CONNECT THE WORLD
CONNECT THE FUTURE

Interim Report 2018

中信國際電訊
CITIC TELECOM INTERNATIONAL
A member of CITIC Group Corporation

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 has established two large-scale data centres in Hong Kong.

The Company's wholly-owned 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, and has established 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 services). 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 for Foster Prosperity" is the core value of the Group. As at 30 June 2018, the Group has established branch organisations in 21 countries and regions. The number of staff reached above 2,500, 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.

CONTENTS

MILESTONES

Month	Events
January 2018	• Launched IPX services for a Hong Kong Mobile Virtual Network Operator (MVNO) • CITIC Telecom International CPC Limited ("CPC") won the "Outstanding ICT Solution Provider 2017" at "Quamnet Outstanding Enterprise Awards 2017" by Quamnet • MGM partnered with Companhia de Telecomunicações de Macau, S.A.R.L. ("CTM") for a SME Relief Program to help those Macau's small and medium-sized enterprises (SMEs) which were affected by the typhoon "Hato" by providing them a solution of Cloud backup of data files • CTM was appointed as the vice chairman of the Cross-border e-commerce Committee established by the Macau Chinese Enterprises Association. CTM would strengthen the cross-border e-commerce basic infrastructure so as to allow all relevant stakeholders and enterprises to conduct the cross-border e-commerce transactions in a timely and effective manner • As the vice chairman of the Exhibition and Cultural Development Committee of the Macau Chinese Enterprises Association, CTM leveraged on its own resource advantages and actively offered advices and suggestions to the development of Macau's cultural industry • Being the committee member of the Construction Committee of Business Service Platform between Chinese and Portuguese speaking countries formed by the Macau Chinese Enterprises Association, CTM aims to contribute substantially to the development of the Service Platform
February 2018	• MVNO roaming coverage extended to Vietnam and 4G data service package was launched • China Enterprise ICT Solutions Limited ("CEC") was ranked in the "TOP 50 Public Cloud Provider of 2017" by CIWEEK and eNET

Month	Events
March 2018	• Selected as a constituent of "Hang Seng Stock Connect Hong Kong" Thematic Indexes: – Hang Seng Stock Connect Hong Kong Index – Hang Seng Stock Connect Hong Kong MidCap & SmallCap Index – Hang Seng Stock Connect Hong Kong SmallCap Index – Hang Seng SCHK HK Companies Index – Hang Seng SCHK ex-AH Companies Index • CPC received the Grand Award and three Product Awards from "Sing Tao Daily IT Square's Editors' Choices 2017" in Hong Kong – Grand Award: > The Best Integrated ICT Services Partner Award – Three Product Awards: > Best Managed Security Services Provider (CITIC Telecom CPC's TrustCSI™ Managed Security Services) > Best Cloud Computing Solutions Provider (CITIC Telecom CPC's SmartCLOUD™ Cloud Computing Solutions) > Best Enterprise Cloud Data Centre Provider (CITIC Telecom CPC's DataHOUSE™ Cloud Data Centre) • CPC won the "Enterprise & Business Application – Best Local Cloud Platform Provider Award" at "Best of I.T. Award 2017" by a magazine, PCM • CTM was awarded the e-medical voucher project by the Macau's medical department, an important milestone for the development of smart medical applications • Acclivis Technologies and Solutions Pte. Ltd. ("Acclivis") participated in the IDC Asian Financial Services Summit 2018 in Singapore to showcase its business continuity and disaster recovery services • Acclivis participated in the IBM "Power the Future with AI (Artificial Intelligence)" symposium to showcase its technology and system integration capabilities • Acclivis was awarded two significant projects which contributed towards Asian countries' digitisation efforts. These projects are strategic in nature and large in scale. One of the projects will enable Acclivis to roll out cashless payment to all citizens in Singapore and the other was an integrated library management system to deliver mobile and digitisation capabilities to all public libraries in Singapore

Month	Events
April 2018	• "DataMall自由行" offered partner operators for the application of specific data plan, enabling the commercial model for sponsored data service to enterprise • CTM launched the "CTM DataMall自由行" travel mobile APP to provide an innovative method for prepaid customers to enjoy various roaming data packages • CTM launched the mobile APP version of TVB Anywhere Deluxe Combo package, customers can enjoy the latest Japanese and Korean dramas, kid programmes and 20 channels in Mainland China • Acclivis was awarded the "Top Cisco Premier Partner Award as the best performing partner in Singapore 2017" • Acclivis was awarded the "Major Architecture Contributor for Security Solutions" by Cisco
May 2018	• CEC received the "2017 South China IDC – Most Valuable Brand Award" from the South China IDC Alliance Organizing Committee • CTM was awarded the phase 4 of City Surveillance Transmission Project and it has started already. It is a multi-year service contract for providing over 800 high speed links and is expected to be ready for service after 2 years • CTM introduced IPoE authentication technology to optimise the Internet experience • CTM fully supported the Alipay and WeChat Pay for visitors, helping the development of Macau Smart Tourism by offering convenient payment channels • Acclivis was awarded the "Equinix Strategic Award for South Asia", which was a key award to recognise the leading partner who provided the best strategic insights in partnership with Equinix Inc. • Acclivis was awarded "The Best Performing Channel Partner 2017 Award" from our business partner

Month	Events
June 2018	• Awarded the "Most Trusted Service Partner Award" from a China operator • CPC and CEC received "The Distinguished Salesperson Award (DSA)" from Hong Kong Management Association. It is the 15th consecutive year that CPC has won the award • Won "Customer Relationship Excellence (CRE) Awards 2017" winning categories from Asia Pacific Customer Service Consortium: – CPC > Project Manager of the Year (Network Communications) > Customer Service Manager of the Year (Network Communications – Service Centre) > Customer Service Team Leader of the Year (Network Communications – Service 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 Distinguished Cloud Computing Solutions" and "The Distinguished Information Security Services" awards at "SME Partner Awards of Excellence 2018" by Hong Kong Economic Journal • CPC won the Product Award – "Managed Security Services Provider" for the 7th consecutive year at the "ComputerWorld Hong Kong Awards 2018" by ComputerWorld Hong Kong • CPC won the "Best Managed Services Provider" award at the "Telecom Asia Awards 2018" by Telecom Asia • CPC won "The Cloud Infrastructure Award" at the "Asia Communication Awards 2018" by Total Telecom • CPC won the "Best Total ICT Solutions Provider – APAC" at "2018 Business Excellence Awards" by Acquisition International • CEC received "Good Faith Demonstration Enterprise of Guangdong Province (2012–2017 six consecutive years)" awarded by Guangdong Provincial Enterprise Confederation and Guangdong Provincial Association of Entrepreneurs • CEC received the "TOP 30 of the New Business Innovation Enterprises in Information Services Industry 2018" awarded by Beijing Informatization Association

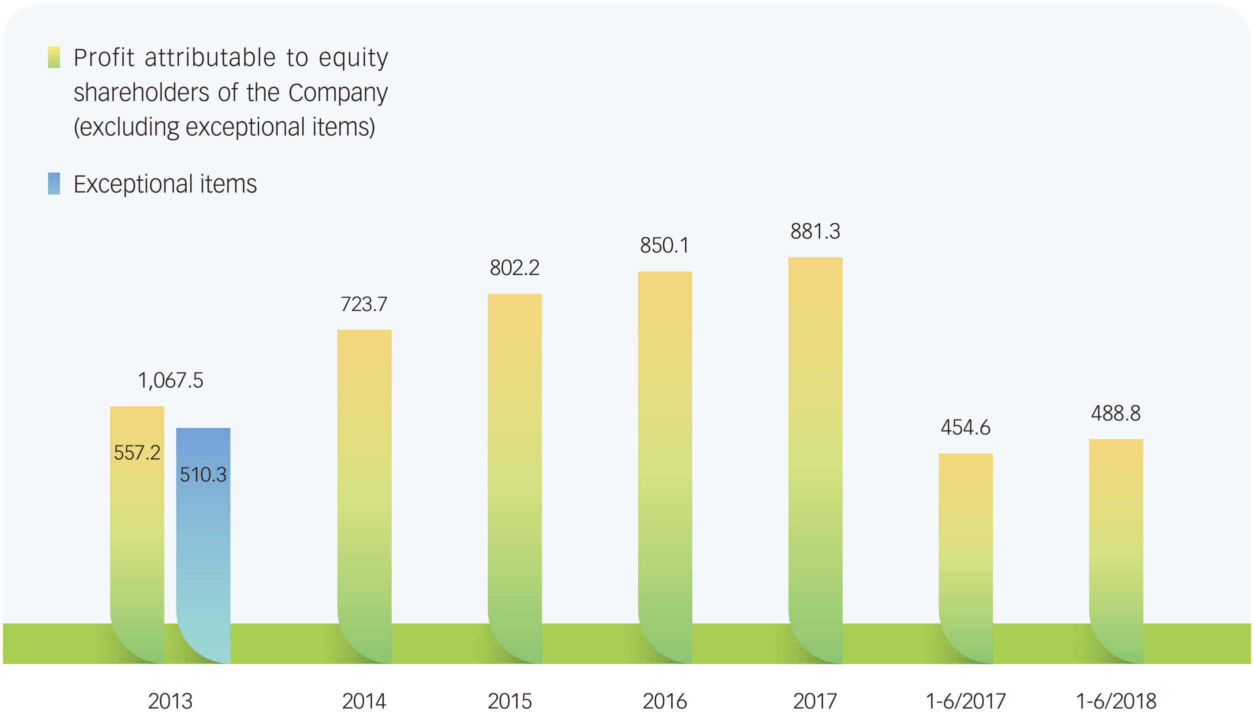
FINANCIAL HIGHLIGHTS

In HK$ million	Half year ended 30 June 2018	2017	
Revenue			
Fees from the provision of telecommunications services	**3,520.7**	3,157.5	Increase 11.5%
Sale of equipment and mobile handsets	**1,393.1**	434.7	Increase >100%
	4,913.8	3,592.2	Increase 36.8%
Profit attributable to equity shareholders of the Company	**488.8**	454.6	Increase 7.5%
EBITDA*	**1,080.6**	1,051.7	Increase 2.7%
Earnings per share (HK cents)			
Basic	**13.8**	12.9	Increase 7.0%
Diluted	**13.8**	12.8	Increase 7.8%
Dividend per share (HK cents)			
Interim dividend	**4.0**	3.0	Increase 33.3%

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

Profit Attributable to Equity Shareholders of the Company

HK$ million



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.

