,000)) represents contingent consideration that will be paid if the acquired business achieve certain criteria during the designated period of time.

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:

	2017 \$'000	2016 \$'000
Within 1 year	690,770	494,475
Over 1 year	204,719	257,361
	<b>895,489</b>	751,836

## 20 BANK AND OTHER LOANS

At 31 December 2017, bank and other loans were repayable as follows:

	2017 \$'000	2016 \$'000
Within 1 year or on demand	284,438	43,739
After 1 year but within 2 years	562,415	312,892
After 2 years but within 5 years	3,491,660	4,061,423
	<b>4,338,513</b>	4,418,054
<b>Represented by:</b>		
Unsecured		
– Current	284,438	43,739
– Non-current (note 21(a))	4,054,075	4,374,315
	<b>4,338,513</b>	4,418,054

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 2017 and 2016, 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:

	2017 \$'000	2016 \$'000
Unsecured bank and other loans (note 20)	4,054,075	4,374,315
Guaranteed bonds at 6.1% due 2025 (note (b))	3,486,623	3,483,365
	<b>7,540,698</b>	7,857,680

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 (equivalent to 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.

22 OBLIGATIONS UNDER FINANCE LEASES

At 31 December 2017, the Group had obligations under finance leases repayable as follows:

	2017		2016	
	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	1,541	1,662	2,928	3,127
After 1 year but within 2 years	959	1,023	1,416	1,526
After 2 years but within 5 years	834	852	1,647	1,722
	<b>1,793</b>	<b>1,875</b>	3,063	3,248
	<b>3,334</b>	<b>3,537</b>	5,991	6,375
Less: total future interest expenses		<b>(203)</b>		(384)
Present value of lease obligations		<b>3,334</b>		5,991

# NOTES TO THE FINANCIAL STATEMENTS

## 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 latest independent actuarial valuation of the Fund was at 31 December 2017 and was prepared by qualified staff of Willis Towers Watson, who are members of the Society of Actuaries of the United States of America, using the projected unit credit method. The actuarial valuation indicates that CTM's obligation under the Fund is 81% (2016: 70%) covered by the plan assets held by the trustees at 31 December 2017. 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:

	2017 \$'000	2016 \$'000
Present value of plan obligation	362,208	374,564
Fair value of plan assets	(293,905)	(261,686)
	68,303	112,878

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 \$27,279,000 in contributions to the Fund in 2018.



23 EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

(a) Defined benefit retirement plan (continued)

(ii) Plan assets consist of the following:

	2017 \$'000	2016 \$'000
Cash and money market	20,944	24,964
Bonds		
– Government bonds	61,054	53,708
– Corporate bonds	55,600	48,599
	116,654	102,307
Equity securities		
– Asia	16,292	10,652
– North America	68,540	62,421
– Europe	62,054	51,441
– Other areas	9,421	9,901
	156,307	134,415
	293,905	261,686

All of the bonds and equity securities have quoted prices in active markets. The bonds have a credit rating of A- to AAA.

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 53% equity securities, 40% bonds and 7% other investments;
- interest rate risk is managed by duration limitation; and
- foreign currency risk is managed by allocation guideline.

# NOTES TO THE FINANCIAL STATEMENTS

## 23 EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

### (a) Defined benefit retirement plan (continued)

(iii) *Movements in the present value of the defined benefit obligation*

	2017 \$'000	2016 \$'000
At 1 January	374,564	367,336
Remeasurements:		
– Experience adjustments	1,545	1,415
– Actuarial gains arising from changes in financial assumptions	(21,939)	(2,700)
	(20,394)	(1,285)
Benefits paid by the Fund	(17,267)	(16,525)
Employees' contributions	4,360	4,411
Current service cost	10,036	10,269
Interest cost	10,946	10,358
Exchange adjustments	(37)	–
At 31 December	362,208	374,564

The weighted average duration of the defined benefit obligations is 6 years (2016: 7 years).

