中信國際電訊

CITIC TELECOM INTERNATIONAL

STOCK CODE:1883

SEIZE THE OPPORTUNITY

ANNUAL REPORT 2018

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. It is an Internet-oriented telecommunications enterprise providing comprehensive services.

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. ("Acclivis"), is based in Singapore with businesses in Malaysia, Indonesia and Thailand, etc.. As one of the leading IT services provider in the region, Acclivis is the trusted advisor to government and enterprise to deliver digital transformation projects and smart solutions that harness our end-to-end ICT capabilities, with focus on Cloud solutions, managed services and enterprise connectivity. It also owns the reputable Internet service brand "Pacific Internet" in Singapore and Thailand and has established data centres and Cloud computing centres across key cities in Southeast Asia.

Through its wholly-owned subsidiary, CITIC Telecom International CPC Limited ("CPC"), the Group provides one-stop ICT solutions to multinational and business enterprises, including private network solutions, 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 well as the major smart city operator of "Digital Macau". 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 Fostering Prosperity" is the core value of the Group. As at 31 December 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 R&D teams in various cities including Hong Kong, Macau, Zhuhai, Chengdu, etc.. 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.

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.

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.

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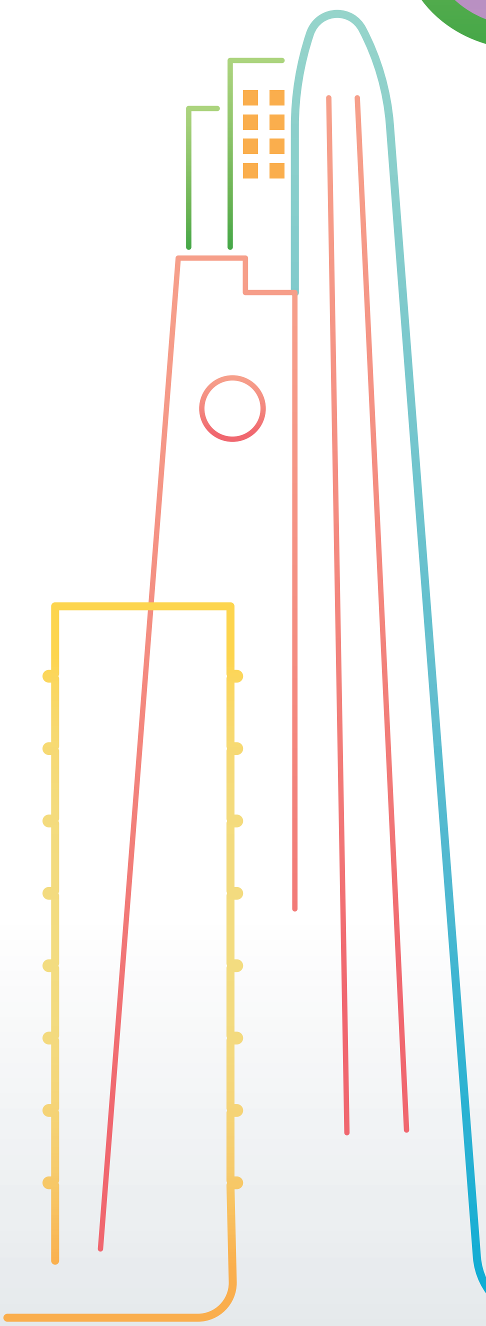

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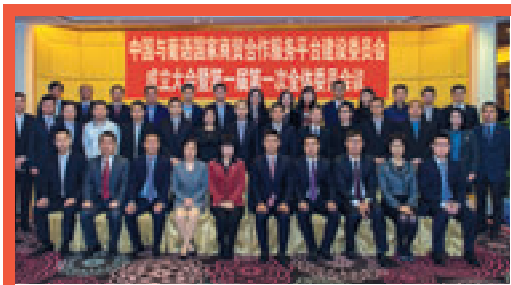
MILESTONES 2018

JANUARY



FEBRUARY

2017年度公有雲提供商TOP50

排名	提供商	產品
8	中企通訊	雲時代 SmartCLOUD

MARCH

APRIL

MILESTONES 2018

JANUARY

- Launched IPX services for a Hong Kong MVNO
- CITIC Telecom International CPC Limited ("CPC") won the "Outstanding ICT Solution Provider 2017" at "Quamnet Outstanding Enterprise Awards 2017" by Quamnet
- Companhia de Telecomunicações de Macau, S.A.R.L. ("CTM") partnered with MGM 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 in the SME Relief Program
- 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

- 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

MARCH

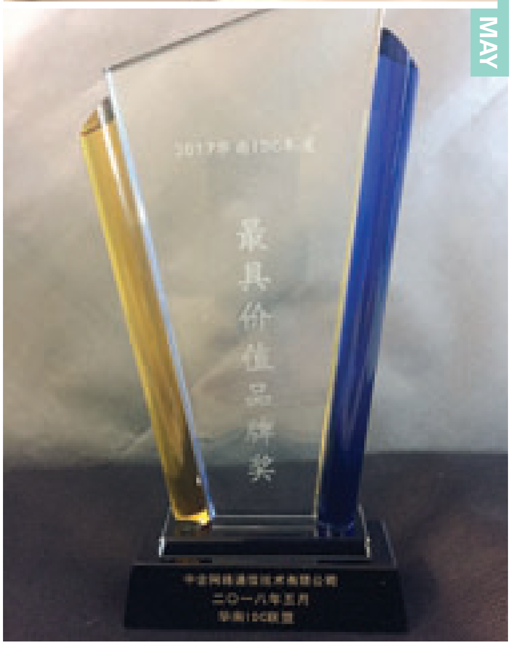
- Selected as a constituent of "Hang Seng Stock Connect Hong Kong" Thematic Indexes:
  - Hang Seng Stock Connect Hong Kong Index
  - Hang Seng Stock Connect Hong Kong MidCap & SmallCap Index
  - Hang Seng Stock Connect Hong Kong SmallCap Index
  - Hang Seng SCHK HK Companies Index
  - Hang Seng SCHK 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

APRIL

- "DataMall自由行" offered the application of specific data plan to partner operators, enabling the commercial model for sponsored data service to enterprise
- CTM launched the "CTM DataMall自由行" 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 Premier Partner 2017 Award" by Cisco
- Acclivis was awarded the "Major Architecture Contributor 2017 – Security" by Cisco

MILESTONES 2018

MAY



JUNE

JULY

AUGUST

MILESTONES 2018

MAY

- 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 "Best Strategic Award In South Asia" by Equinix, 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

JUNE

- 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

JULY

- Launched DataMall 2.0 platform with 4G services
- CTM Zhuhai software development centre "TeleOne China (Zhuhai) Company Limited" was inaugurated, providing powerful smart applications and software development services

AUGUST

- Launched eSIM with one of the major OTT player in China
- CEC won the "2018 Excellence Innovation Award in ICT Solution Market (China)" from Frost & Sullivan
- CTM completed the "Security Scheme for Telecom and Communications Facilities", committed to provide stable and reliable communications services in Macau

MILESTONES 2018

SEPTEMBER


CITIC Telecom International

Recognized as

APAC CIOOutlook TOP 10
DATA CENTER
CONSULTING/IMPLEMENTATION

An annual listing of 10 companies that are at the forefront of providing data center consulting and implementation services to transform businesses

Annie Johnson

OCTOBER

NOVEMBER

DECEMBER

MILESTONES 2018

SEPTEMBER

- CITIC Telecom Tower Phase III (A) Data Centre construction project has been completed and the opening ceremony was held
- Enabled DataMall 2.0 as the merchant's operating model for Mobile Network Operator (MNO) and MVNO
- WeChat wallet became one of the sales channel of "DataMall自由行"for a China operator
- YouCFax enterprise fax solution, which enable end-customers to send fax from any locations easily via smart phone or laptop, was launched in YouCLink
- CEC was awarded "iTech 2017 of The Annual Recommendation" from iChina Magazine
- CEC won "2018 The Most Innovative ICT Service Platform in Automobile Industry" by the Committee of the 4th China Automobile Finance Risk Control Management Summit
- CTM has set up a data centre in Hong Kong which is the only Macau government approved overseas data centre, providing a more comprehensive and secured data hosting services to Macau customers
- CTM started the 5G mobile network technology trial and worked with the technical team of the University of Macau. At the same time, CTM also liaised with the relevant government authority on the 5G spectrum arrangement, aiming to deploy for commercial application in 2020
- CTM signed a Memorandum of Understanding with the University of Macau. Through this industry-university collaboration, both parties can facilitate towards building Macau into a leading smart city in the Greater Bay Area and contribute to the economic diversification of Macau
- Pacific Internet (Thailand) Limited was successfully certified for ISO 9001:2015 and ISO 27001:2013, demonstrated its capability to consistently provide products and services that meet customer and regulatory requirements while maintaining confidentiality, integrity and availability of IT systems and information