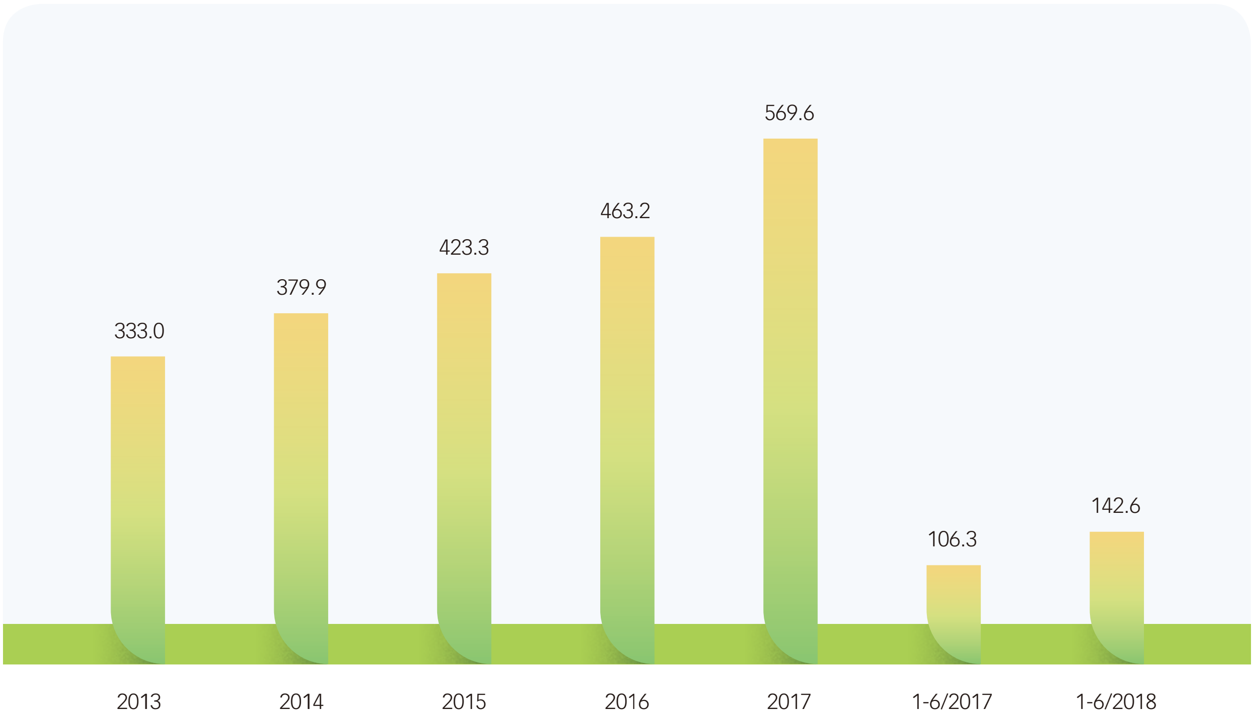
In HK$ million	**30 June 2018**	31 December 2017	
Total assets	**18,578.7**	18,584.2	Same level as last year
Total equity attributable to equity shareholders of the Company	**8,465.9**	8,396.4	Increase 0.8%
Total bank and other borrowings	**7,468.9**	7,825.1	Decrease 4.6%
Obligations under finance leases	**2.6**	3.3	Decrease 21.2%
Total debt	**7,471.5**	7,828.4	Decrease 4.6%
Less: Cash and bank deposits	**(1,579.5)**	(1,635.6)	Decrease 3.4%
Net debt	**5,892.0**	6,192.8	Decrease 4.9%
Net gearing ratio#	**41%**	42%	Decrease 1.0%

Net gearing ratio = $\frac{\text{Net debt}}{\text{Total capital}}$ x 100%

Total capital = Total equity attributable to equity shareholders of the Company + Net debt

Dividends Payable to Equity Shareholders of the Company Attributable to the Year/Interim Period

HK$ million



Note: The dividends payable to equity shareholders of the Company for the period ended 30 June 2018 included interim dividend payable based on the number of shares in issue at 30 June 2018 which may differ from the number of shares at the closing date of the register of members.

THE GROUP ACCORDS GREAT IMPORTANCE TO THE NEW OPPORTUNITIES BROUGHT BY "ONE BELT ONE ROAD" AND THE CENTRAL GOVERNMENT'S STRATEGIC PLANNING OF THE GUANGDONG-HONG KONG-MACAU BAY AREA, AND IS ADVANCING FOR SYNERGIES BETWEEN THE GROUP'S BUSINESS AND THE MACRO-ECONOMIC DEVELOPMENTS.

I am pleased to present the operating and financial results of CITIC Telecom International Holdings Limited (the "Group") for the first half of 2018.

Facing a complex and volatile international economy in the first half of 2018, the Group made timely use of the opportunities created by the transformation and upgrades of the Chinese economy as well as the new trends in the international telecommunications market and strove to enhance its core competitive advantages. New products were launched pro-actively and network platforms were incessantly improved in terms of quality, and the Group continuously rolled out staff training programmes to forge a team of "three excellences". Our work on management, marketing and services were delivered in a state-of-the-art manner. We continued to venture into innovative transformation and strengthen the synergies between various business segments. The Group ensured a high quality and reliable service and continued to work on the expansion of its network coverage. There was a rapid growth in income from new products, and improvement in operational efficiency was noted. The Group's profit continued to grow. After years of effort, the Group has become an Internet-oriented telecommunications enterprise providing comprehensive services with diversified development. Such key and material breakthrough will bring about an even more prosperous development future to the Group.

I. FINANCIAL RESULTS

Profit attributable to equity shareholders for the first half of 2018 was HK$488.8 million, increasing by 7.5% compared to the corresponding period of the previous year. If the valuation gain on investment property for the period in the sum of HK$23.7 million was excluded, it represented an increase of 6.9% compared to the corresponding period of the previous year.

The Group's revenue from telecommunications services amounted to HK$3,520.7 million, increased by 11.5% compared to the corresponding period of the previous year. Including sale of equipment and mobile handsets, the Group's total revenue amounted to HK$4,913.8 million, representing a growth of 36.8% compared to the corresponding period of the previous year.

Basic earnings per share for the first half of the year amounted to HK13.8 cents, representing an increase of 7.0% compared to the corresponding period of the previous year.

The Board declared an interim dividend of HK4.0 cents per share for 2018, representing a 33.3% growth over the corresponding period of the previous year.

II. BUSINESS DEVELOPMENT

The Group continued to strive for leadership in technology and service in its mobile sales & services business by enhancing its network quality and upgrading its service level. Always focusing on ironing out stumbling blocks in customers' experience, we promptly launched products and services satisfying their needs. Companhia de Telecomunicações de Macau, S.A.R.L. ("CTM") continued to maintain its leading position in the mobile communications market amidst intense competition. The Group continued to leverage on its advantages as a well-connected node in the international telecommunications network, and actively developed its mobile roaming services which grew with the rapid increase in customers' use of roaming data. "CTM DataMall", a travel mobile application launched by the Group in Macau in April 2018, allows users to purchase overseas roaming data services in a brand-new manner.

In connection with its Internet services business and enterprise solutions services business, the Group continuously promoted the application of optical fibres for the existing domestic and business broadband users, where the number of subscribers increased continuously with approximately 80% of the subscribers using full optical broadband. Building upon the successful performance in phase 1 to phase 3 of the smart traffic transmission project commissioned by the Macau Government, the Group won the contract of the phase 4 construction in May 2018, further proved the Group's service capability and strength in developing the smart city. Global network servicing capabilities of the Group continued to expand as TrueCONNECT, our exclusive VPN, covered over 130 countries and regions around the globe in the first half of the year with approximately 140 network service spots. The focus of the Group's capabilities in enterprise solutions services has moved from Asia to the entire globe.

Massive resources were dedicated to the development of the smart city, and a number of public utility companies and government authorities in Macau were approached whereby the feasibilities and potentials for development of the mobile Internet of Things had been demonstrated. Pilot projects were being explored in various industries and preliminary achievements were made in the first half of the year.

In the first half of the year, the Cloud computing centre in Guangzhou Science City was put into operation following completion of construction. Together with the Cloud computing centres of the Group in Hong Kong, Macau, Beijing and Shanghai, the centres form the data computing network servicing the Greater China region which allows the Group to perform cross-regional disaster backups for its clients in Mainland China, Hong Kong and Macau. The service level of the Group's Cloud computing centres was further enhanced.

In connection with its international telecommunications services business, a greater growth was experienced in comparison to the same period of last year. The Group made strenuous efforts in the development of the "DataMall自由行" business, resulting in satisfactory progress in terms of merchants' coverage and business development. Revenue substantially increased as compared to the same period of last year. Besides, revenue from the Group's A2P SMS business continued to maintain a rapid growth.

In order to enhance the Group's core competitiveness, the Group strengthened its software development capabilities by establishing a software development centre in Zhuhai (TeleOne China (Zhuhai) Company Limited (珠海一訊牽通信科技有限公司)), which commenced operation on 23 June this year. Such centre represents a major component in our efforts to encourage the construction of the smart city. At present, the size of the entire R&D team of the Group has exceeded 200 persons. With our continuous and increasing power in R&D, the centre will develop more smart applications for the Group and will serve the important function of promoting business transformation.

III. OUTLOOK

Looking to the second half of the year, the Group believes that demands will continue to increase in the Internet services, Internet of Things, Cloud computing, mobile sales & services, smart city, data centre and enterprise solutions services, where future development opportunities are located. The Group will keep a clear mind and grasp the right strategic direction while insisting on innovative developments. We will remain prudent and optimistic in response to challenges and opportunities brought by market changes.

The Group accords great importance to the new opportunities brought by "One Belt One Road" and the Central Government's strategic planning of the Guangdong-Hong Kong-Macau Bay Area, and is advancing for synergies between the Group's business and the macro-economic developments.

Strategically positioning itself as an industry leader in Macau and extending into Mainland China and overseas markets, CTM will track closely the 5G technological development and make timely investment and business preparation in order to ensure better mobile communications service experience for the customers. Using smart city development initiatives in Macau as a handle, the Group will greatly develop its smart city development capabilities and transform into a major smart city operator. Making full use of the new Zhuhai software development centre, we will also develop more software and applications compatible with the Group's business development in order to enhance the level of proprietary intellectual properties and foster new growth points for the Group.

We will also make use of the synergies between the Group and CPC Europe to further our expansion in our exclusive VPN, Cloud computing and Internet access businesses in Europe. We will seek to upscale our enterprise solutions services in the Southeast Asian markets as a new source of growth for our business.

Incessant innovation will be achieved by enhancing our R&D efforts for new technologies and new products. An advanced business system shall be established to promote the Group's transformation into an Internet-oriented company. Business scale of "DataMall 自由行" shall be expanded at a faster pace such that it may become a leverage for faster transformation of the Group in its international business.

We will closely monitor the phase 3 expansion project of the CITIC Telecom Tower data centre and accelerate the scale development of our data centre business.

We will also continue to strengthen our technical training and enhance the quality of our staff. We will build a first-rate management team, as well as first-rate engineering, technical, R&D and business teams to realise our strategy of "growth in strength, excellence and scale, achievement of higher standards and delivery of top-rated results".

Based on its established strategic goals, the Group will pay constant attention to market development opportunities and act promptly to suitable opportunities to strive for greater business scale and greater values for shareholders.

The orderly advancement of the Group's work and the steady growth of business results in the first half of the year cannot be achieved without the staff's diligence as well as the support from our shareholders, investors, business partners and other people of various sectors who concern for the Group's development. I hereby express my most sincere gratitude.

Xin Yue Jiang
Chairman
Hong Kong, 16 August 2018

INTERNET SERVICES

ONE-STOP
SOLUTION

FINANCIAL REVIEW

OVERVIEW

Profit attributable to equity shareholders and basic earnings per share amounted to HK$488.8 million and HK13.8 cents respectively, an increase of 7.5% and 7.0% when compared with the interim period of 2017.

The Group's revenue from telecommunications services amounted to HK$3,520.7 million, an increase of 11.5% when compared with the interim period of 2017. Total revenue which includes equipment and mobile handsets sales surged by 36.8% when compared with the first six months of 2017 reaching HK$4,913.8 million for the first half of 2018 as the Group achieved growth in nearly all major businesses, but the main contributor for the significant increase in revenue was mobile handsets sales.