(iv) *Movements in plan assets*

	2017 \$'000	2016 \$'000
At 1 January	261,686	250,029
Employer's and employees' contributions paid to the Fund	13,075	19,824
Benefits paid by the Fund	(17,267)	(16,525)
Administrative expenses	(770)	(690)
Interest income	7,860	7,256
Return on plan assets, excluding interest income	29,351	1,792
Exchange adjustments	(30)	–
At 31 December	293,905	261,686

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:

	2017 \$'000	2016 \$'000
Current service cost	10,036	10,269
Net interest on net defined benefit liability	3,086	3,102
Administrative expenses	770	690
Total amounts recognised in profit or loss	13,892	14,061
Actuarial gains	(20,394)	(1,285)
Return on plan assets, excluding interest income	(29,351)	(1,792)
Total amounts recognised in other comprehensive income	(49,745)	(3,077)
Net defined benefit (gain)/loss	(35,853)	10,984

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:

	2017 \$'000	2016 \$'000
Staff costs (note 6(b))	10,036	10,269
Other operating expenses	770	690
Finance costs (note 6(a))	3,086	3,102
	13,892	14,061

# NOTES TO THE FINANCIAL STATEMENTS

## 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:

	2017 %	2016 %
Discount rate	3.9	3.0
Future salary growth	3.0	3.0

The below analysis shows how the defined benefit obligation at 31 December 2017 would have increased/ (decreased) as a result of a 0.25% (2016: 0.25%) change in the significant actuarial assumptions:

	2017		2016	
	Increase in 0.25% \$'000	Decrease in 0.25% \$'000	Increase in 0.25% \$'000	Decrease in 0.25% \$'000
Discount rate	(5,735)	5,886	(6,621)	6,809
Future salary growth	5,484	(5,370)	6,337	(6,194)

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

### (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.

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 2017 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 was valid and effective for a period of ten years till 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
24 March 2017	45,339,500	\$2.45 (Note (iv))	From 24 March 2018 to 23 March 2023
24 March 2017	45,339,500	\$2.45 (Note (iv))	From 24 March 2019 to 23 March 2024

# NOTES TO THE FINANCIAL STATEMENTS

## 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.
- (iv) The closing price of the Company's ordinary shares on the date of grant was \$2.37 per share.

The share options granted on 23 May 2007 and 17 September 2009 have expired. In addition, the first 50% of the share options granted on 19 August 2011 have expired at the close of business on 18 August 2017.

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



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#	3,750,000	Fully vested on 19 August 2012	Expired at the close of business on 18 August 2017
– on 19 August 2011	\$1.54#	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	Fully vested on 24 March 2017	Expire at the close of business on 23 March 2022
– on 24 March 2017	\$2.45	7,319,000	Vesting from 24 March 2018	Expire at the close of business on 23 March 2023
– on 24 March 2017	\$2.45	7,319,000	Vesting from 24 March 2019	Expire at the close of business on 23 March 2024



# NOTES TO THE FINANCIAL STATEMENTS

## 24 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

### (b) Share option plan of the Company (continued)

(i) (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#	20,477,500	Fully vested on 19 August 2012	Expired at the close of business on 18 August 2017
– on 19 August 2011	\$1.54#	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	Fully vested on 24 March 2017	Expire at the close of business on 23 March 2022
– on 24 March 2017	\$2.45	38,020,500	Vesting from 24 March 2018	Expire at the close of business on 23 March 2023
– on 24 March 2017	\$2.45	38,020,500	Vesting from 24 March 2019	Expire at the close of business on 23 March 2024
Total number of share options		362,538,500		

\* Exercise price per share has been adjusted to \$1.91 since 7 June 2013

# Exercise price per share has been adjusted to \$1.40 since 7 June 2013



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:

	2017		2016	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	\$2.37	140,533,659	\$2.35	153,118,257
Granted during the year	\$2.45	90,679,000	-	-
Exercised during the year (note 25(c))	\$1.44	(9,582,531)	\$2.06	(10,572,284)
Cancelled during the year	\$2.45	(1,513,000)	-	-
Lapsed during the year	\$2.50	(5,086,319)	\$2.57	(2,012,314)
Outstanding at the end of the year	\$2.44	215,030,809	\$2.37	140,533,659
Exercisable at the end of the year	\$2.43	128,174,809	\$2.26	99,033,409

During the year ended 31 December 2017, options for 9,582,531 (2016: 10,572,284) shares were exercised, options for 5,086,319 (2016: 2,012,314) shares have lapsed and options for 1,513,000 shares (2016: Nil option) were cancelled. The value of vested options lapsed during the year ended 31 December 2017 was \$1,653,000 (2016: \$215,000) 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 \$2.35 (2016: \$3.06). The options outstanding at 31 December 2017 had a weighted average exercise price of \$2.44 (2016: \$2.37) and a weighted average remaining contractual life of 3.51 years (2016: 3.28 years).