OCTOBER

- Awarded the "Top 10 Data Center (Consulting/Implementation) Services Companies 2018" by APAC CIO Outlook
- "DataMall自由行"offered the specific Video-On-Demand function for a China MNO
- CPC won the "Best Cloud Services Provider" of the Readers' Choice Product Excellence Awards 2018" by NetworkWorld Asia
- CEC won "Excellent Data Center Services Provider Award" by Beijing Institute of Electronics and China Green Data Center Advancing Federation
- To align with the opening of the Hong Kong-Zhuhai-Macau Bridge, CTM Wi-Fi was deployed at its Macau Port to provide Wi-Fi service to the Macau residents and visitors
- Acclivis was invited to join the IBM Global Business Partner Advisory Council (GBPAC) – the highest accolade for any business partner, representing the ASEAN region in the formulation of IBM Business Partner initiatives
- Acclivis was named as one of Cisco Commercial Champs for FY2018 for outstanding performance in the commercial space. Acclivis was invited to participate in the winners' celebration in Budapest, Hungary

NOVEMBER

- Received the "Listed Company Awards of Excellence 2018 – Main Board" from Hong Kong Economic Journal
- CPC won the "Innovative Enterprise: Gold Award" at the "2018 CAHK STAR Award" by Communications Association of Hong Kong
- CEC was ranked in the list of "2018 CLOUD500" and won "2018 Excellent Digital Transformation Service Provider" at "2018 China Cloud Ecology Excellence Award" from Business Partner Consulting

DECEMBER

- CPC won the "SMBWorld Awards 2018" from SMBWorld:

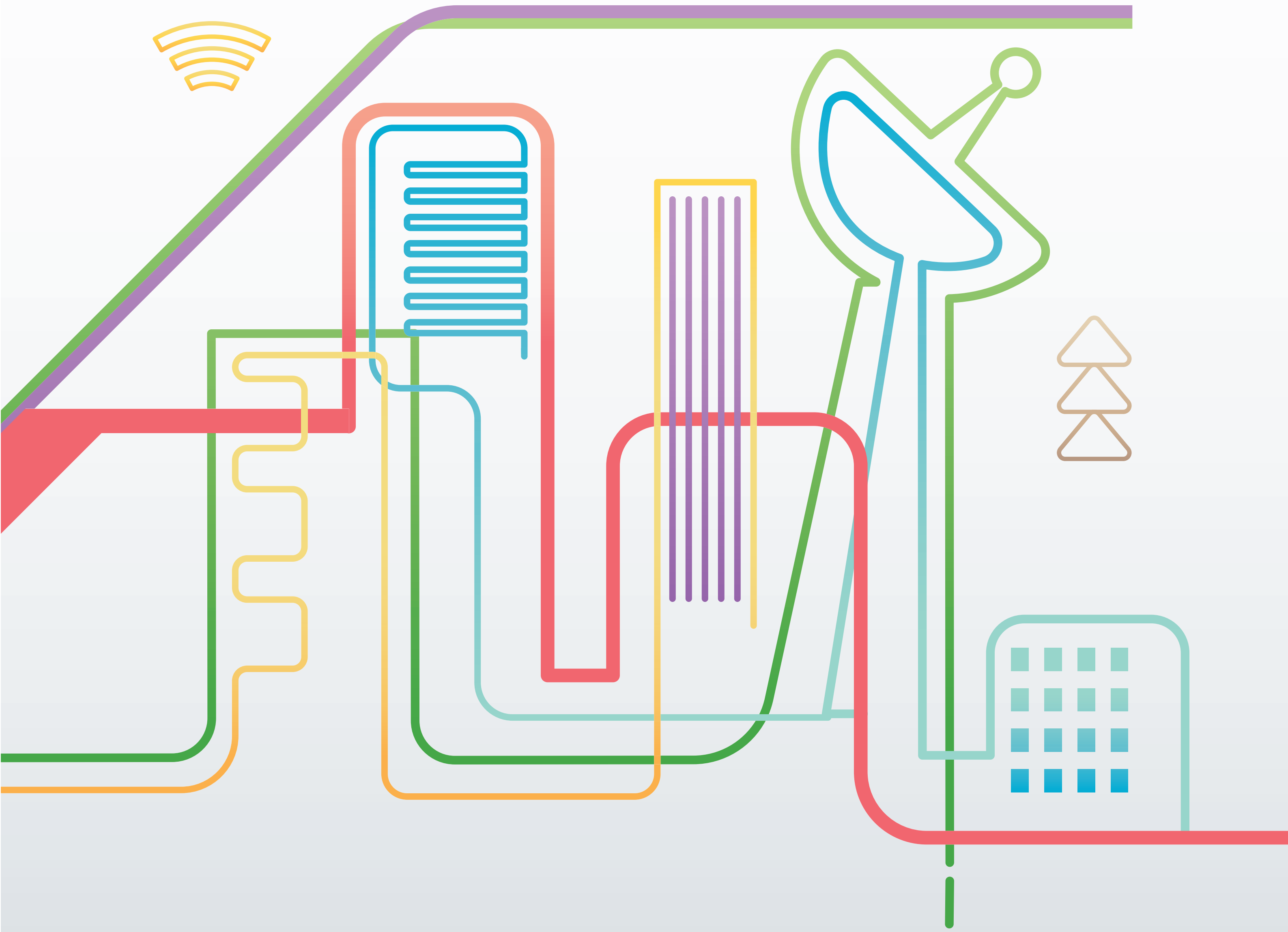
  Awards:

  - Best Data Center Services Provider – SMB market
  - Best Managed Security Services Provider
  - Best SMB Cloud Services
- In "i-China Forum 2018, The 16th", CEC received "2018 China Internet Economy Brand Award" from China Internet Weekly of Chinese Academy of Science and Informatization Research Center of Chinese Academy of Social Sciences
- CEC won the "2018 Most Influential Enterprise Award in China IDC Industry" and "2018 Best Services in China IDC Industry" by the Committee of the China IDC Industry Annual Ceremony
- CEC announced its strategic partnership with Freudenberg IT Asia, a global leader in managed IT services, to undertake the "ICT+" Strategy
- CTM and Tencent signed a "Digital Macau" Memorandum of Understanding to make Tencent's Cloud technology available in Macau and strengthen the collaboration of both parties in the applications of Cloud computing, Big Data, Internet of Things (IoT) and Artificial Intelligence (AI). The Tencent's advertising platform can enable corporate customers in Macau to use WeChat and its ecosystem to reach customers in Macau, Hong Kong and Mainland China

TECHNOLOGY

Research and Development

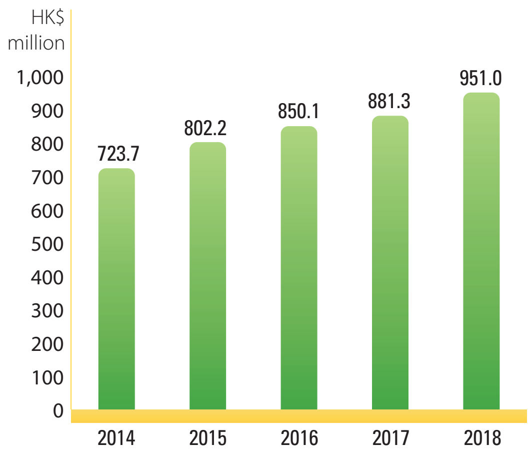
ACCELERATE INTERNET TRANSFORMATION



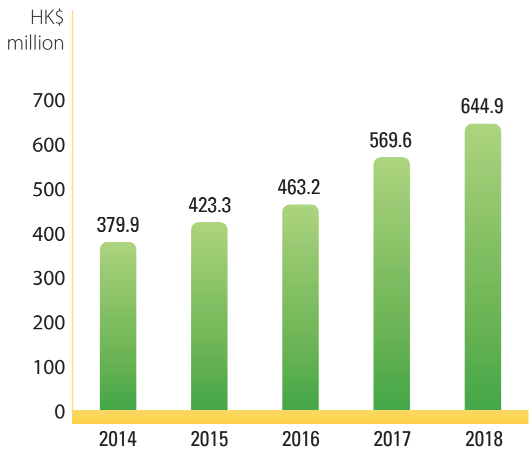
FINANCIAL HIGHLIGHTS

- Profit attributable to equity shareholders of the Company for the year 2018 amounted to HK$951.0 million, a year-on-year increase of 7.9%.
- Dividends per share for the year 2018 totaled HK18.0 cents, a year-on-year increase of 12.5%.
- The Group's net debt as at 31 December 2018 was HK$5,810.2 million, a decrease of 6.2% when compared to last year.