Summary of Financial Results

	Half year ended 30 June			
In HK$ million	**2018**	2017	**Increase/(Decrease)**	
Revenue	**4,913.8**	3,592.2	1,321.6	36.8%
Valuation gain on investment property	**23.7**	19.6	4.1	20.9%
Other income and net (loss)/gain	**13.3**	25.3	(12.0)	(47.4%)
Cost of sales and services	**(3,047.9)**	(1,811.8)	1,236.1	68.2%
Depreciation and amortisation	**(351.9)**	(344.2)	7.7	2.2%
Staff costs	**(461.0)**	(424.1)	36.9	8.7%
Other operating expenses	**(356.4)**	(341.0)	15.4	4.5%
Profit from consolidated activities	**733.6**	716.0	17.6	2.5%
Share of joint venture results	**2.0**	(1.7)	N/A	N/A
Finance costs	**(165.5)**	(162.9)	2.6	1.6%
Income tax	**(73.7)**	(90.3)	(16.6)	(18.4%)
Profit for the period	**496.4**	461.1	35.3	7.7%
Less: Non-controlling interests	**(7.6)**	(6.5)	1.1	16.9%
Profit attributable to equity shareholders of the Company	**488.8**	454.6	34.2	7.5%
EBITDA*	**1,080.6**	1,051.7	28.9	2.7%

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

Profit Attributable to Equity Shareholders of the Company

HK$ million

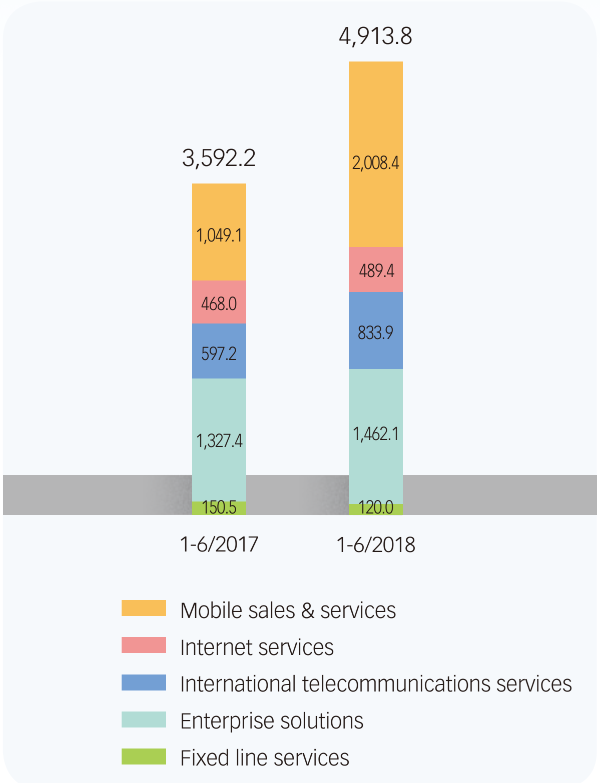
* Corporate expenses included staff costs for corporate functions, equity-settled share-based payment expenses, listing fee and unallocated staff bonus and others.

Profit attributable to equity shareholders of the Company for the six months ended 30 June 2018 amounted to HK$488.8 million, an increase of HK$34.2 million when compared with the first six months of 2017. Excluding the valuation gain on investment property of HK$23.7 million (six months ended 30 June 2017: HK$19.6 million), profit attributable to equity shareholders of the Company for the first six months of 2018 would amount to HK$465.1 million (six months ended 30 June 2017: HK$435.0 million) representing an increase of 6.9% from the corresponding period of 2017. The increase in profit was mainly contributed by the growth in the Group's major businesses.

Revenue by Services

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

HK$ million



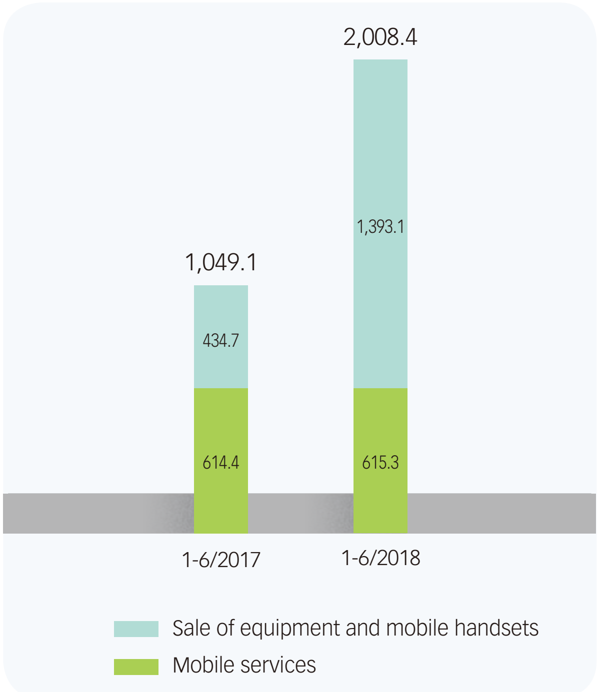
Note: Comparative figures for international telecommunications services and enterprise solutions were amended to conform to current year's presentation.

The Group's revenue from telecommunications services amounted to HK$3,520.7 million, an increase of 11.5% when compared with the interim period of 2017. The Group's overall revenue which includes equipment and mobile handsets sales increased by 36.8% from HK$3,592.2 million to HK$4,913.8 million for the six months ended 30 June 2018. In addition to the significant growth in equipment and mobile handsets sales revenue by HK$958.4 million, the growth of enterprise solutions revenue by HK$134.7 million, the growth of international telecommunications services revenue by HK$236.7 million and the growth of Internet services revenue by HK$21.4 million also contributed to the increase in total revenue but was partly offset by the decrease in fixed line services revenue for the period.

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$2,008.4 million for the first six months of 2018, an increase of 91.4% when compared with the corresponding period of 2017. There were growth in both outbound roaming and prepaid revenue, but the main contributor for the significant increase in mobile sales & services revenue for the period was mobile handsets sales.

HK$ million



The overall number of subscribers as at 30 June 2018 was over 995,000, an increase of 2.6% when compared with 31 December 2017 of which approximately 92.3% were 4G subscribers. The Group's mobile market share in Macau was around 41.8% as at 30 June 2018 (31 December 2017: 43.1%), while the Group had around 43.4% market share in the 4G subscribers of Macau mobile market as at 30 June 2018 (31 December 2017: 46.2%).

Internet services

Internet services revenue including the Group's data centre revenue amounted to HK$489.4 million for the current period which represented an increase of HK$21.4 million or 4.6% when compared with the corresponding period in 2017. The increase was mainly due to the increase in data centre revenue as the Group continues to expand its data centre operation and the increase in revenue from fibre broadband service as a result of the 3.9% increase in the average number of broadband users to around 184,200 users. The Group's Internet market share in Macau was around 97.4% (31 December 2017: 97.6%) while broadband market penetration rate in Macau was around 88.3% (31 December 2017: 87.8%).

International telecommunications services

Voice services revenue increased by HK$181.4 million or 41.3% to HK$621.1 million for the six months ended 30 June 2018 over the same period in 2017. There were unusual increases in traffic to regions with relatively higher tariffs during the period which led to the surge in voice service revenue.

Total SMS revenue grew 20.6% to HK$158.2 million when compared with the first six months of 2017. Concern over banking security has meant that demand for SMS based services like authentication services and confirmation of transactions have increased significantly. Changes in consumer's communication behavior have resulted in more and more enterprises using A2P SMS as a key customer relationship management (CRM) tool to connect with their customers. The Group has been able to capitalise on the increased demand.

Since the launch of our "DataMall自由行" service in 2016, it has been well received by consumers travelling abroad and with its extended coverage in the second half of 2017, revenue from our DataMall service reached HK$54.6 million, representing a 107.6% increase when compared with the first six months of 2017.

Enterprise solutions

Enterprise solutions revenue increased 10.1% from HK$1,327.4 million in the first six months of 2017 to HK$1,462.1 million in the first six months of 2018. The increase was mainly due to the steady growth in enterprise solutions services in Mainland China, while enterprise solutions revenue in Macau was relatively stable for the period due to the phasing of casinos, resorts and government projects resulting in slightly lower revenue from professional service projects.

Fixed line services

In line with global trends of declining fixed IDD traffic volumes and the decrease in fixed residential lines, revenue from fixed line services decreased 20.3% to HK$120.0 million for the period when compared with the first six months of 2017.

Profit for the period

The Group achieved HK$496.4 million in profit for the period, an increase of HK$35.3 million when compared with the interim period of 2017. The increase was mainly due to the combined impact of the following factors:

Revenue

The Group's revenue from telecommunications services amounted to HK$3,520.7 million, an increase of 11.5% when compared with the interim period of 2017. The Group's total revenue which includes equipment and mobile handsets sales amounted to HK$4,913.8 million, representing a growth of 36.8% when compared with the interim period of 2017. During the period, apart from fixed line services, the Group experienced growth in all major businesses, especially for equipment and mobile handsets sales when compared with the first six months of 2017.

Cost of sales and services

Cost of sales and services included costs of goods sold, and network, operations and support expenses. Consistent with the increase in revenue, cost of sales and services amounted to HK$3,047.9 million, an increase of HK$1,236.1 million or 68.2% when compared with the first six months of 2017. Although the Group has continued its efforts in achieving greater cost efficiency, the increase in cost of sales and services was due to the significant increase in mobile handsets sales during the period.

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 30 June 2018 by the Group's independent surveyors with a gain of HK$23.7 million (six months ended 30 June 2017: HK$19.6 million) for the first half of 2018.

Staff costs

Due to the larger headcount as a result of the Group's continuous business expansion, staff costs for the period increased by 8.7% or HK$36.9 million to HK$461.0 million when compared with the first six months of 2017.

Depreciation and amortisation

Depreciation and amortisation expenses totaled HK$351.9 million for the six months ended 30 June 2018 which was similar to the first six months of 2017.

Other operating expenses

Other operating expenses for the period included an exceptional item, being the write off for other receivables of HK$26.2 million (six months ended 30 June 2017: HK$Nil). If the exceptional item was excluded, other operating expenses amounted to HK$330.2 million, a decrease of HK$10.8 million when compared with the first six months of 2017, as a result of the Group's continued success in its cost saving initiatives.

Finance costs

As a result of the increase in the general borrowing rate, the effective variable interest rate for the Group increased from 2.14% p.a. as at 30 June 2017 to 3.07% p.a. as at 30 June 2018. However, with the implementation of the Group's effective policies to manage its interest rate risks, finance costs increased by only 1.6% from HK$162.9 million for the first six months of 2017 to HK$165.5 million for the first six months of 2018.

Income tax

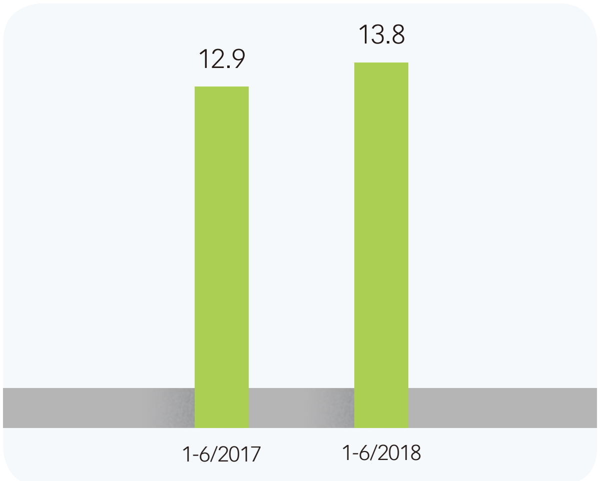
Income tax for the period amounted to HK$73.7 million, a decrease of HK$16.6 million or 18.4% when compared with the first six months of 2017. The decrease was mainly due to the net impact from the reversal of the over-provision of tax. Excluding finance costs and the net impact from the reversal of the over-provision, the effective tax rate was around 14% for both the six months period ended 30 June 2018 and 30 June 2017.

Earnings per share ("EPS")

Basic EPS and diluted EPS amounted to HK13.8 cents and HK13.8 cents respectively, representing an increase of 7.0% and 7.8% respectively when compared with the corresponding period of 2017.