# NOTES TO THE FINANCIAL STATEMENTS

## 24 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

### (b) Share option plan of the Company (continued)

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

The average fair value of an option on one ordinary share of the Company measured at the date of grant of 24 March 2015 was \$0.673 based on the following assumptions using the binomial option pricing model:

- Taking into account the probability of early exercise behaviour, the average expected term of the grant for directors and employees was determined to be 6.0 years and 4.1 years respectively;
- Expected volatility of the Company's share price at 40% per annum (based on historical movements of the Company's share prices);
- Expected annual dividend yield of 4.0%;
- Expected post-vesting exit rate of 0% per annum for directors and 15.0% per annum for employees;
- Early exercise assumption for directors and employees to exercise their options when the share price is at least 250% and 161% of the exercise price respectively; and
- Risk-free interest rate of 1.18% and 1.30% for the first 50% and the remaining 50% of the options respectively (based on linearly interpolated yields of the Hong Kong Exchange Fund Notes at the grant date).

The result of the binomial option pricing model can be materially affected by changes in these assumptions so an option's actual value may differ from the estimated fair value of the options due to limitations of the model.

The average fair value of an option on one ordinary share of the Company measured at the date of grant of 24 March 2017 was \$0.558 based on the following assumptions using the binomial option pricing model:

- Taking into account the probability of early exercise behaviour, the average expected term of the grant for directors and employees was determined to be 6.0 years and 4.2 years respectively;
- Expected volatility of the Company's share price at 38% per annum (based on historical movements of the Company's share prices);
- Expected annual dividend yield of 4.2%;
- Expected post-vesting exit rate of 0% per annum for directors and 15.0% per annum for employees;
- Early exercise assumption for directors and employees to exercise their options when the share price is at least 250% and 161% of the exercise price respectively; and
- Risk-free interest rate of 1.47% and 1.53% for the first 50% and the remaining 50% of the options respectively (based on linearly interpolated yields of the Hong Kong Exchange Fund Notes at the grant date).

The result of the binomial option pricing model can be materially affected by changes in these assumptions so an option's actual value may differ from the estimated fair value of the options due to limitations of the model.

- (iv) The total expense recognised in the consolidated income statement for the year ended 31 December 2017 in respect of the above grant of options was \$31,980,000 (2016: \$20,220,000).



## 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:

*The Company*

	Note	Share capital \$'000	Capital reserve \$'000	Retained profits \$'000	Total \$'000
<b>Balance at 1 January 2016</b>		3,848,565	121,153	1,460,585	5,430,303
<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 declared in respect of the current financial year	25(b)(i)	–	–	(96,648)	(96,648)
<b>Balance at 31 December 2016 and 1 January 2017</b>		<b>4,262,457</b>	<b>134,417</b>	<b>1,893,044</b>	<b>6,289,918</b>
<b>Changes in equity for 2017:</b>					
Total comprehensive income for the year		–	–	880,217	880,217
Shares issued under share option plan	24(b)(ii)	18,085	(4,253)	–	13,832
Equity-settled share-based transactions	6(b)	–	31,980	–	31,980
Dividends approved in respect of the previous financial year	25(b)(ii)	–	–	(366,503)	(366,503)
Release upon lapse of share options	24(b)(ii)	–	(1,653)	1,653	–
Dividends declared in respect of the current financial year	25(b)(i)	–	–	(106,303)	(106,303)
<b>Balance at 31 December 2017</b>		<b>4,280,542</b>	<b>160,491</b>	<b>2,302,108</b>	<b>6,743,141</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 25 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

### (b) Dividends

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

	2017 \$'000	2016 \$'000
Interim dividend declared and paid of HK3.00 cents (2016: HK2.85 cents) per share	106,303	96,648
Final dividend proposed after the end of the reporting period of HK13.00 cents (2016: HK10.35 cents) per share	460,741	365,829
	567,044	462,477

For the interim dividend in respect of the period ended 30 June 2017, there was a difference of \$61,000 between the interim dividend disclosed in 2017 interim report and the amount paid during the year ended 31 December 2017, 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

	2017 \$'000	2016 \$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK10.35 cents (2016: HK9.70 cents) per share	366,503	328,612

For the final dividend in respect of the year ended 31 December 2016, there was a difference of \$674,000 between the final dividend disclosed in the 2016 annual report and the amount paid during the year ended 31 December 2017, which represented dividends attributable to shares issued upon exercise of share options before the closing date of the register of members.