Profit Attributable to Equity Shareholders of the Company



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



Note: The dividends payable to equity shareholders of the Company for the year ended 31 December 2018 includes final dividend payable based on the number of shares in issue as at 31 December 2018 which may differ from the number of shares at the closing date of the register of members.

FINANCIAL HIGHLIGHTS

In HK$ million	2018	2017	
Revenue			
Fees from the provision of telecommunications services	**7,139.1**	6,340.6	Increase 12.6%
Sale of equipment and mobile handsets	**2,324.9**	1,110.2	Increase 109.4%
	9,464.0	7,450.8	Increase 27.0%
Profit attributable to equity shareholders of the Company	**951.0**	881.3	Increase 7.9%
EBITDA#	**2,192.3**	2,067.3	Increase 6.1%
Earnings per share (HK cents)			
Basic	**26.7**	24.9	Increase 7.2%
Diluted	**26.7**	24.8	Increase 7.7%
Dividends per share (HK cents)			
Interim dividend	**4.0**	3.0	Increase 33.3%
Final dividend	**14.0**	13.0	Increase 7.7%
	18.0	16.0	Increase 12.5%
Total assets	**17,965.2**	18,584.2	Decrease 3.3%
Total equity attributable to equity shareholders of the Company	**8,854.8**	8,396.4	Increase 5.5%
Bank and other borrowings	**6,857.5**	7,825.1	Decrease 12.4%
Obligations under finance leases	**1.8**	3.3	Decrease 45.5%
Total debt	**6,859.3**	7,828.4	Decrease 12.4%
Less: Cash and bank deposits	**(1,049.1)**	(1,635.6)	Decrease 35.9%
Net debt	**5,810.2**	6,192.8	Decrease 6.2%
Net gearing ratio*	**40%**	42%	Decrease 2.0%

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

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

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

BIG DATA

Cloud Computing, Enterprise Services, Smart City

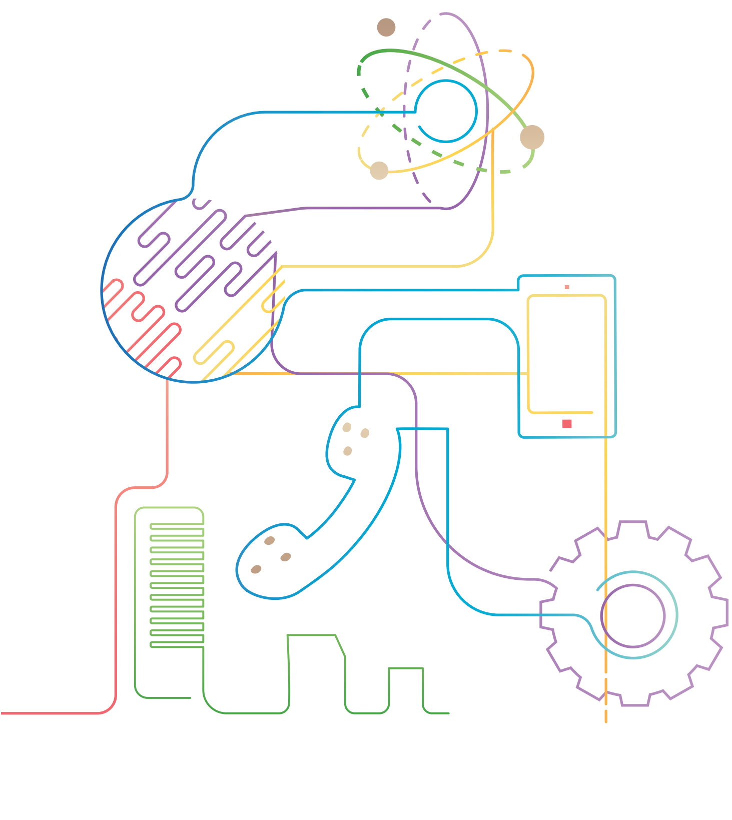
ENHANCE CORE COMPETITIVE ADVANTAGE

CHAIRMAN'S STATEMENT

Dear Shareholders,

Year 2018 has been marked by a volatile and fast-changing global economic landscape underpinned by opportunities as well as challenges, constantly putting us under pressure while also providing us the drive to move forward. In the face of challenges and difficulties, CITIC Telecom International Holdings Limited (the "Group") has persisted in innovative development through meticulous analysis of situations in an unbaffled mind, in pursuit of its stated goals of "achieving growth in strength, excellence and scale, achievement of higher standards, and delivery of top-rated results". Under the leadership of CITIC Group, our major shareholder, and our Board, our global staff teams have worked with ferocious effort to gear up on all fronts and deliver record-high operating results. All in all, 2018 striked me as a year of hard-fought progress as well as a year of lucrative harvest for the Group.

I am pleased to present the Group's annual results for 2018.



FINANCIAL RESULTS

Profit attributable to equity shareholders for 2018 amounted to HK$951.0 million, increasing by 7.9%, or 11.6% if the valuation gain on investment property for the year of HK$23.7 million were excluded, as compared to the corresponding period of the previous year.

Basic earnings per share for 2018 amounted to HK26.7 cents, representing a 7.2% growth as compared to 2017.

The Board recommended a final dividend of HK14.0 cents per share for 2018. Together with the 2018 interim dividend of HK4.0 cents per share, total dividends per share for 2018 amounted to HK18.0 cents, representing a 12.5% growth over the previous year.

The Group's total revenue amounted to HK$9,464.0 million, increasing by 27.0% compared to the corresponding period of the previous year. The Group's service revenue (excluding sale of equipment and mobile handsets) showed a growth of 12.6% compared to the corresponding period of the previous year.

REVIEW OF OPERATIONS IN 2018

Ongoing efforts to fortify strengths in network and services to facilitate sound growth in the mobile business

A network of premium quality is fundamental to the sustainable development of our business. The Group has continued to put in resources in order to provide mobile broadband services of international standards in Macau. As at the end of 2018, 4G subscribers of Companhia de Telecomunicações de Macau, S.A.R.L. ("CTM") have reached a total number of over 930,000, representing a 7.6% growth as compared to 864,000 subscribers as at the end of 2017, as it continued to maintain its dominant position in the market. CTM operated the most extensive WiFi network in Macau, with the number of its WiFi hotspots increasing to 2,764. The "Guangdong-Hong Kong-Macau Bay Area Mobile Service" has been immensely popular with customers since its launch. During the year, the Group had also successfully conducted its 5G network testing in Macau, well-prepared for the 5G era.

In view of the unique advantages and excellent services provided by the Group's SIMN platform, a PRC carrier officially transferred all businesses conducted on its own platform to the Group's SIMN platform, in a fine testimony to industry players' trust in and recognition of the Group. The Group has also continued to enhance the research and development of new functions for this platform, in a bid to facilitate the provision of new mobile communications services in the Guangdong-Hong Kong-Macau Bay Area (the "Bay Area").

In the international signaling business, the Group achieved a higher growth rate in revenue when compared to last year as it continued to leverage strengths afforded by its specialisation in the business.