Basic earnings per share

HK cent

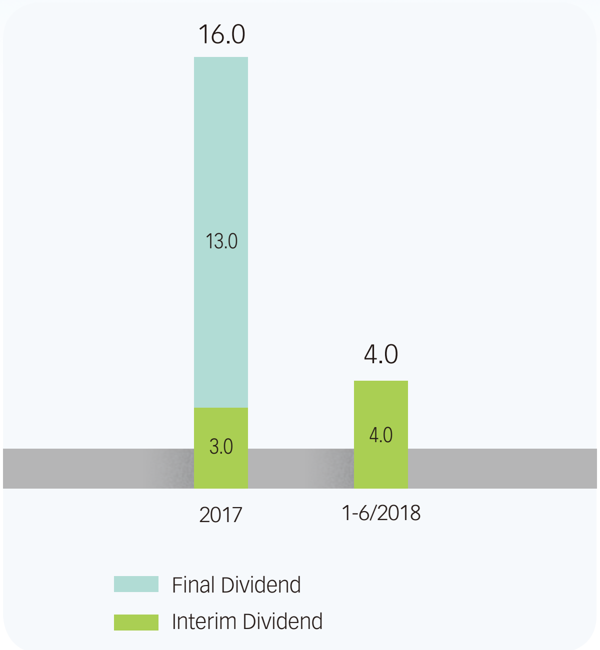


Dividends per share

Interim dividend of HK4.0 cents per share is proposed for the first half of 2018.

Dividends per share

HK cent



Cash flows

In HK$ million	Half year ended 30 June 2018	2017	Increase/(Decrease)	
Source of cash:				
Cash inflows from business operations	**1,079.2**	885.7	193.5	21.8%
Decrease in pledged deposits	**220.4**	–	220.4	N/A
Other cash inflows	**53.4**	16.6	36.8	>100%
Sub-total	**1,353.0**	902.3	450.7	50.0%
Use of cash:				
Net capital expenditure*	**(205.4)**	(221.1)	(15.7)	(7.1%)
Dividends paid to equity shareholders and non-controlling interests	**(471.8)**	(377.0)	94.8	25.1%
Transaction costs for acquisition of subsidiaries	**–**	(1.0)	(1.0)	N/A
Acquisition of subsidiaries	**–**	(158.5)	(158.5)	N/A
Net cash outflows from borrowings	**(507.4)**	(243.6)	263.8	>100%
Increase in pledged deposits	**–**	(81.7)	(81.7)	N/A
Sub-total	**(1,184.6)**	(1,082.9)	101.7	9.4%
Net increase/(decrease) in cash and cash equivalents	**168.4**	(180.6)	N/A	N/A

* Included in the amounts are payments for the purchase of other property, plant and equipment in respect of both current period additions and prior years unsettled purchases and proceeds from sale of other property, plant and equipment.

Profit before taxation amounted to HK$570.1 million for the six months ended 30 June 2018. The Group maintained a strong cash position, where HK$1,079.2 million cash inflow was generated from operations. The use of cash mainly comprised of capital expenditure, loans and repayments, dividends distribution to equity shareholders and non-controlling interests and various other payments. In total, the Group recorded a net cash inflow of HK$168.4 million for the six months ended 30 June 2018.

Capital expenditure

The Group's total capital expenditure for the six months ended 30 June 2018 amounted to HK$125.2 million. HK$1.6 million of fitting-out costs were incurred for the Group's data centres and the remainder of the capital expenditure were mainly for network systems upgrade and expansion.

Capital commitments

As at 30 June 2018, the Group had outstanding capital commitments of HK$309.5 million, mainly for the data centre development, system upgrades and construction costs of networks, and acquisition of telecommunications equipment which had yet to be delivered to the Group. Of these commitments, HK$140.5 million were outstanding contractual capital commitments and HK$169.0 million were capital commitments authorised but for which contracts had yet to be entered into.

TREASURY POLICY AND FINANCIAL RISK MANAGEMENT

General

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$5,892.0 million, the net gearing ratio decreased from 42% as at 31 December 2017 to 41% as at 30 June 2018.

As at 30 June 2018, total debt and net debt of the Group were as follows:

	Denomination							
In HK$ million equivalents	HKD	USD	SGD	EUR	RMB	MOP	Others	Total
Total bank and other borrowings	3,289.3	3,555.6	424.3	199.7	–	–	–	**7,468.9**
Obligations under finance leases	–	–	2.6	–	–	–	–	**2.6**
Total debt	3,289.3	3,555.6	426.9	199.7	–	–	–	**7,471.5**
Less: Cash and bank deposits	(803.8)	(295.8)	(54.9)	(33.1)	(178.4)	(157.4)	(56.1)	**(1,579.5)**
Net debt/(cash)	**2,485.5**	**3,259.8**	**372.0**	**166.6**	**(178.4)**	**(157.4)**	**(56.1)**	**5,892.0**

As at 30 June 2018, the Group's net gearing ratio was as follows:

In HK$ million	30 June 2018	31 December 2017
Total bank and other borrowings	**7,468.9**	7,825.1
Obligations under finance leases	**2.6**	3.3
Total debt	**7,471.5**	7,828.4
Less: Cash and bank deposits	**(1,579.5)**	(1,635.6)
Net debt	**5,892.0**	6,192.8
Total equity attributable to equity shareholders of the Company	**8,465.9**	8,396.4
Total capital	**14,357.9**	14,589.2
Net gearing ratio	**41%**	42%

As at 30 June 2018, the principal of total debt amounted to HK$7,514.2 million, of which HK$341.7 million will mature in the coming twelve months, against cash and bank deposits of HK$1,579.5 million.

The maturity profile of the Group's total debt in principal amount as at 30 June 2018 was as follows:

In HK$ million	Within 1 year	After 1 year but within 2 years	After 2 years but within 3 years	After 3 years but within 4 years	After 4 years but within 5 years	After 5 years	Total
Bank and other borrowings	340.5	351.1	2,910.0	400.0	–	–	**4,001.6**
Obligations under finance leases	1.2	1.0	0.4	–	–	–	**2.6**
US$450 million 6.1% guaranteed bonds	–	–	–	–	–	3,510.0	**3,510.0**
	341.7	**352.1**	**2,910.4**	**400.0**	**–**	**3,510.0**	**7,514.2**

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$7,514.2 million which was mainly due to the early repayment of HK$400.0 million bank loans from its surplus cash during the period.

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 twelve months.

The Group's cash balance as at 30 June 2018 are more than sufficient to cover the repayments of principal amount of total debt of HK$341.7 million in the coming twelve months and contractual capital commitments of HK$140.5 million as at 30 June 2018.

As at 30 June 2018, the Group had available trading facilities of HK$298.1 million. Amount of HK$94.8 million was utilised as guarantees for performance to customers/the Macau Government, costs payable to telecoms operators and others.

Around HK$15.3 million of the utilised facilities were required to be secured by pledged deposits or other property, plant and equipment as at 30 June 2018.

As at 30 June 2018, the type of facilities of the Group was summarised as follows:

In HK$ million	Total available facilities	Amount utilised	Amount unutilised
Bank and other loans			
– Committed facilities:			
Term loans	3,690.4	3,690.4	–
– Uncommitted facilities:			
Short-term facilities	705.4	311.2	394.2
	4,395.8	4,001.6	394.2
Obligations under finance leases – Committed facilities	2.6	2.6	–
Guaranteed bonds – Committed facility			
US$450 million 6.1% guaranteed bonds	3,510.0	3,510.0	–
Trading facilities – Uncommitted facilities	298.1	94.8	203.3
Total	**8,206.5**	**7,609.0**	**597.5**

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 30 June 2018, the Group was in compliance with the relevant requirements.

4. Contingent liabilities

As at 30 June 2018, the Group had no significant contingent liabilities.

5. Performance bonds, guarantees and pledged assets

As at 30 June 2018, 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$89.9 million.

As at 30 June 2018, bank deposits of HK$11.4 million and other property, plant and equipment of HK$3.7 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 (equivalent to 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 30 June 2018, the Company has issued guarantees for its subsidiaries in respect of the bank and other loans in an amount of HK$691.4 million and obligations under finance leases in an amount of HK$2.6 million.

Certain other property, plant and equipment of Companhia de Telecomunicações de Macau, S.A.R.L. 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 30 June 2018, approximately 52.5% of the Group's borrowings in principal were linked to floating interest rates. During the period, the Group did not enter into any interest rate swap arrangement.

Average borrowing costs

As at 30 June 2018, the average borrowing costs, which is after the inclusion of amortisation of transaction costs, was approximately 4.5%.

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 and contract assets. 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 on trade debtors are measured based on expected credit loss model.

The Group has certain concentration risk in respect of trade debtors and contract assets due from the Group's five largest customers who accounted for approximately 32.1% and 39.8% of the Group's total trade debtors and contract assets as at 30 June 2018 and 31 December 2017 respectively. The credit risk exposure to trade debtors and contract assets balances has been and will continue to be monitored by the Group on an ongoing basis.

9. **Counterparty risk**

As at 30 June 2018, 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 30 June 2018, the Group has HK$1,544.9 million cash balance in the above-mentioned financial institutions, representing approximately 97.8% of the total cash and bank deposits of the Group. Management does not expect any losses from non-recovery from our financial counterparties.

FORWARD LOOKING STATEMENTS

This Interim 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 Interim Report; and (b) any liability arising from any forward looking statements or opinions that do not materialise or otherwise prove to be incorrect.

HUMAN RESOURCES

The Group has a strong sense of commitment in fulfilling corporate social responsibility ("CSR"). CSR has always been an integral part of the Group's corporate business strategy and philosophy.

As at 30 June 2018, the Group employed a total of 2,509 employees for its headquarters in Hong Kong and its subsidiaries. Number of employees in Hong Kong was 526. Employees in Mainland China and Macau totalled 1,647. Employees in overseas countries totalled 336.

The Group continues our initiatives in raising operational efficiency whilst maintaining harmonious staff relations, promoting a culture of open communication and investing in human resources to support business growth.

To ensure that the overall compensation for employees is internally equitable, in line with local norms, and in support of the business strategy, the Group conducts regular review on the cash remuneration and benefits package provided to its employees. No major amendment was made to the human resources management policy or procedures in the last six months.

The need for a proper balance between work and life is well recognised by the Group as an important contributor to the well being of employees and their work efficiency. The Group organised a variety of employee activities including hiking and ball competitions. It would enhance mutual communication and maintain a positive atmosphere.

The Group actively promotes a culture of open communication. Management collects the opinion of employees through different channels including team meetings and employee suggestion box.

Developing employees to enable them to grow personally and professionally has always been an ongoing priority of the Group. The Group has provided internal training opportunities and training subsidies for outside training courses to our employees to enhance their skills and abilities. This will help employees to be well equipped for the future development of the Group.

To adopt our philosophy of committing and making contribution to the community, the Group has organised our employees to participate into various volunteer work and charitable activities. Moreover, the Group continues to utilise our strength on information technology to support the community.

The Group is committed to conduct business in an environmentally responsible manner. The Group has formulated and ongoing reviewed our policies of environmental protection and energy saving in order to achieve sustainable targets.