25 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Share capital

	Note	2017		2016	
		No. of shares	Amount \$'000	No. of shares	Amount \$'000
<b>Ordinary shares, issued and fully paid:</b>					
At 1 January	(i)	3,534,581,049	4,262,457	3,382,342,098	3,848,565
Shares issued under share option plan	(ii)	9,582,531	18,085	10,572,284	28,559
Shares issued for acquisition of a subsidiary	(iii)	–	–	141,666,667	385,333
At 31 December	(i)	3,544,163,580	4,280,542	3,534,581,049	4,262,457

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 2017, 9,582,531 (2016: 10,572,284) ordinary shares were issued at a weighted average exercise price of \$1.44 (2016: \$2.06) 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, as part of the consideration, the Company allotted 141,666,667 new shares of the Company to Perfect New Holdings Limited, a fellow subsidiary of Talisgold Limited (being a fellow subsidiary of the Company), for the acquisition of assets through acquisition of Neostar Investment Limited, a subsidiary of Talisgold Limited.

(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

## 25 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

### (f) Distributability of reserves

At 31 December 2017, 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 \$2,302,108,000 (2016: \$1,893,044,000). After the end of the reporting period, the directors proposed a final dividend of HK13.00 cents (2016: HK10.35 cents) per share, amounting to \$460,741,000 (2016: \$365,829,000). 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 of the Company, as shown in the consolidated statement of financial position, plus net debt.

The Group's net gearing ratio at 31 December 2017 and 2016 is as follows:

	2017 \$'000	2016 \$'000
Bank and other loans	284,438	43,739
Interest-bearing borrowings	7,540,698	7,857,680
Obligations under finance leases	3,334	5,991
Total debt	7,828,470	7,907,410
Less: Cash and bank deposits	(1,635,635)	(1,459,050)
<b>Net debt</b>	<b>6,192,835</b>	6,448,360
Total equity attributable to equity shareholders of the Company	8,396,407	7,870,504
<b>Total capital</b>	<b>14,589,242</b>	14,318,864
<b>Net gearing ratio</b>	<b>42%</b>	45%

Neither the Company nor any of its subsidiaries are subject to any externally imposed capital requirements.

26 ACQUISITION OF SUBSIDIARIES

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 CITIC Telecom CPC Netherlands B.V. (formerly known as Linx Telecommunications B.V.) at a total cash consideration of EUR21,000,000 (equivalent to approximately \$172,528,000) (the cash consideration was subject to adjustments as set out in the relevant sale and purchase agreement) (the "CPC Europe Acquisition"). The final consideration was adjusted to EUR22,068,000 (equivalent to approximately \$181,302,000). All the conditions of the CPC Europe Acquisition were fulfilled and the completion of the CPC Europe Acquisition took place on 1 February 2017 whereby CITIC Telecom CPC Netherlands B.V. and its subsidiaries (collectively referred to the "CPC Europe Group") became subsidiaries of the Group.

- (a) For the year ended 31 December 2017, the CPC Europe Group contributed revenue of \$110,062,000 and loss after tax of \$9,925,000 to the Group's results. If acquisition of the CPC Europe Group had occurred on 1 January 2017, the Group's revenue and profit after tax for the year ended 31 December 2017 would have been \$7,460,562,000 and \$892,413,000 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 2017 together with the consequential tax effects.

- (b) The acquisition of CPC Europe Group had the following effect on the Group's assets and liabilities:

	Fair value \$'000
Other property, plant and equipment (notes (c) and 11 (a))	63,634
Intangible assets (notes (c) and 12)	8,355
Non-current other receivables and deposits	107
Trade and other receivables and deposits	15,127
Current tax recoverable (note 7(b))	99
Cash and cash equivalents	22,817
Trade and other payables	(42,403)
Bank and other loans (note 18(e))	(4,397)
Net deferred tax liabilities (note 7(c))	(3,855)
Net identifiable assets and liabilities	59,484
Goodwill on the acquisition (note (d) and 13)	121,818
	181,302
<b>Satisfied by:</b>	
Cash consideration paid	181,302
Cash consideration paid	181,302
Cash and cash equivalents acquired	(22,817)
Net outflow of cash and cash equivalents in respect of the acquisition	158,485



# NOTES TO THE FINANCIAL STATEMENTS

## 26 ACQUISITION OF SUBSIDIARIES (CONTINUED)

### (c) 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 – 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.

- (d) The goodwill is attributable mainly to the skills and technical talent of CPC Europe Group's work force, and the synergies expected to be achieved from integrating CPC Europe Group into the Group's existing telecommunications business. None of the goodwill is expected to be deductible for tax purposes.

## 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:

	2017 %	2016 %
Due from the Group's largest customer	29.7	34.4
Due from the Group's five largest customers	39.8	43.9

Other than those disclosed in note 29, the Group does not provide any financial guarantees which would expose the Group to credit risk.