Growth in the Internet business driven by increased weighting of the fibre Internet business and faster pace in data centre construction

Following the Group's strong effort to promote fibre broadband services, the number of its fibre customers as at the end of 2018 had grown by 12.9% when compared to the start of the year. Up to 100% (excluding exceptional cases) of our corporate customers for Internet services and 87% of our domestic broadband customers had used fibre Internet, making us a world leader in this respect.

CITIC Telecom Tower Phase III (A) Data Centre has been made available to the market upon successful completion of its construction. CTM has been accredited by the Macau SAR Government to establish a data centre in Hong Kong (ex-Macau) to provide services which are equivalent to those provided by the data centre in Macau to the government and enterprises in Macau. It has become the first government-approved cross-border data centre in the Bay Area, underlining perfectly the Group's unique strengths in bringing synergy in its operations in Hong Kong and Macau.

The Group has also stepped up with the development of its global Cloud data centres, counting 18 centres as at the end of 2018.

Notable progress in the transformation of our traditional business of international telecommunications into an Internet-based operation

The Group has been actively driving the transformation of its traditional businesses into Internet-based operations, underpinned by major efforts to develop its A2P SMS business which reported notable growth as compared to the previous year. "DataMall自由行", our Internet-based global dataflow trading platform, continued to report strong growth in 2018 as its revenue exceeded HK$100 million. On the basis of "DataMall自由行", CTM has successfully launched the "CTM自由行" mobile App to provide customers with a more convenient and cost-friendly platform for the online purchase of overseas mobile data, which has been proven to be much welcomed by the customers. The Group has also made new breakthrough in the development of its Internet-based business system (BSS) with the successful commissioning of the IDD business system, a jointly developed product originating from the Group's proprietary design.

Corporate services: from Asia Pacific to the world and from CT to ICT

The Group's multinational corporate service business has continued to grow at a rapid pace. The consolidation of the nodes of CPC Europe (CITIC Telecom CPC Netherlands B.V.) has formed a globalised service network allowing the global sale of CPC Europe's products and the expansion of the Group's corporate services from Asia Pacific to the world. The building of its presence along "One Belt One Road", in particular, has provided a unique advantage. In a consistent effort to upgrade its networks and products, the Group has numerous new backbone lines connecting international nodes and upgraded existing ones, in a bid to meet the demand arising from growth in the volume of customer usage.

While bolstering its strengths in network connection (CT), the Group has continued to seek expansion in services covering information and communications technology (ICT) which commanded greater growth prospect. During the year, the Group made breakthrough in a number of Smart City projects, including the successful bid for and subsequent smooth delivery of a large-scale smart transportation project in Singapore. The successful delivery of the project has laid a solid foundation for the Group's undertaking of further Smart City construction projects in Singapore and its neighbouring countries.

China Enterprise ICT Solutions Limited, a subsidiary of the Group, entered into official cooperation with a world-leading enterprise in IT services. Leveraging strengths in their respective scopes of business, the two companies will seek business expansion at a higher level by moving from infrastructure to application, in a bid to provide convenient one-stop "ICT+" services to corporate customers.

Enhancing R&D by joining forces with manufacturing, academic and research sectors to seize business opportunities for Smart City construction

To seize the immense business opportunities in Smart City construction and commercialise the deliverables produced by academic and research efforts in a timely manner, the Group has entered into cooperation agreements with a number of institutions, including University of Macau, for the joint development of Smart City applications. The Group has set up a research and development centre in Zhuhai for the proprietary development of its required software. This will reduce the Group's reliance on outsourced suppliers and enhance its ability to address market demands and rapid changes, while providing a powerful drive to expedite the Group's transformation into a Smart City operator. CTM has also

CHAIRMAN'S STATEMENT

become a preferred partner of Tencent in Macau and exclusive partner from Macau's telecommunications sector, whereby the two parties will launch Tencent's Cloud technology and related Smart City applications in Macau.

OUTLOOK FOR 2019

In 2019, the worldwide market for Internet, IoT, 5G, AI, Cloud computing and corporate services will continue to thrive, while the PRC will have entered a new stage of qualitative growth. Following developments over the years, the Group has built a high-calibre team with expertise and invaluable experience gained through persistent efforts to overcome hurdles and obstacles. Hence, we are well-positioned to seize future opportunities for development, introduce innovative products and services, and make contributions to social advancement.

Striving to become a principal Smart City by leveraging our Smart City construction for "Digital Macau"

As 5G technologies have brought about the era of Internet of everything, Smart City will become the industry's main direction of development in the future. The promulgation of the "Outline Development Plan for the Guangdong-Hong Kong-Macau Greater Bay Area" has also brought new opportunities for the Group's development in the Bay Area. Strategically positioning CTM as an industry leader in Macau poised to expand into Mainland China and overseas markets, the Group will track closely the development of 5G technologies development and make timely investment and business preparations. Zhuhai R&D Centre will play an important role in our effort to step up with the development of "Digital Macau" and raise our standards in Smart City. Comprehensive improvements will be made in the Group's abilities on software development and project delivery as we strive to become a preferred partner in Smart City and corporate ICT services.

Cementing the Group's dominant position in global corporate services to expedite growth into a one-stop ICT service provider in Southeast Asia

The market on corporate services is among one of those with the most vibrant growth in the global telecommunications industry. In line with the principle of "constant innovation", the Group will speed up the application of cutting-edge technologies such as AI and Big Data in the corporate services sector. Using "IT" to drive the business development of "CT", the Group will continue to upgrade its products, improve its strength and enlarge its scale. In the meantime, we will extend our outreach to Southeast Asian countries from our base in Singapore, seeking to provide multinational corporations in the region with a rich array of services, such as voice, mobile, Internet, Cloud services, systems integration and system security, in order to speed up the progress of our growth into a one-stop corporate ICT service provider in Southeast Asia.

Ongoing scale expansion of data centres to increase the profitability of the Group's platform business

Data centres and Cloud computing are indispensable basic infrastructures of the general technologies for the next generation such as Big Data, AI and IoT, and they also represent one of the key focuses in the Group's future development. In 2019, the Group will commence the construction of CITIC Telecom Tower Phase III (B) Data Centre to further expand the scale of its data centres in response to market demands. The Group will continue to expand the coverage of its global Cloud computing platform by introducing, at its existing data centres, construction, removal, operation, security and system management services, among others, in connection with the Cloud computing platform, with a view to increasing the profitability of the Group's platform business as one of the new niches for the Group's future growth.

CHAIRMAN'S STATEMENT

Continuing to speed up the transformation of the business of international telecommunications into an Internet-based operation and cementing the strengths on cross-border communications services

The reform of the telecommunications market has been moving at a faster pace. Challenges and opportunities co-exist side by side while new demands and new opportunities have constantly emerged from the customers. The Group will continue to speed up the transformation of the business of international telecommunications into an Internet-based operation, and will ride on our integrated strengths on cross-border roaming market to upgrade the "DataMall 2.0" services. We will conduct research and development on new models which will be more content-rich such as the "communications mall". We will also cement our strengths on cross-border communications services in the Bay Area and will apply those strengths in many more areas in the world for achieving an Internet-based communications services.

Quality assurance as a matter of high priority in our ongoing effort to enhance corporate competitiveness

Quality in products, research, services and management represents a matter of high priority for the Group, which continues to secure new know-how, technologies and markets in a target-specific manner through enhanced learning and training as well as stronger awareness for accountability and quality, in an ongoing attempt to improve quality and corporate competitiveness. The Group will continue to conduct user interface (UI) re-design, development and integration for products and services in response to customers' requirements using an Internet-based model, in order to offer brand new user experience (UE) to customers on a consistent basis.