INTERIM FINANCIAL REPORT

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2018 (Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
	Note	**$'000**	$'000
Revenue	*3(a)*	**4,913,779**	3,592,189
Valuation gain on investment property	*9(c)*	**23,683**	19,629
Other income	*4*	**18,361**	20,599
Other net (loss)/gain	*5*	**(5,069)**	4,682
		4,950,754	3,637,099
Cost of sales and services		**(3,047,919)**	(1,811,792)
Depreciation and amortisation	*6(c)*	**(351,884)**	(344,239)
Staff costs	*6(b)*	**(461,002)**	(424,075)
Other operating expenses		**(356,398)**	(340,995)
		733,551	715,998
Finance costs	*6(a)*	**(165,467)**	(162,906)
Share of profit/(loss) of a joint venture		**2,024**	(1,713)
Profit before taxation	*6*	**570,108**	551,379
Income tax	*7*	**(73,729)**	(90,279)
Profit for the period		**496,379**	461,100
Attributable to:			
Equity shareholders of the Company		**488,754**	454,644
Non-controlling interests		**7,625**	6,456
Profit for the period		**496,379**	461,100
Earnings per share (HK cents)	*8*		
Basic		**13.8**	12.9
Diluted		**13.8**	12.8

The notes on pages 33 to 61 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 15(a).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018 (Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	$'000	$'000
Profit for the period	**496,379**	461,100
Other comprehensive income for the period (after tax and reclassification adjustments):		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of operations outside Hong Kong, net of $Nil tax	**(10,804)**	18,540
Other comprehensive income for the period	**(10,804)**	18,540
Total comprehensive income for the period	**485,575**	479,640
Attributable to:		
Equity shareholders of the Company	**478,144**	473,174
Non-controlling interests	**7,431**	6,466
Total comprehensive income for the period	**485,575**	479,640

The notes on pages 33 to 61 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018 (Expressed in Hong Kong dollars)

	Note	30 June 2018 (Unaudited) $'000	31 December 2017 (Audited) $'000
Non-current assets			
Investment property	9	**580,751**	685,969
Other property, plant and equipment	9	**2,608,803**	2,625,731
		3,189,554	3,311,700
Intangible assets		**1,636,943**	1,722,074
Goodwill		**9,717,052**	9,729,268
Interest in a joint venture		**7,875**	5,972
Non-current contract assets		**43,682**	–
Non-current other receivables and deposits	10	**137,151**	207,509
Deferred tax assets		**77,257**	81,428
		14,809,514	15,057,951
Current assets			
Inventories and other contract costs		**169,776**	103,771
Contract assets		**571,374**	–
Trade and other receivables and deposits	10	**1,443,707**	1,783,151
Current tax recoverable		**4,807**	3,701
Cash and bank deposits	11(a)	**1,579,537**	1,635,635
		3,769,201	3,526,258
Current liabilities			
Trade and other payables	12	**1,798,405**	1,739,334
Contract liabilities		**170,900**	–
Bank and other loans	13	**340,460**	284,438
Obligations under finance leases		**1,194**	1,541
Current tax payable		**269,596**	211,453
		2,580,555	2,236,766
Net current assets		**1,188,646**	1,289,492
Total assets less current liabilities		**15,998,160**	16,347,443

	Note	30 June 2018 (Unaudited) $'000	31 December 2017 (Audited) $'000
Non-current liabilities			
Interest-bearing borrowings	*14(a)*	**7,128,507**	7,540,698
Obligations under finance leases		**1,379**	1,793
Non-current other payables	*12*	**48,025**	61,808
Net defined benefit retirement obligation		**60,659**	68,303
Deferred tax liabilities		**260,967**	244,643
		7,499,537	7,917,245
NET ASSETS		**8,498,623**	8,430,198
CAPITAL AND RESERVES			
Share capital	*15(b)*	**4,337,301**	4,280,542
Reserves		**4,128,645**	4,115,865
Total equity attributable to equity shareholders of the Company		**8,465,946**	8,396,407
Non-controlling interests		**32,677**	33,791
TOTAL EQUITY		**8,498,623**	8,430,198

The notes on pages 33 to 61 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018 (Expressed in Hong Kong dollars)

		Attributable to equity shareholders of the Company						
	Note	Share capital (Unaudited) $'000	Capital reserve (Unaudited) $'000	Exchange reserve (Unaudited) $'000	Retained profits (Unaudited) $'000	Total (Unaudited) $'000	Non-controlling interests (Unaudited) $'000	Total equity (Unaudited) $'000
Balance at 1 January 2017		4,262,457	78,520	(38,734)	3,568,261	7,870,504	29,182	7,899,686
Changes in equity for the six months ended 30 June 2017:								
Profit for the period		–	–	–	454,644	454,644	6,456	461,100
Other comprehensive income for the period		–	–	18,530	–	18,530	10	18,540
Total comprehensive income for the period		–	–	18,530	454,644	473,174	6,466	479,640
Dividend paid to non-controlling interests		–	–	–	–	–	(10,486)	(10,486)
Shares issued under share option plan	15(b)(ii)	12,721	(3,016)	–	–	9,705	–	9,705
Equity-settled share-based transactions	6(b)	–	16,395	–	–	16,395	–	16,395
Dividends approved in respect of the previous financial year	15(a)(ii)	–	–	–	(366,503)	(366,503)	–	(366,503)
Release upon lapse of share options	16(a)	–	(289)	–	289	–	–	–
		12,721	13,090	–	(366,214)	(340,403)	(10,486)	(350,889)
Balance at 30 June 2017		4,275,178	91,610	(20,204)	3,656,691	8,003,275	25,162	8,028,437
Balance at 1 July 2017		4,275,178	91,610	(20,204)	3,656,691	8,003,275	25,162	8,028,437
Changes in equity for the six months ended 31 December 2017:								
Profit for the period		–	–	–	426,694	426,694	7,962	434,656
Other comprehensive income for the period		–	–	9,599	43,430	53,029	667	53,696
Total comprehensive income for the period		–	–	9,599	470,124	479,723	8,629	488,352
Shares issued under share option plan	15(b)(ii)	5,364	(1,237)	–	–	4,127	–	4,127
Equity-settled share-based transactions		–	15,585	–	–	15,585	–	15,585
Release upon lapse of share options	16(a)	–	(1,364)	–	1,364	–	–	–
Dividends declared in respect of the current financial year	15(a)(i)	–	–	–	(106,303)	(106,303)	–	(106,303)
		5,364	12,984	–	(104,939)	(86,591)	–	(86,591)
Balance at 31 December 2017 (Audited)		4,280,542	104,594	(10,605)	4,021,876	8,396,407	33,791	8,430,198

		Attributable to equity shareholders of the Company						
	Note	Share capital (Unaudited) $'000	Capital reserve (Unaudited) $'000	Exchange reserve (Unaudited) $'000	Retained profits (Unaudited) $'000	Total (Unaudited) $'000	Non-controlling interests (Unaudited) $'000	Total equity (Unaudited) $'000
Balance at 1 January 2018		4,280,542	104,594	(10,605)	4,021,876	8,396,407	33,791	8,430,198
Changes in equity for the six months ended 30 June 2018:								
Profit for the period		–	–	–	488,754	488,754	7,625	496,379
Other comprehensive income for the period		–	–	(10,610)	–	(10,610)	(194)	(10,804)
Total comprehensive income for the period		–	–	(10,610)	488,754	478,144	7,431	485,575
Dividend paid to non-controlling interests		–	–	–	–	–	(8,545)	(8,545)
Shares issued under share option plan	*15(b)(ii)*	56,759	(11,761)	–	–	44,998	–	44,998
Equity-settled share-based transactions	*6(b)*	–	9,649	–	–	9,649	–	9,649
Dividends approved in respect of the previous financial year	*15(a)(ii)*	–	–	–	(463,252)	(463,252)	–	(463,252)
Release upon lapse of share options	*16(a)*	–	(14,655)	–	14,655	–	–	–
		56,759	(16,767)	–	(448,597)	(408,605)	(8,545)	(417,150)
Balance at 30 June 2018		4,337,301	87,827	(21,215)	4,062,033	8,465,946	32,677	8,498,623

The notes on pages 33 to 61 form part of this interim financial report.

CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2018 (Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
	Note	**$'000**	$'000
Operating activities			
Cash generated from operations	*11(d)*	**1,074,782**	901,534
Tax paid:			
– Hong Kong Profits Tax paid		**(4,140)**	(3,858)
– Tax paid for jurisdictions outside Hong Kong		**(8,275)**	(12,736)
Tax refunded:			
– Hong Kong Profits Tax refunded		**16,795**	377
– Tax refunded for jurisdictions outside Hong Kong		**4**	385
Net cash generated from operating activities		**1,079,166**	885,702
Investing activities			
Payment for the purchase of other property, plant and equipment		**(205,884)**	(221,668)
Proceeds from sale of other property, plant and equipment		**489**	541
Payment for the acquisition of subsidiaries (net of cash and cash equivalents acquired)		**–**	(158,485)
Payment for transaction costs for the acquisition of subsidiaries		**–**	(1,007)
Decrease/(increase) in pledged deposits		**220,413**	(81,726)
Interest received		**8,396**	6,929
Net cash generated from/(used in) investing activities		**23,414**	(455,416)

	Note	Six months ended 30 June 2018 (Unaudited) $'000	2017 (Unaudited) $'000
Financing activities			
Proceeds from new bank and other loans		**143,600**	264,704
Proceeds from new shares issued under share option plan		**44,998**	9,705
Capital element of finance lease rentals paid		**(716)**	(1,825)
Repayment of bank and other loans		**(494,594)**	(350,767)
Interest element of finance lease rentals paid		**(65)**	(118)
Other borrowing costs paid		**(155,576)**	(155,568)
Dividends paid to equity shareholders of the Company	*15(a)(ii)*	**(463,252)**	(366,503)
Dividend paid to non-controlling interests		**(8,545)**	(10,486)
Net cash used in financing activities		**(934,150)**	(610,858)
Net increase/(decrease) in cash and cash equivalents		**168,430**	(180,572)
Cash and cash equivalents at 1 January	*11(a)*	**1,403,556**	1,283,675
Effect of foreign exchange rate changes		**(3,832)**	12,800
Cash and cash equivalents at 30 June	*11(a)*	**1,568,154**	1,115,903

The notes on pages 33 to 61 form part of this interim financial report.

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issue on 16 August 2018.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2017 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The interim financial report is unaudited, but has been reviewed by the Audit Committee of the Company and the independent auditor, KPMG, in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 62.

The financial information relating to the financial year ended 31 December 2017 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

2 CHANGES IN ACCOUNTING POLICIES

(a) Overview

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's consolidated financial statements:

- HKFRS 9, *Financial instruments*
- HKFRS 15, *Revenue from contracts with customers*
- HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

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

The Group has been impacted by HKFRS 9 in relation to classification of financial assets and financial liabilities and measurement of credit losses, and impacted by HKFRS 15 in relation to timing of revenue recognition, significant financing benefit obtained from customers, capitalisation of contract costs and presentation of contract assets and contract liabilities. Details of the changes in accounting policies are discussed in note 2(b) for HKFRS 9 and note 2(c) for HKFRS 15.

Under the transition methods chosen, the Group shall recognise cumulative effect of the initial application of HKFRS 9 and HKFRS 15, if any, as an adjustment to the opening balance of equity at 1 January 2018. The adoption of HKFRS 9 and HKFRS 15 does not have a significant impact on the opening balance of equity at 1 January 2018 and no adjustment was made to the opening balance of equity at 1 January 2018. Comparative information is not restated. The following table gives a summary of the opening balance adjustments recognised for each line item in the consolidated statement of financial position that has been impacted by HKFRS 15:

	At 31 December 2017 $'000	Impact on initial application of HKFRS 15 *(Note 2(c))* $'000	At 1 January 2018 $'000
Non-current contract assets	–	32,710	32,710
Non-current other receivables and deposits	207,509	(32,710)	174,799
Contract assets	–	542,827	542,827
Trade and other receivables and deposits	1,783,151	(542,827)	1,240,324
Contract liabilities	–	(170,156)	(170,156)
Trade and other payables	(1,739,334)	170,156	(1,569,178)

Further details of these changes are set out in sub-section (c) of this note.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) HKFRS 9, *Financial instruments*

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has concluded that the initial adoption of HKFRS 9 had no impact on opening balance of equity at 1 January 2018.