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:

	2017						2016					
	Contractual undiscounted cash outflow					Carrying amount at 31 December	Contractual undiscounted cash outflow					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		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	
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000		\$'000	\$'000	\$'000	\$'000	\$'000	
Trade and other payables	1,742,870	-	-	-	1,742,870	1,742,870	1,718,038	-	-	-	1,718,038	1,718,038
Bank and other loans	286,626	-	-	-	286,626	284,438	45,057	-	-	-	45,057	43,739
Finance lease liabilities	1,662	1,023	852	-	3,537	3,334	3,127	1,526	1,722	-	6,375	5,991
Non-current interest-bearing borrowings	242,985	876,212	4,259,654	4,045,275	9,424,126	7,540,698	236,868	618,181	4,912,041	4,259,385	10,026,475	7,857,680
	2,274,143	877,235	4,260,506	4,045,275	11,457,159	9,571,340	2,003,090	619,707	4,913,763	4,259,385	11,795,945	9,625,448

## NOTES TO THE FINANCIAL STATEMENTS

### 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:

	2017		2016	
	Effective interest rate %	\$'000	Effective interest rate %	\$'000
<b>Fixed rate borrowings:</b>				
Guaranteed bonds	6.1	3,486,623	6.1	3,483,365
Finance lease liabilities	4.7	3,334	4.3	5,991
Bank and other loans	3.1	39,514	3.2	7,601
		3,529,471		3,496,957
<b>Variable rate borrowings:</b>				
Bank and other loans	2.6	4,298,999	2.4	4,410,453
<b>Total debt</b>		7,828,470		7,907,410
Cash and bank deposits	0.5	(1,635,635)	0.7	(1,459,050)
<b>Net debt</b>		6,192,835		6,448,360

##### (ii) Sensitivity analysis

At 31 December 2017, it is estimated that interest rates will not decrease and a general increase of 50 (2016: 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 \$13,258,000 (2016: \$14,711,000). Other components of consolidated equity would not be affected (2016: \$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 2016.

## 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.

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>2017</b>	2016
	<b>RMB</b>	RMB
	<b>\$'000</b>	\$'000
Trade and other receivables and deposits	<b>86,596</b>	114,063
Cash and bank deposits	<b>165,954</b>	162,674
Trade and other payables	<b>(18,763)</b>	(19,474)
	<b>233,787</b>	257,263

# NOTES TO THE FINANCIAL STATEMENTS

## 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 (2016: \$Nil) by the changes in the foreign exchange rates.

	2017		2016	
	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%	11,130	5%	12,083

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 2016.



27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(e) Fair value measurement

*Financial liabilities measured at fair value*

The fair value of the contingent consideration included in note 19 is measured at the end of the reporting period on a recurring basis and is categorised into Level 3 of 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

The contingent consideration is determined using discounted cash flows and the significant unobservable input used in the fair value measurement is expected future payment determined by considering the probability of the scenario that the acquired business would have achieved certain criteria during the designated period of time (2017: 100%; 2016: 100%). At 31 December 2017, it is estimated that with all other variables held constant, the Group's profit would have increased by SG\$1,750,000 (equivalent to approximately \$10,224,000) (2016: SG\$3,500,000 (equivalent to \$18,781,000)) if the acquired business failed to meet certain criteria during the designated period of time.

	Fair value at	Fair value measurements as at		
	31 December	31 December 2017 categorised into		
	2017	Level 1	Level 2	Level 3
	\$'000	\$'000	\$'000	\$'000
Liabilities:				
Contingent consideration	10,224	-	-	10,224

	Fair value at	Fair value measurements as at		
	31 December	31 December 2016 categorised into		
	2016	Level 1	Level 2	Level 3
	\$'000	\$'000	\$'000	\$'000
Liabilities:				
Contingent consideration	18,781	-	-	18,781

# NOTES TO THE FINANCIAL STATEMENTS

## 27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

### (e) Fair value measurement (continued)

During the years ended 31 December 2016 and 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. 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 movement during the year in the balance of the Level 3 fair value measurement is as follows:

	2017 \$'000	2016 \$'000
Contingent consideration:		
At 1 January	18,781	–
Assumed in acquisition of subsidiaries	–	19,516
Change in fair value	(9,931)	–
Exchange adjustments	1,374	(735)
At 31 December	10,224	18,781
Total gain for the year included in profit or loss for liabilities held at the end of the reporting period	9,931	–

The gain arising from remeasurement of contingent consideration is presented in "other income" in the consolidated income statement.