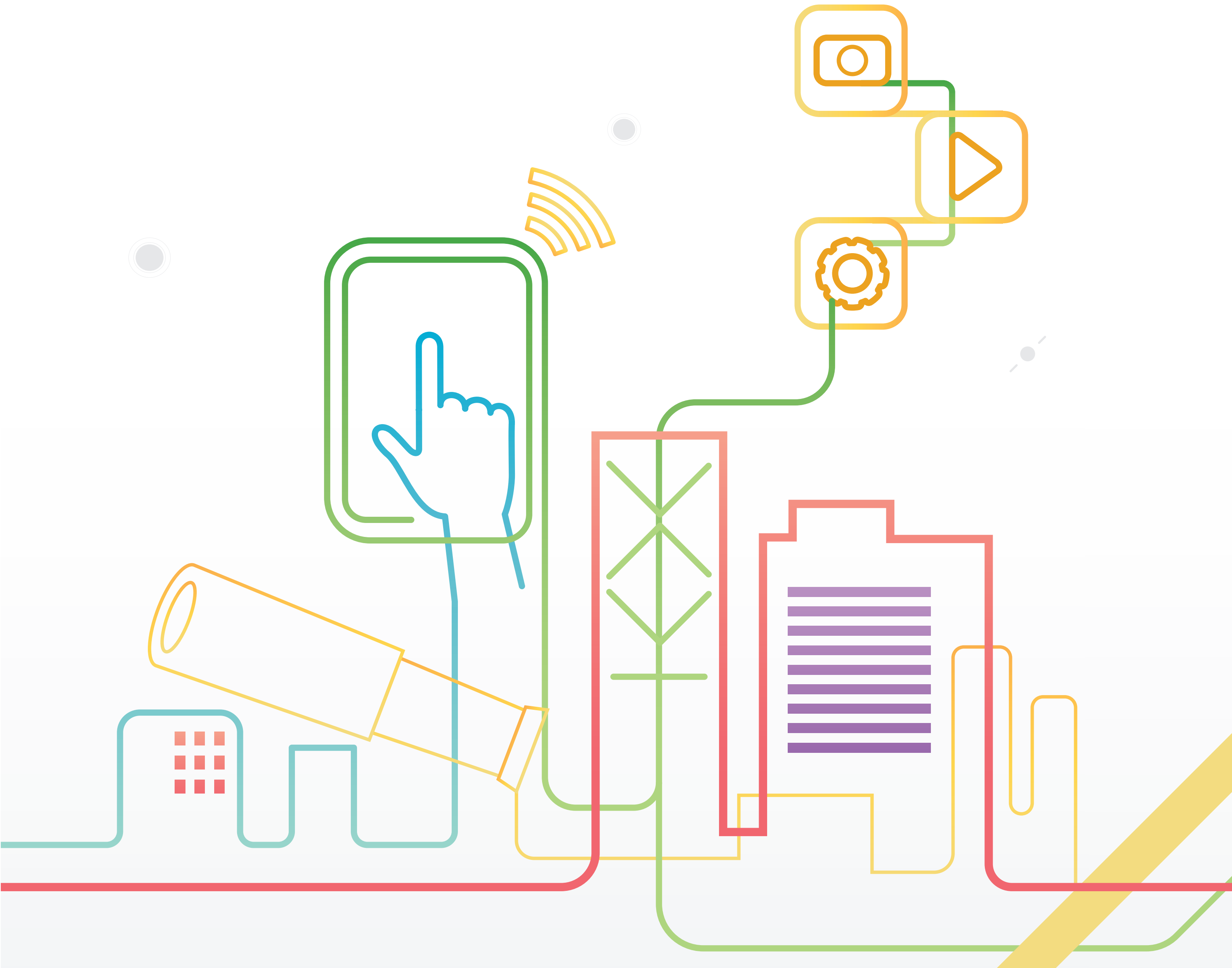
Increasing our effort in R&D innovation to accelerate the Group's business upgrade and transformation

Technological innovation and product development form the prime mover behind the Group's development. On top of the results delivered by Zhuhai R&D Centre, the Group will further enhance coordination and planning to build a group-wide R&D regime based on the general strategy of "combining proprietary R&D and third-party cooperation", such that abilities in software development and platform delivery will be cultivated as core abilities for future development and the process of "product-based project development" and "platform-based product development" will gain pace. We will also persist in centralised leadership, close tracking of market developments, long-term planning, stage-by-stage implementation, gaining experiences, recruiting talents, focusing on effectiveness and the sharing of results. With a strong focus on new technologies such as 5G, Smart City, IoT, AI, Big Data, Cloud computing and software defined networks, among others, the Group will draw on its existing strengths and insist upon the adoption of first-rate standards as it enhances cooperation with universities and other research institutions in its research effort to build an innovative R&D regime and a framework for results-sharing, in an ongoing drive of the Group's innovative development.

I have no doubt that, as an Internet-based integrated telecommunications enterprise, the Group will continue to outperform and closely monitor market opportunities to move up a notch, providing an ideal platform where employees can showcase their worth and abilities and greater value will be delivered to customers, partners and investors on an ongoing basis.

Over the years, the Group has succeeded in achieving continuous growth in operating results thanks to vigorous business development efforts leveraging opportunities in the market and its inherent strengths. The progress and results would not have been possible without the guidance of our Board and the diligent effort of our staff, as well as the support of our shareholders, investors and business partners and all stakeholders concerned with our Group's development. To them, I would like to extend my sincere gratitude and appreciation.