Details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

(i) Classification of financial assets and financial liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

The measurement categories for all financial assets and financial liabilities of the Group remain the same.

The carrying amounts for all financial assets and financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

(ii) Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the expected credit loss ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to the following items:

– financial assets measured at amortised cost (including cash and cash equivalents, and trade and other receivables and deposits); and

– contract assets as defined in HKFRS 15 (see note 2(c)).

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) HKFRS 9, *Financial instruments* (Continued)

(ii) Credit losses (Continued)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets, trade and other receivables and deposits and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) HKFRS 9, *Financial instruments* (Continued)

(ii) Credit losses (Continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 to 180 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income on credit-impaired financial assets

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) HKFRS 9, *Financial instruments* (Continued)

(ii) Credit losses (Continued)

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

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

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(iii) Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated, the information presented for 2017 continues to be reported under HKAS 39.

– If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(c) HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

The Group has elected to use the cumulative effect transition method and has concluded that the initial adoption of HKFRS 15 had no impact on opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKAS 11 and HKAS 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

The Group has concluded that the initial adoption of HKFRS 15 in relation to timing of revenue recognition, significant financing benefit obtained from customers and capitalisation of contract costs had no material impact on opening balances at 1 January 2018. However, in future periods it may have material impact on the Group's financial results.

Details of the nature and effect of the changes on previous accounting policies are set out below:

(i) Timing of revenue recognition

Previously, revenue arising from provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. 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;

C. 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 is considered in determining when the transfer of control occurs.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(c) HKFRS 15, *Revenue from contracts with customers* (Continued)

(ii) 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 of revenue recognition or significantly deferred.

Previously, the Group only applied such a policy when payments were significantly deferred, which was not common in the Group's arrangements with its customers. The Group did not apply such a policy when payments were received in advance.

It is not common for the Group to receive payments significantly in advance of revenue recognition in the Group's arrangements with its customers.

Where payment schemes include a significant financing component, the transaction price is adjusted to separately account for this component. In the case of payments in advance, such adjustment results in interest expense being accrued by the Group to reflect the effect of the financing benefit obtained by the Group from the customers during the period between the payment date and the date when the customer obtains control of the promised good or service in the contract. This accrual increases the amount of the contract liability during the period, and therefore increases the amount of revenue recognised when control of the promised good or service is transferred to the customer. The interest is expensed as accrued unless it is eligible to be capitalised under HKAS 23, *Borrowing costs*.

(iii) Sales commissions payable related to sales contracts

The Group previously recognised sales commissions payable related to sales contracts as costs of sales and services when they were incurred. Under HKFRS 15, the Group is required to capitalise these sales commissions as costs of obtaining contracts when they are incremental and are expected to be recovered, unless the expected amortisation period is one year or less from the date of initial recognition of the asset, in which case the sales commissions can be expensed when incurred. Capitalised commissions are charged to profit or loss when the revenue from the related revenue is recognised and are included as costs of sales and services at that time.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(c) HKFRS 15, *Revenue from contracts with customers* (Continued)

(iv) Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before receiving the consideration or being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Previously, contract balances were presented in the consolidated statement of financial position under "non-current other receivables and deposits", "trade and other receivables and deposits" or "trade and other payables" respectively.

To reflect these changes in presentation, the Group has made the following adjustments at 1 January 2018, as a result of the adoption of HKFRS 15:

A. Amount of $32,710,000 which was previously included in non-current other receivables and deposits is now included under non-current contract assets;

B. Amount of $542,827,000 which was previously included in trade and other receivables and deposits is now included under contract assets; and

C. Amount of $170,156,000 which was previously included in trade and other payables is now included under contract liabilities.

(d) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial results of the Group.

3 REVENUE AND SEGMENT REPORTING

(a) Disaggregation of 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.

Disaggregation of revenue from contracts with customers by major products or service lines and geographical location of the Group's revenue from external customers is as follows:

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	$'000	$'000
Disaggregated by major products or service lines:		
Mobile services	**615,281**	614,355
Internet services	**489,401**	468,015
International telecommunications services	**833,926**	597,183
Enterprise solutions	**1,462,093**	1,327,438
Fixed line services	**120,018**	150,453
Fees from the provision of telecommunications services	**3,520,719**	3,157,444
Sale of equipment and mobile handsets	**1,393,060**	434,745
	4,913,779	3,592,189
Disaggregated by geographical location of the Group's revenue from external customers:		
– Hong Kong (place of domicile)	**1,618,583**	1,365,182
– The People's Republic of China (the "PRC")	**315,350**	240,055
– Macau	**2,546,461**	1,624,855
– Singapore	**255,113**	233,483
– Others	**178,272**	128,614
	3,295,196	2,227,007
	4,913,779	3,592,189

3 REVENUE AND SEGMENT REPORTING (Continued)

(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.

Reconciliation of reportable segment profit

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	$'000	$'000
Reportable segment profit	**1,116,386**	1,076,750
Net gain on disposal of other property, plant and equipment	**3**	24
Net foreign exchange (loss)/gain	**(5,072)**	4,658
Depreciation and amortisation	**(351,884)**	(344,239)
Finance costs	**(165,467)**	(162,906)
Share of profit/(loss) of a joint venture	**2,024**	(1,713)
Interest income	**6,870**	6,850
Rentals receivable from investment property less direct outgoings	**9,264**	9,851
Valuation gain on investment property	**23,683**	19,629
Unallocated head office and corporate expenses	**(65,699)**	(57,525)
Consolidated profit before taxation	**570,108**	551,379

(c) Seasonality of operations

The Group's telecommunications services are not significantly impacted by seasonal factors and there were historically no significant seasonal or cyclical trends in the operating results.

4 OTHER INCOME

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	$'000	$'000
Interest income from bank deposits	**4,947**	4,586
Other interest income	**1,923**	2,264
	6,870	6,850
Gross rental income from investment property	**11,491**	13,749
	18,361	20,599

5 OTHER NET (LOSS)/GAIN

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	$'000	$'000
Net gain on disposal of other property, plant and equipment *(note 9(a))*	**3**	24
Net foreign exchange (loss)/gain	**(5,072)**	4,658
	(5,069)	4,682

6 PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	$'000	$'000
(a) Finance costs		
Interest on bank and other borrowings	**156,050**	154,382
Finance charges on obligations under finance leases	**65**	118
Other finance charges	**8,329**	6,863
Other interest expense	**1,023**	1,543
	165,467	162,906
(b) Staff costs (including directors' emoluments)		
Contributions to defined contribution retirement plans	**33,973**	27,940
Expenses recognised in respect of defined benefit retirement plan	**4,530**	5,019
Total retirement costs	**38,503**	32,959
Equity-settled share-based payment expenses *(note 16(c))*	**9,649**	16,395
Salaries, wages and other benefits	**412,850**	374,721
	461,002	424,075
(c) Other items		
Depreciation	**267,926**	258,668
Amortisation	**83,958**	85,571
	351,884	344,239
Net impairment losses for trade debtors and contract assets	**6,241**	7,424
Write off for other receivables	**26,207**	–
Rentals receivable from investment property less direct outgoings of $2,227,000 (six months ended 30 June 2017: $3,898,000)	**(9,264)**	(9,851)

7 INCOME TAX

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	$'000	$'000
Current tax	**53,600**	97,265
Deferred tax	**20,129**	(6,986)
	73,729	90,279

The provision for Hong Kong Profits Tax for the six months ended 30 June 2018 is calculated at 16.5% (six months ended 30 June 2017: 16.5%) of the estimated assessable profits for the period.

The provision for Macau Complementary Tax for the six months ended 30 June 2018 is calculated at 12% (six months ended 30 June 2017: 12%) of the estimated assessable profits for the period. Assessable profits of the first Macau Patacas ("MOP") 600,000 (equivalent to approximately $582,000) (six months ended 30 June 2017: 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.

8 EARNINGS PER SHARE

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	$'000	$'000
Profit attributable to equity shareholders of the Company	**488,754**	454,644

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

	Number of shares	
	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	'000	'000
Issued ordinary shares at 1 January	**3,544,164**	3,534,581
Effect of share options exercised	**6,487**	3,215
Weighted average number of ordinary shares (basic) at 30 June	**3,550,651**	3,537,796
Effect of deemed issue of shares under the Company's share option plan	**2,063**	8,781
Weighted average number of ordinary shares (diluted) at 30 June	**3,552,714**	3,546,577
Basic earnings per share (HK cents)	**13.8**	12.9
Diluted earnings per share (HK cents)	**13.8**	12.8

9 INVESTMENT PROPERTY AND OTHER PROPERTY, PLANT AND EQUIPMENT

(a) Acquisitions and disposals

During the six months ended 30 June 2018, the Group acquired items of other property, plant and equipment with a total cost of $125,245,000 (six months ended 30 June 2017: $206,009,000), of which, no addition to other property, plant and equipment was acquired through acquisition of subsidiaries (six month ended 30 June 2017: $63,634,000).

Items of other property, plant and equipment with a net book value of $486,000 were disposed of during the six months ended 30 June 2018 (six months ended 30 June 2017: $517,000), resulting in a net gain on disposal of $3,000 (six months ended 30 June 2017: $24,000).

(b) Transfers

During the six months ended 30 June 2018, due to the change of use, part of the Group's investment property was reclassified to other property, plant and equipment, which were carried at fair value of $128,901,000 on the date of reclassification.

(c) Valuation

The valuation of investment property carried at fair value was updated at 30 June 2018 by an independent firm of surveyors using the same valuation techniques as were used by the same surveyors when carrying out the December 2017 valuation. As a result of the update, a gain of $23,683,000 (six months ended 30 June 2017: $19,629,000) has been recognised in profit or loss for the period.

(d) Certain other property, plant and equipment of the Company's subsidiary, Companhia de Telecomunicações de Macau, S.A.R.L., 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.

10 TRADE AND OTHER RECEIVABLES AND DEPOSITS

	30 June 2018 (Unaudited) $'000	31 December 2017 (Audited) $'000
Trade debtors	**1,125,191**	1,330,736
Less: allowance for doubtful debts	**(25,326)**	(22,480)
	1,099,865	1,308,256
Other receivables and deposits	**480,993**	682,404
	1,580,858	1,990,660
Represented by:		
Non-current portion	**137,151**	207,509
Current portion	**1,443,707**	1,783,151
	1,580,858	1,990,660

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:

	30 June 2018 (Unaudited) $'000	31 December 2017 (Audited) $'000
Within 1 year	**1,051,145**	1,175,884
Over 1 year	**74,046**	154,852
	1,125,191	1,330,736

Credit evaluations are performed on all customers requiring credit over a certain amount. Trade debtors are due within 7 to 180 days from the date of billing. Impairment losses on trade debtors are measured based on the ECL model.

11 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	30 June 2018 (Unaudited) $'000	31 December 2017 (Audited) $'000
Cash at bank and in hand	**1,347,707**	1,134,240
Time deposits with banks	**231,830**	501,395
Cash and bank deposits in the consolidated statement of financial position *(note (b))*	**1,579,537**	1,635,635
Less: pledged deposits *(note (c))*	**(11,383)**	(232,079)
Cash and cash equivalents in the consolidated cash flow statement	**1,568,154**	1,403,556

(b) Included in cash and bank deposits were $72,454,000 (31 December 2017: $46,494,000) 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 30 June 2018, bank deposits of $11,383,000 (31 December 2017: $6,346,000) were pledged to secure parts of the banking facilities of the Group.

At 31 December 2017, the Group pledged deposits of $225,733,000 to commercial banks to secure loans drawn by a fellow subsidiary from the commercial banks under the offshore-security-onshore-loan arrangements (see note 19(a)(iii)).