## 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:

	2017 \$'000	2016 \$'000
Contracted for		
– Capital expenditure	18,480	46,888
– For an acquisition	–	171,539
	18,480	218,427
Authorised but not contracted for		
– Capital expenditure	73,690	40,024

28 COMMITMENTS (CONTINUED)

(b) Commitments under operating leases

At 31 December 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2017 \$'000	2016 \$'000
<b>Land and buildings</b>		
Within 1 year	99,404	104,225
After 1 year but within 5 years	72,242	105,075
Over 5 years	31,131	8,085
	<b>202,777</b>	217,385
<b>Leased circuits</b>		
Within 1 year	165,035	144,489
After 1 year but within 5 years	61,492	3,355
Over 5 years	23,986	–
	<b>250,513</b>	147,844

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.

29 PERFORMANCE BONDS AND GUARANTEES

- (a) At 31 December 2017, performance bonds provided to the Macau Government and other customers for which no provision has been made in the consolidated financial statements amounted to \$85,222,000 (2016: \$90,034,000). At 31 December 2017, 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 \$85,222,000 (2016: \$90,034,000).
- (b) At 31 December 2017, guarantees of \$273,115,000 (2016: \$260,874,000) 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, \$208,635,000 (2016: \$152,482,000) were required to be secured by pledged deposits of \$225,733,000 (2016: \$171,324,000) (see notes 18(c) and 30(a)(vi)). At 31 December 2017, 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 \$273,115,000 (2016: \$260,874,000).



# NOTES TO THE FINANCIAL STATEMENTS

## 30 MATERIAL RELATED PARTY TRANSACTIONS

### (a) Transactions with affiliates of the Group and its holding companies

#### (i) Recurring transactions

	2017 \$'000	2016 \$'000
Management consultancy and technical services fee received/receivable from a fellow subsidiary	11,500	11,735
Internet data centre services fee received/receivable from fellow subsidiaries	8,799	6,698
Virtual private network services fee received/receivable from fellow subsidiaries	6,896	6,112
Telecommunications services and related expenses paid/payable to – a fellow subsidiary – an associate of the ultimate holding company	27,065 8,043	21,572 7,820
Professional fees paid/payable to a controlling shareholder for the provision of internal audit and company secretarial services	5,200	4,980
Operating lease charges, building management fees, water and electricity fees, air conditioning charges and car parking spaces rental paid/payable to fellow subsidiaries	29,860	25,475
Rental income and building management charges received/receivable from a fellow subsidiary	18,021	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.

30 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with affiliates of the Group and its holding companies (continued)

(ii) Non-recurring transaction

	2017 \$'000	2016 \$'000
Consideration paid in respect of the acquisition of a subsidiary from a fellow subsidiary	–	813,181

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

	2017 \$'000	2016 \$'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	74,155	69,295
Amount due from/(to) a fellow subsidiary included in:		
– Trade and other receivables and deposits	33,392	20,027
– Trade and other payables	(8,106)	(7,426)

(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:

	2017 \$'000	2016 \$'000
Within 1 year	11,635	16,248
After 1 year but within 5 years	–	12,215
	11,635	28,463

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

## 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:

	2017 \$'000	2016 \$'000
Within 1 year	6,485	15,564
After 1 year but within 5 years	–	6,396
	6,485	21,960

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 \$406,742,000) 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 notes 18(c) and 29(b)) whereby loans in the total principal amount of RMB154,600,000 (equivalent to approximately \$184,948,000) were drawn by the fellow subsidiary as at 31 December 2017 (2016: RMB220,000,000 (equivalent to approximately \$245,938,000)).

In respect of the aforementioned agreements, the Group entered into the offshore-security-onshore-loan arrangements, part of these were arranged with another fellow subsidiary as follows:

	2017 \$'000	2016 \$'000
Guarantees issued to a fellow subsidiary	111,974	104,413
Deposits pledged to a fellow subsidiary	124,439	123,254

## 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

	2017 \$'000	2016 \$'000
Interest income from bank deposits	3,561	5,801
Finance costs on interest-bearing borrowings	20,309	23,069
Fees received/receivable from the provision of telecommunications services	1,031,327	1,128,361
Fees paid/payable for network, operations and support services	(801,466)	(798,111)
Purchase of other property, plant and equipment	(16,170)	(7,986)

# NOTES TO THE FINANCIAL STATEMENTS

## 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

	2017 \$'000	2016 \$'000
Bank deposits	292,085	571,111
Trade debtors	593,463	656,362
Trade and other payables	(259,974)	(181,843)
Interest-bearing borrowings	(802,646)	(829,682)

The interest-bearing borrowings from state-controlled banks at 31 December 2017 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:

	2017 \$'000	2016 \$'000
Within 1 year	68,346	48,861
After 1 year but within 5 years	8,751	–
	77,097	48,861

The leases related to the other government-related entities typically run for an initial period of 1 to 5 years 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/payable employees as disclosed in note 9, are as follows:

	2017 \$'000	2016 \$'000
Short-term employee benefits	49,885	49,050
Share-based payments	7,565	5,582
Post-employment benefits	716	704
	58,166	55,336

Total emoluments are included in "staff costs" (see note 6(b)).