Xin Yue Jiang
Chairman
Hong Kong, 28 February 2019



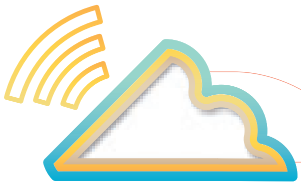
NEW EXPANSION

Continued Innovation and Transformation

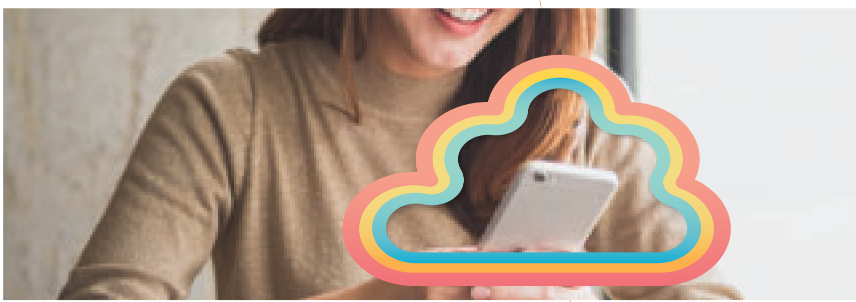
NURTURING NEW BUSINESS GROWTH POINT

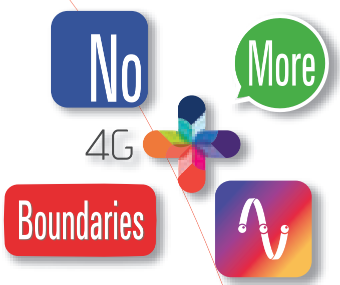
BUSINESS REVIEW

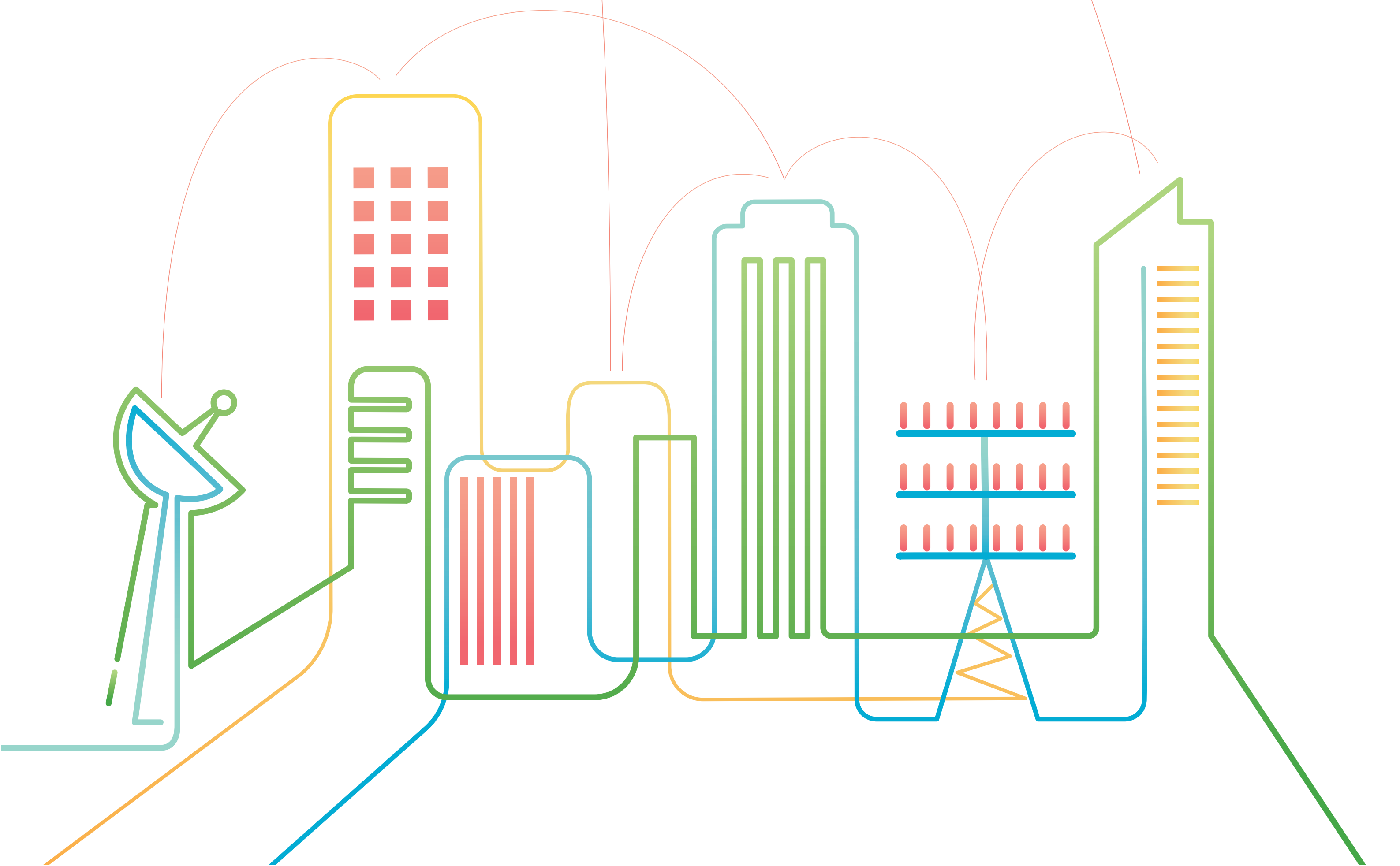
MOBILE SALES & SERVICES



CONNECTING • THE FUTURE
連接 • 未來







BUSINESS REVIEW

Global mobile Internet technologies developed rapidly in 2018, as the world awaited the dawning of the age of interconnection of all things powered by 5G. The Group sustained sound growth for its mobile business, as it continued to cement its dominant position in Macau's mobile market, seizing opportunities afforded by the thriving development of the Bay Area and the international roaming market.

SUSTAINING DOMINANCE IN MACAU'S MOBILE MARKET

As at the end of December 2018, the Group was an undisputed leader in Macau's mobile market with a 43.7% share. Our 4G service reported robust growth and continued to top the market with a 98% penetration rate for 4G customers as at the end of the year.

SEIZING OPPORTUNITIES ARISING FROM THRIVING DEVELOPMENT OF THE BAY AREA AND THE INTERNATIONAL ROAMING MARKET

The "Guangdong-Hong Kong-Macau Bay Area Mobile Service" plan has been vastly popular with frequent travelers in the three areas since its launch in late 2017 by Companhia de Telecomunicações de Macau, S.A.R.L. ("CTM") in association with leading carriers in the area. With the official opening of the Hong Kong – Zhuhai – Macau Bridge in October 2018 underpinned by strong promotion on all fronts, growth in the number of mobile customers of shared service plan in the three areas has further accelerated.

Meanwhile, the Group has continued to seek expansion in the international roaming market. Currently, the CTM 4G roaming service is covering 172 countries and regions. Besides, the roaming data discounted Inter-Operator-Tariff agreements with more than 290 operators as we maintained our leading position in the market. The "CTM自由行" travel app and "4G+ Global Data Card" introduced by the Group for patrons of prepaid cards have successfully triggered significant growth in the overall volume of outgoing roaming data. Coupled with growth in the number of visitors to Macau, this has contributed to sound growth in the Group's overall roaming revenue.

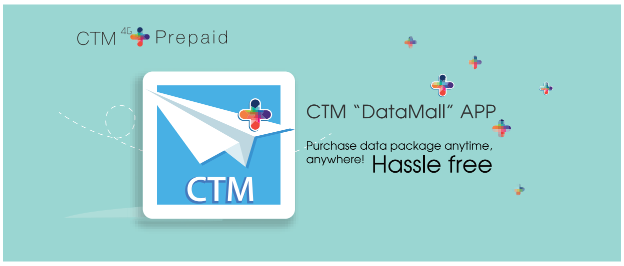
WORKING IN CLOSE TANDEM WITH FRONTIER DEVELOPMENTS IN 5G AND SUSTAINING TECHNOLOGICAL EDGE

The Group has always been leading market developments in Macau market with the employment of advanced technologies. As the formulation of 5G technological standards entered the stage of finalisation, CTM commenced 5G mobile network technology testing in September 2018 and formed a joint team for 5G applications trial with the University of Macau, while engaging in active negotiations with government authorities regarding 5G spectrum arrangements. On the back of its well-developed infrastructure and full fibre coverage of the city, the Group is well-positioned to provide 5G services in the same pace as other advanced neighbouring regions as it continues to lead the development of this sector in Macau.

AN IMPORTANT CUSTOMER'S TRUST IN AND RECOGNITION OF OUR MOBILE INTERNATIONAL ROAMING VALUE-ADDED SERVICES

The Group is a leader in cross-border SIMN platforms backed by solid technologies and experience in operations. In 2018, a major PRC carrier transferred all businesses conducted on its own platform to the Group's SIMN platform for its services to be carried by the Group's platform, demonstrating industry players' trust in and recognition of the Group's operating strengths. The Group has also continued to enhance the research and development of new functions for the SIMN platform to maintain its competitiveness.

The growing base of PRC customers using outgoing roaming services has continued to fuel growth in our international signaling business. Leveraging its strength as a connecting hub for international signaling, the Group extended its market outreach and sustained continuous growth in international signaling services for PRC and international carriers.



BUSINESS REVIEW

INTERNET SERVICES

SIGNIFICANT GROWTH IN THE WEIGHTING OF FIBRE BROADBAND SERVICES

The Group has continued to fortify the strengths afforded by its world-class fibre network in Macau by increasing the weighting of fibre network for its services. As at the end of 2018, 100% (excluding exceptional cases) of the Group's business broadband service customers and 87% of our home broadband customers had opted for the fibre network, making us a world leader in this respect.

In tandem with the opening of the Hong Kong – Zhuhai – Macau Bridge, CTM WiFi was installed at the Macau border checkpoint of the Bridge in October 2018 to serve the citizens and visitors. Substantial year-on-year growth in service revenue business was reported thanks to the multi-dimensional coverage of CTM WiFi and stronger market recognition.

The increase in the weighting of fibre subscribers has successfully offset the decline resulting from CTM's further rate cuts for local and international lease lines in April 2018 in support of the overall business environment in Macau.

Following strong efforts to ensure uninterrupted communication in Macau during Typhoon Hato in 2017, CTM had prepared itself for future typhoons by further enhancing its backup power supply and the flood-proofing of its telecom chambers and, as a result, completed another successful task of safeguarding communication services during Typhoon Mangkhut in 2018, highlighting the mission and responsibility of a leading telecom operator which was once again widely praised by the Macau SAR Government and the public.

BUSINESS REVIEW

IMMENSE POPULARITY OF INTERNET VIDEO CONTENTS WITH CUSTOMERS

CTM entered into cooperation with TVB in late 2017 to launch the TVB Anywhere video content service for mobile and Internet customers, an initiative which proved to be massively popular with the customers. As at the end of 2018, the total number of subscribers exceeded 56,000. Moreover, CTM cooperated with authorised agents for relevant contents of the English Premier League to provide corporate customers in Macau with integrated solutions for the viewing of the contents.

ONGOING EXPANSION OF DATA CENTRES AND CONSTANT UPGRADES IN PRODUCT MIX

The Group has identified data centre services as one of its strategic segments, given enormous potential demand for data centres as an essential infrastructure for the employment of frontier technologies such as Cloud computing, Big Data and AI.