11 CASH AND CASH EQUIVALENTS (Continued)

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

		Six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
	Note	**$'000**	$'000
Profit before taxation		**570,108**	551,379
Adjustments for:			
Depreciation and amortisation	*6(c)*	**351,884**	344,239
Valuation gain on investment property	*9(c)*	**(23,683)**	(19,629)
Net gain on disposal of other property, plant and equipment	*5*	**(3)**	(24)
Share of (profit)/loss of a joint venture		**(2,024)**	1,713
Finance costs	*6(a)*	**165,467**	162,906
Interest income	*4*	**(6,870)**	(6,850)
Equity-settled share-based payment expenses	*6(b)*	**9,649**	16,395
Foreign exchange gain		**(4,370)**	(7,905)
		1,060,158	1,042,224
Changes in working capital:			
Increase in inventories and other contract costs		**(66,005)**	(21,443)
Increase in trade and other receivables and deposits		**(166,773)**	(123,991)
Increase in contract assets		**(39,519)**	–
Increase in trade and other payables		**294,845**	3,746
Increase in contract liabilities		**744**	–
(Decrease)/increase in net defined benefit retirement obligation		**(8,668)**	998
Cash generated from operations		**1,074,782**	901,534

12 TRADE AND OTHER PAYABLES

	30 June 2018 (Unaudited) $'000	31 December 2017 (Audited) $'000
Trade creditors	**1,233,848**	895,489
Other payables and accruals	**612,582**	905,653
	1,846,430	1,801,142
Represented by:		
Non-current portion	**48,025**	61,808
Current portion	**1,798,405**	1,739,334
	1,846,430	1,801,142

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:

	30 June 2018 (Unaudited) $'000	31 December 2017 (Audited) $'000
Within 1 year	**976,231**	690,770
Over 1 year	**257,617**	204,719
	1,233,848	895,489

13 BANK AND OTHER LOANS

At the end of the reporting period, bank and other loans were repayable as follows:

	30 June 2018 (Unaudited) $'000	31 December 2017 (Audited) $'000
Within 1 year or on demand	**340,460**	284,438
After 1 year but within 2 years	**350,975**	562,415
After 2 years but within 5 years	**3,289,294**	3,491,660
	3,980,729	4,338,513
Represented by:		
Unsecured		
– Current	**340,460**	284,438
– Non-current *(note 14(a))*	**3,640,269**	4,054,075
	3,980,729	4,338,513

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 arrangements with financial institutions. If the Group were to breach the covenants or in any case of an event of default, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. At 30 June 2018 and 31 December 2017, the Group was in compliance with the relevant requirements.

14 NON-CURRENT INTEREST-BEARING BORROWINGS

(a) The analysis of the carrying amount of non-current interest-bearing borrowings is as follows:

	30 June 2018 (Unaudited) $'000	31 December 2017 (Audited) $'000
Unsecured bank and other loans *(note 13)*	**3,640,269**	4,054,075
Guaranteed bonds at 6.1% due 2025 *(note (b))*	**3,488,238**	3,486,623
	7,128,507	7,540,698

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.

15 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

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

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	$'000	$'000
Interim dividend declared/declared and paid after the interim period of HK4.00 cents (six months ended 30 June 2017: HK3.00 cents) per share	**142,613**	106,303

The interim 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 interim period

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	$'000	$'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of HK13.00 cents (six months ended 30 June 2017: HK10.35 cents) per share	**463,252**	366,503

For the final dividend in respect of the year ended 31 December 2017, there was a difference of $2,511,000 between the final dividend disclosed in the 2017 annual report and the amount paid during the six months ended 30 June 2018, which represented dividends attributable to shares issued upon exercise of share options before the closing date of the register of members.

15 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Share capital

	Note	30 June 2018 (Unaudited) Number of shares	30 June 2018 (Unaudited) Amount $'000	31 December 2017 (Audited) Number of shares	31 December 2017 (Audited) Amount $'000
Ordinary shares, issued and fully paid:					
At 1 January	*(i)*	**3,544,163,580**	**4,280,542**	3,534,581,049	4,262,457
Shares issued under share option plan	*(ii)*	**21,158,046**	**56,759**	9,582,531	18,085
At 30 June/31 December	*(i)*	**3,565,321,626**	**4,337,301**	3,544,163,580	4,280,542

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 six months ended 30 June 2018, 21,158,046 ordinary shares (six months ended 30 June 2017: 6,834,810 ordinary shares) were issued at a weighted average exercise price of $2.13 (six months ended 30 June 2017: $1.42) per ordinary share to share option holders who had exercised their options. During the six months ended 31 December 2017, 2,747,721 ordinary shares were issued at a weighted average exercise price of $1.50 per ordinary share to share option holders who had exercised their options. These shares so issued rank pari passu with the then existing ordinary shares in issue.

16 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

(a) On 24 March 2017, options to subscribe for a total of 90,679,000 ordinary shares (the "Options") were granted to employees, officers and directors of the Company and its subsidiaries under the Company's share option plan adopted on 17 May 2007. Each option gives the holder the right to subscribe for one ordinary share of the Company. The first 50% of the Options has been vested on 24 March 2018 and is exercisable from 24 March 2018 to 23 March 2023. The remaining 50% of the Options will be vested on 24 March 2019 and is exercisable from 24 March 2019 to 23 March 2024. The exercise price is $2.45 per ordinary share. The closing price of the Company's ordinary shares on the date of grant of the Options was $2.37 per ordinary share. All options granted on 24 March 2017 was accepted except for options for 1,513,000 ordinary shares which were cancelled during the six months ended 30 June 2017.

Details of the fair value of the Options and assumptions are set out in note 16(b).

During the six months ended 30 June 2018, 31 December 2017 and 30 June 2017, options for 21,158,046 ordinary shares, 2,747,721 ordinary shares and 6,834,810 ordinary shares were exercised respectively. The weighted average closing prices at the date of exercise of share options exercised during the six months ended 30 June 2018, 31 December 2017 and 30 June 2017 were $2.32, $2.30 and $2.37 respectively.

Save as disclosed above, no options were cancelled during the six months ended 30 June 2018 (six months ended 30 June 2017: 1,513,000 ordinary shares; six months ended 31 December 2017: Nil).

During the six months ended 30 June 2018, options for 27,648,246 ordinary shares (six months ended 30 June 2017: 1,784,450 ordinary shares; six months ended 31 December 2017: 3,301,869 ordinary shares) have lapsed. The value of vested options lapsed during the six months ended 30 June 2018 was $14,655,000 (six months ended 30 June 2017: $289,000; six months ended 31 December 2017: $1,364,000) and was released directly to retained profits.

(b) 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 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).

16 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (Continued)

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

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.

(c) The total expense recognised in the consolidated income statement for the six months ended 30 June 2018 in respect of the above grant of options was $9,649,000 (six months ended 30 June 2017: $16,395,000).

17 CAPITAL COMMITMENTS

Capital commitments outstanding at the end of reporting period not provided for in the interim financial report were as follows:

	30 June 2018 (Unaudited) $'000	31 December 2017 (Audited) $'000
Contracted for	**140,510**	18,480
Authorised but not contracted for	**169,047**	73,690

18 PERFORMANCE BONDS AND GUARANTEES

At 30 June 2018, performance bonds provided to the Macau Government and other customers for which no provision has been made in the interim financial report amounted to $89,870,000 (31 December 2017: $85,222,000). At 30 June 2018, 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 reporting period is the total amount guaranteed by the performance bonds of $89,870,000 (31 December 2017: $85,222,000).

19 MATERIAL RELATED PARTY TRANSACTIONS

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

(i) Recurring transactions

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	$'000	$'000
Management consultancy and technical services fee received/receivable from a fellow subsidiary	**–**	5,640
Internet data centre services fee received/receivable from fellow subsidiaries	**4,352**	4,390
Virtual private network services fee received/receivable from fellow subsidiaries	**8,628**	4,569
Internet access services fee received/receivable from fellow subsidiaries	**3,680**	1,020
Telecommunications services and related expenses paid/payable to		
– a fellow subsidiary	**17,120**	13,729
– an associate of the ultimate holding company	**4,589**	3,733
Professional fees paid/payable to a controlling shareholder for the provision of internal audit and company secretarial services	**2,600**	2,490
Operating lease charges, building management fees, water and electricity fees, air conditioning charges and car parking spaces rental paid/payable to fellow subsidiaries	**15,458**	14,891
Rental income and building management charges received/receivable from a fellow subsidiary	**9,113**	9,506

19 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

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

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

	30 June 2018 (Unaudited) $'000	31 December 2017 (Audited) $'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	**73,523**	74,155
Amount due from/(to) a fellow subsidiary included in:		
– Trade and other receivables and deposits	**33,110**	33,392
– Trade and other payables	**(6,256)**	(8,106)

(iii) 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 Renminbi ("RMB") 340,000,000 (equivalent to approximately $403,274,000) to the fellow subsidiary if and when a shortage of funds arises in the operation of a network in the PRC. At 31 December 2017, the Company entered into the offshore-security-onshore-loan arrangements with commercial banks whereby loans in the total principal amount of RMB154,600,000 (equivalent to approximately $184,948,000) were drawn by the fellow subsidiary (see note 11(c)). During the period, the fellow subsidiary of the Group has fully repaid the outstanding amount of the loans from commercial banks. Accordingly, the obligations of the Group under the offshore-security-onshore-loan arrangements have been discharged at the end of 30 June 2018.

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:

	30 June 2018 (Unaudited) $'000	31 December 2017 (Audited) $'000
Guarantees issued to a fellow subsidiary	**–**	111,974
Deposits pledged to a fellow subsidiary	**–**	124,439

19 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 organisations (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 interim financial report, 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

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	$'000	$'000
Interest income from bank deposits	**1,730**	2,306
Finance costs on interest-bearing borrowings	**(10,183)**	(10,436)
Fees received/receivable from the provision of telecommunications services	**523,283**	550,811
Fees paid/payable for network, operations and support services	**(427,174)**	(381,048)

19 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

	30 June 2018 (Unaudited) $'000	31 December 2017 (Audited) $'000
Bank deposits	**247,740**	292,085
Trade debtors	**237,227**	593,463
Contract assets	**379,017**	–
Trade payables	**(435,534)**	(259,974)
Interest-bearing borrowings	**(706,396)**	(802,646)

The interest-bearing borrowings from state-controlled banks at 30 June 2018 bore interest at the prevailing market rates.

(c) Key management personnel emoluments

Emoluments for key management personnel of the Group, including amounts paid/payable to the Company's directors, are as follows:

	Six months ended 30 June	
	2018 (Unaudited) $'000	2017 (Unaudited) $'000
Short-term employee benefits	**12,720**	12,295
Share-based payments	**2,987**	4,362
Post-employment benefits	**369**	360
	16,076	17,017

20 NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

After the end of the reporting period, the directors proposed an interim dividend. Further details are disclosed in note 15(a)(i).

21 COMPARATIVE FIGURES

The Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2.

22 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE SIX MONTHS ENDED 30 JUNE 2018

A number of amendments and new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted. The Group has not early adopted any new or amended standards in preparing this interim financial report.

The Group has the following update to the information provided in the last annual financial statements in respect of HKFRS 16, *Leases*, which may have a significant impact on the Group's consolidated financial statements.

HKFRS 16, *Leases*

As discussed in the 2017 annual financial statements, 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. Upon the adoption of HKFRS 16, where the Group is the lessee under the lease the Group will be required to account for all leases in a similar way to current finance lease accounting, i.e. recognise and measure a lease liability at the present value of the minimum future lease payments and recognise a corresponding "right-of-use" asset at the commencement date of the lease, subject to practical expedients. HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for items of other property, plant and equipment which are currently classified as operating leases.