# NOTES TO THE FINANCIAL STATEMENTS

## 31 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2017

	Note	2017 \$'000	2016 \$'000
<b>Non-current assets</b>			
Property, plant and equipment		85	1,484
Investments in subsidiaries		11,155,844	11,155,844
Deferred tax assets		3,037	4,257
		<b>11,158,966</b>	11,161,585
<b>Current assets</b>			
Trade and other receivables and deposits		2,368,700	2,506,236
Cash and bank deposits		784,893	446,031
		<b>3,153,593</b>	2,952,267
<b>Current liabilities</b>			
Trade and other payables		387,804	239,305
Current tax payable		4,330	3,160
		<b>392,134</b>	242,465
<b>Net current assets</b>		<b>2,761,459</b>	2,709,802
<b>Total assets less current liabilities</b>		<b>13,920,425</b>	13,871,387
<b>Non-current liabilities</b>			
Amount due to a subsidiary		3,494,353	3,488,711
Interest-bearing borrowings		3,682,931	4,092,758
		<b>7,177,284</b>	7,581,469
<b>NET ASSETS</b>		<b>6,743,141</b>	6,289,918
<b>CAPITAL AND RESERVES</b>			
Share capital	25(a)	4,280,542	4,262,457
Reserves		2,462,599	2,027,461
<b>TOTAL EQUITY</b>		<b>6,743,141</b>	6,289,918

Approved and authorised for issue by the board of directors on 1 March 2018.

**Xin Yue Jiang**  
Director

**Lin Zhenhui**  
Director

# NOTES TO THE FINANCIAL STATEMENTS

## 32 NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

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 2017, 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 2017

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2017 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 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:</i> <i>Classification and measurement of share-based payment transactions</i>	1 January 2018
Amendments to HKAS 40, <i>Investment property: Transfers of investment property</i>	1 January 2018
HK(IFRIC) 22, <i>Foreign currency transactions and advance consideration</i>	1 January 2018
HKFRS 16, <i>Leases</i>	1 January 2019
HK(IFRIC) 23, <i>Uncertainty over income tax treatments</i>	1 January 2019

## 34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements except for the following.

While the assessment has been substantially completed for HKFRS 9 and HKFRS 15, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ending 30 June 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

### HKFRS 9, Financial instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, *Financial instruments: Recognition and measurement*. HKFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018.

Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) Classification and measurement

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI). The classification is determined based on the contractual cash flow characteristics of the financial assets and the entity's business model for managing the financial assets.

The Group has assessed that its financial assets currently measured at amortised cost will continue with this classification and measurement upon the adoption of HKFRS 9.

(b) Impairment

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. The Group expects that the application of the expected credit loss model will result in earlier recognition of credit losses. Based on a preliminary assessment, it is not likely to have significant impact if the Group were to adopt the new impairment requirement at 31 December 2017.



# NOTES TO THE FINANCIAL STATEMENTS

## 34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

### HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specifies the accounting for revenue from construction contracts.

Based on the assessment completed to date, the Group has identified the following areas which are expected to be affected:

(a) Timing of revenue recognition

The Group's revenue recognition policies are disclosed in note 1(t). Currently, revenue arising from business solution projects and the provision of services is recognised over time, whereas revenue from the sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. HKFRS 15 identifies three situations in which control of the promised good or service is regarded as being transferred over time:

- (i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;
- (ii) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;
- (iii) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these three situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

The Group has assessed that the new revenue standard is not likely to have significant impact on how it recognises revenue from business solution projects and sale of goods.

## 34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

### HKFRS 15, Revenue from contracts with customers (continued)

(b) Significant financing component

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance or in arrears.

Deferred payments are not common in the Group's arrangements with its customers, with the exception of when the Group offers preferential packages to the customers which include the bundle sale of mobile handset and provision of service. In this situation, the Group offers a discount that allows customers to buy mobile handsets and pay the cash selling price over two years after delivery.

In assessing whether such deferred payments schemes include a significant financing component, the Group has considered the length of time between the payment date and the completion date of legal assignments (i.e. the date when the customers obtain control of the mobile handset) based on the typical arrangements entered into with the customers.