In Hong Kong, construction of the Group's CITIC Telecom Tower ("CTT") Phase III (A) Data Centre was completed in September 2018 to provide the market with additional supply of available racks. Preparations for the construction of Phase III (B) to address growing market demands are also well underway.

Leveraging the unique strengths afforded by its coverage of both Hong Kong and Macau and synergistic operations of multiple segments, the Group unveiled the CTM (HK) Data Centre at CTT in September 2018 as Macau's first and only offshore data centre approved by the Macau SAR Government to provide remote disaster recovery solutions to Macau corporations.

In China, the Group has increased its effort to enhance the strengths of China Enterprise ICT Solutions Limited ("CEC"). The Cloud Computing Data Centre in Guangzhou Science City commenced service in September 2018 in consolidation of the Group's setup of six centres in three cities (namely, Beijing, Shanghai and Guangzhou) providing intra-city or remote disaster backup, in order to seize business opportunities arising from the digital transformation of corporate customers.

Globally, the Group has developed 9 Cloud computing solutions through CITIC Telecom International CPC Limited ("CPC"), while the number of Cloud computing platforms has increased to 18, located variously in Greater China, Singapore, Japan, North America, Europe, Russia and South Africa to form a cross-regional Cloud computing service network, providing one-stop services comprising Cloud computing, information security, network and data centre to meet rapidly growing market demands.

BUSINESS REVIEW

INTERNATIONAL TELECOMMUNICATIONS SERVICES

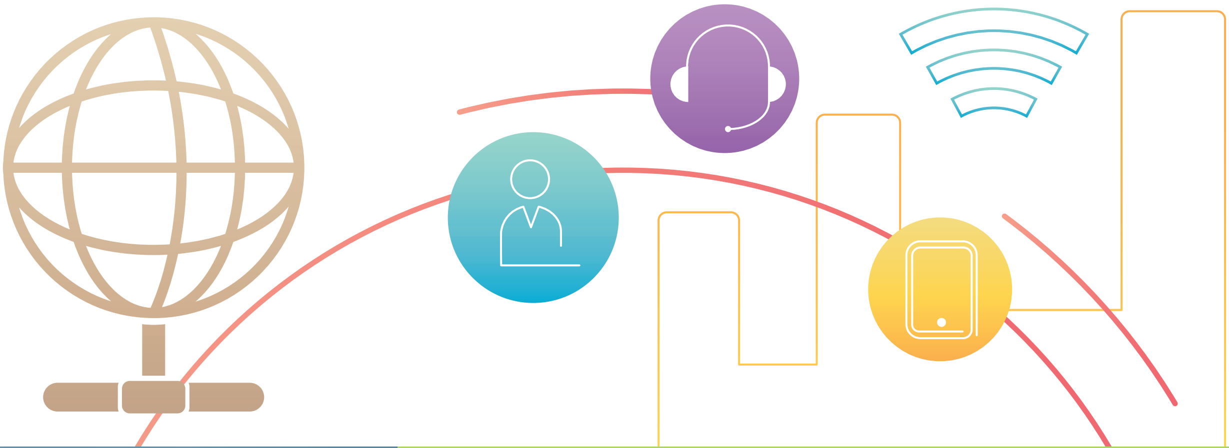
SALES OF "DATAMALL自由行" EXCEEDING HK$100 MILLION

"DataMall自由行" is an Internet-based international mobile data trading platform provided by the Group to carriers and consumers. In 2018, the Group's "DataMall自由行" platform continued to support the rapid expansion of China Mobile's "JegoTrip無憂行", as the scope of outgoing destinations was further extended to include Vietnam, in addition to the 8 popular destinations of Hong Kong, Macau, Taiwan, Singapore, Thailand, Indonesia, Korea and Malaysia. Immensely popular with customers and corporate users, the service has become a part of the spending habits of residents in South China requiring outgoing communication. The platform has become a centre for the Group's business growth as more than 7 million packages were sold during the year for a service revenue over HK$100 million. CTM also launched "CTM自由行"mobile App in a swift move via the platform in August 2018, providing more convenient mobile data online shopping for customers engaged in overseas roaming. The Group has also been stepping up with the upgrade of the technical and business models of "DataMall自由行 2.0" to create a greater room for development.

A2P SMS BUSINESS SUSTAINING STRONG GROWTH

In line with the faster pace of global expansion of major PRC Internet companies and the growing demand for authentication SMS from financial institutions, the Group's A2P (app to person) SMS service sustained substantial growth with sound financial contributions to offset the decline in revenue from the P2P (person to person) SMS service.

BUSINESS REVIEW



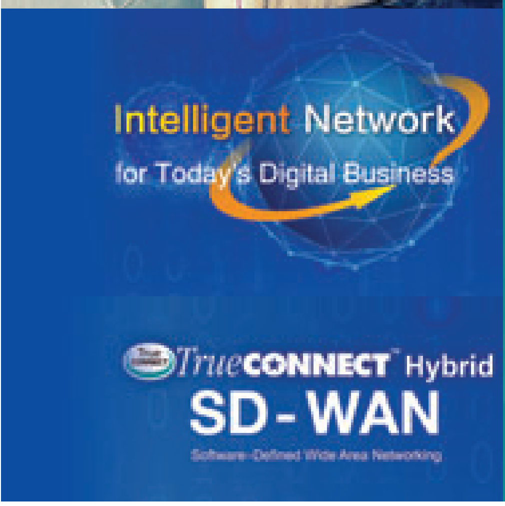
BREAKTHROUGH IN INTERNET-BASED BUSINESS SYSTEMS

The Group has continued to step up with the upgrade and transformation of its international telecommunication business to an Internet-based operation. The IDD-BSS Internet-based business system, a jointly developed product originating from the Group's proprietary design, went online in December 2018. While facilitating significant cost savings, the system ensures efficiency, flexibility and fast adaption in business development.

During the year, the Group reported substantial growth in the revenue from its international voice business, which was attributable to the increase in voice traffic for regions commanding higher service rates.

BUSINESS REVIEW

ENTERPRISE SOLUTIONS



Through subsidiaries which had closer access to customers, the Group offered specialised global corporate services, regional corporate services and local corporate services to various types of corporate customers, as well as Smart City solutions to government clients, as it continued to expand its ICT services in active diversification from the "CT" (communication technology) sector to the "IT+CT" sector.

GLOBAL CORPORATE SERVICES: HORIZONTAL EXPANSION BROADENING COVERAGE AND VERTICAL EXPANSION ENHANCING "CLOUD + INTERNET" SERVICING ABILITY

In 2018, the Group's subsidiary CPC was engaged in a full effort to develop its business in the international market, as it consolidated the strengths afforded by its coverage of Europe and Asia to seize business opportunities in high-growth regions along "One Belt One Road". TrueCONNECT™, our MPLS leased network service, is now covering more than 130 countries globally with approximately 140 PoPs. In the same year, the Group established new domestic network PoPs in Nantong, Nanchang and Shijiazhuang, as well as secondary PoPs in Shanghai, Shenyang, Amsterdam in the Netherlands and Frankfurt in Germany, to meet customers' demand for surplus access.

In connection with products, CPC has been seeking diversification from network connection services to Cloud computing, information security, managed services, industry solutions and other one-stop ICT services, such as: completing the connection of the MPLS leased network and a number of domestic and international third-party Cloud platforms; the launch of TrueCONNECT™ Hybrid, a mixed WAN solution; optimisation of TrustCSI™ UTM (united threat and security management) services; the addition of the Anti-DDoS (distributed denial-of-service attack) instant checking function; the establishment of a Big Data R&D Centre in Chengdu to investigate the use of Big Data and AI for enhancing the efficiency of corporate operations. The Group's subsidiary CEC also entered into a strategic cooperation agreement with a multinational IT corporation during the year for the joint development of a business ecosphere for "ICT+" cooperation.