During the six months ended 30 June 2018, the Group has entered into a number of lease agreements for land and buildings and leased circuits. These leases are currently classified as operating leases. As a result of these lease agreements, the impact of the initial adoption of HKFRS 16 is now estimated to be more significant than the Group's expectation at the time when the 2017 annual financial statements were prepared.

The following is an updated information about the Group's future minimum lease payments, based on the non-cancellable operating leases that have been entered into by 30 June 2018:

	Land and buildings $'000	Leased circuits $'000
Amounts payable:		
Within 6 months	54,332	96,120
After 6 months but within 1 year	36,776	48,788
After 1 year but within 5 years	101,588	24,264
After 5 years	51,153	681
	243,849	169,853

Upon the initial adoption of HKFRS 16 at 1 January 2019, the present value of most of the future minimum lease payments that are payable after 6 months will be recognised as lease liabilities, with corresponding right-of-use assets recognised as non-current assets. 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.

Independent review report to the board of directors of
CITIC Telecom International Holdings Limited
(Incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 25 to 61 which comprises the consolidated statement of financial position of CITIC Telecom International Holdings Limited (the "Company") as of 30 June 2018 and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2018 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG
Certified Public Accountants

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

16 August 2018

DIVIDEND AND CLOSURE OF REGISTER

The board of directors of the Company has declared an interim dividend of HK4.0 cents (2017: HK3.0 cents) per share for the year ending 31 December 2018 payable on Monday, 24 September 2018 to shareholders whose names appear on the Register of Members of the Company on Wednesday, 12 September 2018. The Register of Members of the Company will be closed from Thursday, 6 September 2018 to Wednesday, 12 September 2018, both days inclusive, during which period no share transfer will be effected. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 5 September 2018.

SHARE OPTION PLAN

The share option plan of the Company (the "Plan") was adopted on 17 May 2007 and was valid and effective till 16 May 2017. The Company has no other share option scheme currently in force. Under the Plan, the board may offer to grant an option over the Company's shares to 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 as the board may, in its absolute discretion, select. HK$1.00 is payable by the grantee to the Company on acceptance of the offer of the option. 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 of Hong Kong Limited (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.

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 as at 25 April 2014, 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:

Date of grant	Number of share options	Exercise period	Exercise price per share HK$
23 May 2007	18,720,000	23 May 2007 to 22 May 2012	3.26
17 September 2009	17,912,500	17 September 2010 to 16 September 2015	2.10
17 September 2009	17,912,500	17 September 2011 to 16 September 2016	2.10
19 August 2011	24,227,500	19 August 2012 to 18 August 2017	1.54
19 August 2011	24,227,500	19 August 2013 to 18 August 2018	1.54
26 June 2013	81,347,000	26 June 2013 to 25 June 2018	2.25
24 March 2015	43,756,250	24 March 2016 to 23 March 2021	2.612
24 March 2015	43,756,250	24 March 2017 to 23 March 2022	2.612
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

SHARE OPTION PLAN (Continued)

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

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

The share options granted on 23 May 2007, 17 September 2009, 19 August 2011 and 26 June 2013 have expired. The remaining options granted and accepted under the Plan can be exercised in whole or in part within 5 years from the date of commencement of the exercise period.

A summary of the movements of the share options during the six months ended 30 June 2018 is as follows:

A. Directors of the Company

Name of director	Date of grant	Exercise period	Number of share options Balance as at 1.1.2018	 Exercised during the six months ended 30.6.2018	 Lapsed during the six months ended 30.6.2018	 Balance as at 30.6.2018	Percentage to the number of issued shares %
Xin Yue Jiang	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	
						8,527,701	0.239

SHARE OPTION PLAN (Continued)

A. Directors of the Company (Continued)

Name of director	Date of grant	Exercise period	Number of share options: Balance as at 1.1.2018	Exercised during the six months ended 30.6.2018	Lapsed during the six months ended 30.6.2018	Balance as at 30.6.2018	Percentage to the number of issued shares %
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	0.176
Luo Ning	26.6.2013	26.6.2013 – 25.6.2018	400,000	–	400,000	–	
	24.3.2015	24.3.2016 – 23.3.2021	500,000	–	–	500,000	
	24.3.2015	24.3.2017 – 23.3.2022	500,000	–	–	500,000	
						1,000,000	0.028
David Chan Tin Wai	19.8.2011	19.8.2013 – 18.8.2018	1,047,053	1,047,053 *(Note 1)*	–	–	
	26.6.2013	26.6.2013 – 25.6.2018	2,717,000	2,506,000 *(Note 1)*	211,000	–	
	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	
						5,434,000	0.152

SHARE OPTION PLAN (Continued)

A. Directors of the Company (Continued)

Name of director	Date of grant	Exercise period	Number of share options: Balance as at 1.1.2018	Exercised during the six months ended 30.6.2018	Lapsed during the six months ended 30.6.2018	Balance as at 30.6.2018	Percentage to the number of issued shares %
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	0.112
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
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

SHARE OPTION PLAN (Continued)

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

		Number of share options			
Date of grant	Exercise period	Balance as at 1.1.2018	Exercised during the six months ended 30.6.2018 *(Note 2)*	Lapsed during the six months ended 30.6.2018 *(Note 3)*	Balance as at 30.6.2018
19.8.2011	19.8.2013 – 18.8.2018	3,706,866 *(Note 4)*	1,851,993	1,429	1,853,444
26.6.2013	26.6.2013 – 25.6.2018	31,597,817 *(Note 4)*	15,528,000	16,069,817	–
24.3.2015	24.3.2016 – 23.3.2021	31,467,817 *(Note 4)*	–	352,500	31,115,317
24.3.2015	24.3.2017 – 23.3.2022	32,515,500 *(Note 4)*	–	352,500	32,163,000
24.3.2017	24.3.2018 – 23.3.2023	35,894,000 *(Note 4)*	–	482,500	35,411,500
24.3.2017	24.3.2019 – 23.3.2024	35,894,000 *(Note 4)*	–	1,727,500	34,166,500

SHARE OPTION PLAN (Continued)

C. Others *(Note 5)*

Date of grant	Exercise period	Number of share options Balance as at 1.1.2018	Exercised during the six months ended 30.6.2018 *(Note 6)*	Lapsed during the six months ended 30.6.2018 *(Note 3)*	Balance as at 30.6.2018
19.8.2011	19.8.2013 – 18.8.2018	190,555 *(Note 4)*	170,000	–	20,555
26.6.2013	26.6.2013 – 25.6.2018	4,381,000 *(Note 4)*	55,000	4,326,000	–
24.3.2015	24.3.2016 – 23.3.2021	1,124,000 *(Note 4)*	–	75,000	1,049,000
24.3.2015	24.3.2017 – 23.3.2022	1,236,500 *(Note 4)*	–	75,000	1,161,500
24.3.2017	24.3.2018 – 23.3.2023	915,000 *(Note 4)*	–	–	915,000
24.3.2017	24.3.2019 – 23.3.2024	915,000 *(Note 4)*	–	–	915,000

Notes:

1. The weighted average closing price of the shares immediately before the dates on which Dr. David Chan Tin Wai exercised the options was HK$2.35.

2. The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK$2.33.

3. These are in respect of options granted to some employees under continuous contracts who have subsequently resigned. Such options have lapsed during the six months ended 30 June 2018.

4. 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 2017.

5. These are in respect of options granted to i) some employees under continuous contracts who subsequently resigned/retired/passed away before 1 January 2018; 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.

6. The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK$2.29.

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 30 June 2018 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 %
CITIC Telecom International Holdings Limited		
David Chan Tin Wai	3,081,880	0.086
CITIC Limited, an associated corporation		
David Chan Tin Wai	40,000	0.0001
Liu Jifu	840,000	0.0029
Dah Chong Hong Holdings Limited, an associated corporation		
David Chan Tin Wai	5,279	0.0003
China CITIC Bank Corporation Limited (H shares), an associated corporation		
David Chan Tin Wai	3,000 *(Note)*	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 30 June 2018, 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 (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2018, the interests of the substantial shareholders, other than the directors of the Company or their respective associates, in the shares of the Company as recorded in the register of interests in shares and short positions required to be kept under section 336 of the SFO were as follows:

Name	Number of shares of the Company	Percentage to the number of issued shares %
CITIC Group Corporation	2,129,345,175	59.72
CITIC Polaris Limited	2,129,345,175	59.72
CITIC Glory Limited	2,129,345,175	59.72
CITIC Limited	2,129,345,175	59.72
CITIC Corporation Limited	2,129,345,175	59.72
CITIC Investment (HK) Limited	2,129,345,175	59.72
Silver Log Holdings Ltd.	2,129,345,175	59.72
CITIC Pacific Limited ("CITIC Pacific")	2,129,345,175	59.72
Crown Base International Limited	2,129,345,175	59.72
Effectual Holdings Corp.	2,129,345,175	59.72
CITIC Pacific Communications Limited	2,129,345,175	59.72
Douro Holdings Inc.	2,129,345,175	59.72
Ferretti Holdings Corp.	2,129,345,175	59.72
Ease Action Investments Corp.	2,129,345,175	59.72
Peganin Corp.	2,129,345,175	59.72
Richtone Enterprises Inc.	2,129,345,175	59.72
FIL Limited	213,946,000	6.00

CITIC Group Corporation 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 Corporation in the Company and the interests in the Company of all its direct and indirect subsidiaries as described above duplicate each other.

SUBSTANTIAL SHAREHOLDERS (Continued)

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 213,946,000 shares held by FIL Limited, 113,516,000 shares are in respect of derivative interests.

SHARE CAPITAL

Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the six months ended 30 June 2018 and the Company has not redeemed any of its shares during the period ended 30 June 2018.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance. The board of directors of the Company believes that good corporate governance practices are important to promote investor confidence and protect the interest of our shareholders. Looking ahead, we will keep our corporate governance practices under continual review to ensure their consistent application and will continue to improve our practices having regard to the latest developments. Details of our corporate governance practices can be found on page 50 of the 2017 annual report and the Company's website www.citictel.com.

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 Listing Rules throughout the six months ended 30 June 2018. 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 14 May 2018 as they had other engagements.

The Audit Committee has reviewed the interim report with management and the external auditors and recommended its adoption by the board. The Committee consists of three independent non-executive directors and a non-executive director.

The interim financial report, which is prepared in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*, has been reviewed by the Company's independent auditor, KPMG, in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants.

The Company has adopted the Model Code contained in Appendix 10 of the Listing Rules. Having made specific enquiry, all directors of the Company have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2018.

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

Mr. Luo Ning, an executive director of the Company, ceased to be the Vice Chairman of CITIC Guoan Group Co. Ltd. in June 2018.

CORPORATE INFORMATION

HEADQUARTERS AND REGISTERED OFFICE

25th Floor, CITIC Telecom Tower
93 Kwai Fuk Road
Kwai Chung
New Territories
Hong Kong

Tel: 2377 8888
Fax: 2376 2063

WEBSITE

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

STOCK CODES

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

SHARE REGISTRAR

Shareholders should contact our Registrar, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong at 2980 1333, or by fax: 2810 8185, on matters such as transfer of shares, change of name or address, or loss of share certificates.

ANNUAL AND INTERIM REPORTS

Shareholders may obtain printed copies of annual and interim reports from the Company's Share Registrar. Others should contact the Company Secretary at 2377 8888, or by fax: 2376 2063 or by email: contact@citictel.com for a printed report.

FINANCIAL CALENDAR

Closure of Register:	6 September 2018 to 12 September 2018
Interim Dividend Payable:	24 September 2018

The Interim Report is also available on our website at www.citictel.com. Shareholders may choose to receive the Interim Report in printed form or by electronic means. Shareholders may at any time change their choice of means of receipt of the Interim Report by notice in writing to the Company's Share Registrar.

Shareholders having difficulty in receiving or gaining access to the Interim 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 Interim 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.