Where such deferred payment schemes include a significant financing component, the transaction price will need to be adjusted to separately account for this component. Such adjustment will result in interest income being recognised to reflect the effect of the financing granted to the customers during the period between the payment date and the completion date of legal assignment. The Group is in the process of assessing the implication of the significant financing component identified from preferential packages offered to customers.

The Group plans to elect to use the cumulative effect transition method for the adoption of HKFRS 15 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. As allowed by HKFRS 15, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial result from 2018 onwards.

# NOTES TO THE FINANCIAL STATEMENTS

## 34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

### HKFRS 16, Leases

As disclosed in note 1(j), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for other properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 28(b), at 31 December 2017 the Group's future minimum lease payments under non-cancellable operating leases amount to \$202,777,000 and \$250,513,000 for land and buildings and leased circuits respectively. Some of these amounts may need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. The standard offers different transition options and practical expedients, including the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. If this practical expedient is chosen, the Group will apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. If the practical expedient is not chosen, the Group will need to reassess all of its decisions about which existing contracts are, or contain, leases, using the new definition. Depending on whether the Group elects to adopt the standard retrospectively or follow a modified retrospective method of recognising a cumulative-effect adjustment to the opening balance of equity at the date of initial application, the Group may or may not need to restate comparative information for any changes in accounting resulting from the reassessment.

The Group has not yet decided whether it will choose to take advantage of practical expedient and which transition approach to be taken.

## 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

5G	5th generation mobile networks
AI	Artificial Intelligence
API	Application Programming Interface
Big Data	Big data refer to the use of predictive analytics, user behavior analytics, or certain other advanced data analytics methods that extract value from data
Blockchain	Blockchain is a continuously growing list of records, called blocks, which are linked and secured using cryptography
Carrier Aggregation (CA)	Carrier aggregation is used in LTE-Advanced in order to increase the bandwidth
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
CPaaS	Communications platform as a service (CPaaS) is a cloud-based delivery model that allows organizations to add real-time communication capabilities such as voice, video and messaging
DCI	Data Centre Interconnect (DCI) technology connects two or more data centres together over short, medium or long distances using high-speed packet-optical connectivity
DDoS	A distributed denial-of-service (DDoS) attack occurs when multiple systems flood the bandwidth or resources of a targeted system. Protection of DDoS attack is to absorb this kind of flooding and make system available for eligible Internet traffic
DRaaS	Disaster recovery as a service (DRaaS) is a cloud-based delivery model that replicate physical or virtual servers and provide failover in the event of a disaster
EPL	Ethernet private line (EPL) provides a point-to-point high transparency Ethernet connection between two sites
Ethernet	Ethernet is a family of computer networking technologies commonly used in local area networks (LAN). It was first standardized in 1983 as IEEE 802.3 by Institute of Electrical and Electronics Engineers
Fintech	Financial technology (FinTech or Fintech) is the new technology and innovation that aims to compete with traditional financial methods in the delivery of financial services
IaaS	Infrastructure-as-a-Service (IaaS) is a form of Cloud computing that provides virtualised computing resources over the Internet
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
Internet of Things	The Internet of Things (IoT) is the network of physical devices, vehicles, home appliances and other items embedded with electronics, software, sensors, actuators, and connectivity which enables these objects to connect and exchange data

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
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
SDK	Software Development Kit
SDN	Software-defined networking (SDN) technology is a novel approach to cloud computing that facilitates network management and enables programmatically efficient network configuration in order to improve network performance and monitoring
SD-WAN	SD-WAN is an acronym for software-defined networking in a wide area network (WAN). An SD-WAN simplifies the management and operation of a WAN by decoupling (separating) the networking hardware from its control mechanism. This concept is similar to how software-defined networking implements virtualization technology to improve data centre management and operation
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.)
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
VOD	Video On Demand
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

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## 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: 9 May 2018 to 14 May 2018 and  
18 May 2018 to 23 May 2018

Annual General Meeting: 14 May 2018, 10:30 a.m.  
JW Marriott Ballroom, Level 3  
JW Marriott Hotel Hong Kong  
Pacific Place, 88 Queensway,  
Hong Kong

Final Dividend Payable: 4 June 2018

## ANNUAL REPORT 2017

The Annual Report is printed in English and Chinese and is available on our website at [www.citictel.com](http://www.citictel.com). Shareholders may choose to receive the Annual Report in printed form in either English or Chinese or both or by electronic means. 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.

Shareholders having 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.

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](mailto:contact@citictel.com).







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CITIC TELECOM INTERNATIONAL

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