CORPORATE SERVICE BUSINESS IN SOUTHEAST ASIA STARTING TO FORM SCALE AND BECOMING ANOTHER NEW DRIVER OF THE GROUP

The Group acquired Singapore Acclivis Technologies and Solutions Pte. Ltd. in 2016 and consolidated it with the Group's existing corporate services in Southeast Asia to form a new business landscape covering Thailand, Malaysia and Indonesia and reaching out to neighbouring Southeast Asian markets with Singapore as the hub. In 2018, the Group made several breakthroughs in Southeast Asia, including the successful bid of several large-scale "Smart City" projects in Singapore, in another testimony to the Group's ICT strengths. The management and maintenance contracts ancillary to the main projects have also generated additional monthly recurring revenue (MRR) for the Group.

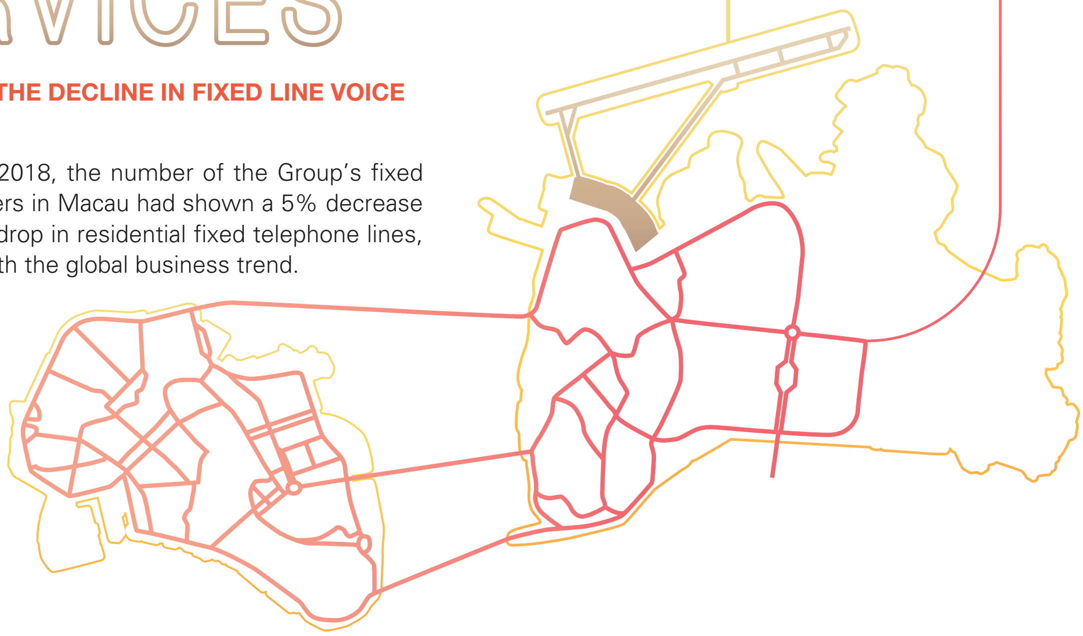
EXPEDITING THE CONSTRUCTION OF SMART CITY IN MACAU

As a principal operator in the construction of Smart City in Macau, CTM has made progress in numerous sectors such as smart transportation, smart healthcare and smart education based on the development blueprint of "Digital Macau", capitalising on its powerful infrastructure telecommunications network and corporate servicing ability. In October 2018, CTM entered into a memorandum with the University of Macau for the joint development of an advanced Smart City. In December 2018, CTM entered into a memorandum of understanding with Tencent to become Tencent's preferred partner in Macau and exclusive partner from Macau's telecommunications sector, whereby the two parties will launch Tencent's Cloud technology and related Smart City applications in Macau, as well as introduce Big Data and AI related technical applications based on the Tencent Cloud to facilitate the official implementation of Smart City corporate and daily-life applications in Macau, in the first half of 2019.

FIXED LINE SERVICES

SLOWDOWN IN THE DECLINE IN FIXED LINE VOICE BUSINESS

As at the end of 2018, the number of the Group's fixed telephone line users in Macau had shown a 5% decrease as a result of the drop in residential fixed telephone lines, which is in line with the global business trend.



FINANCIAL REVIEW

OVERVIEW

The Group achieved solid financial results for the year ended 31 December 2018 with a net increase in profit of 8.1% to HK$967.9 million when compared with the corresponding period of 2017. Profit attributable to equity shareholders for the year ended 31 December 2018 increased by 7.9% year-on-year to HK$951.0 million, whilst basic earnings per share for the year ended 31 December 2018 was up 7.2% year-on-year to HK26.7 cents per share.

The Group's revenue surged 27.0% from HK$7,450.8 million for the year ended 31 December 2017 to HK$9,464.0 million for the year ended 31 December 2018 mainly driven by the significant increase in equipment and mobile handsets sales for the year. Total revenue for telecommunications services (i.e. excluding equipment and mobile handsets sales) increased by 12.6% year-on-year to HK$7,139.1 million as the Group achieved growth in the majority of its major businesses.

Summary of Financial Results

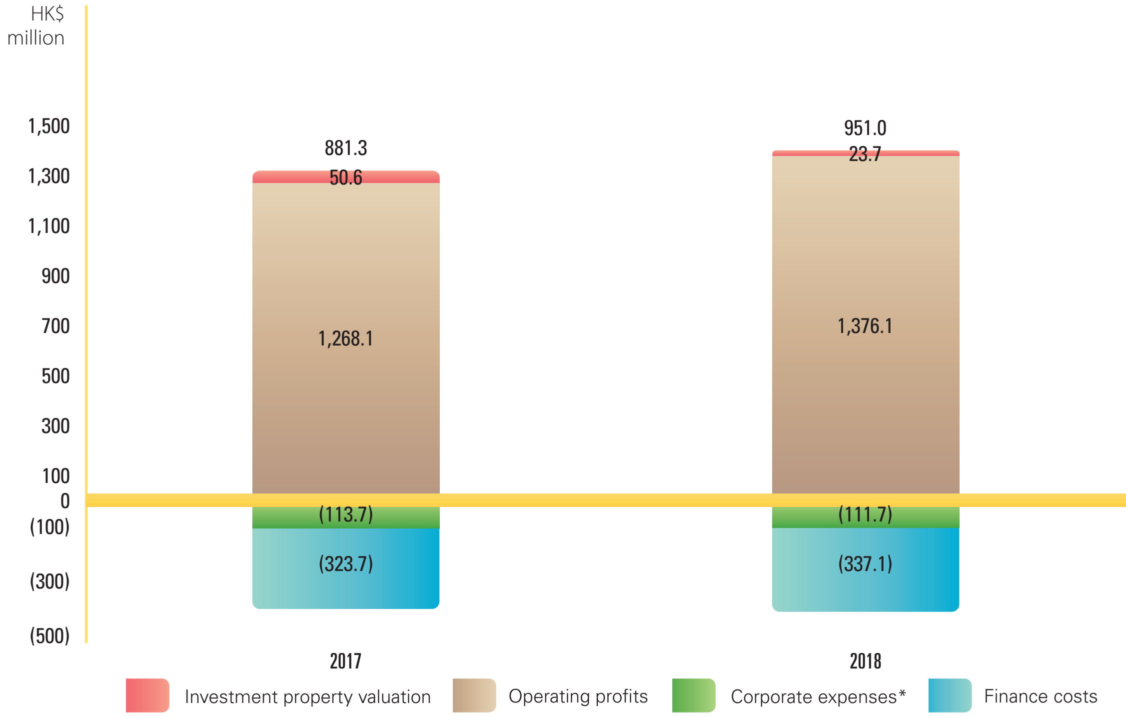
	Year ended 31 December			
In HK$ million	**2018**	2017	**Increase/(Decrease)**	
Revenue	**9,464.0**	7,450.8	2,013.2	27.0%
Valuation gain on investment property	**23.7**	50.6	(26.9)	(53.2%)
Other income and net (loss)/gain	**19.3**	54.1	(34.8)	(64.3%)
Cost of sales and services	**(5,583.8)**	(3,852.8)	1,731.0	44.9%
Depreciation and amortisation	**(725.4)**	(695.6)	29.8	4.3%
Staff costs	**(1,034.9)**	(961.3)	73.6	7.7%
Other operating expenses	**(687.6)**	(658.9)	28.7	4.4%
Profit from consolidated activities	**1,475.3**	1,386.9	88.4	6.4%
Share of profit/(loss) of a joint venture	**3.1**	(2.0)	N/A	N/A
Finance costs	**(337.1)**	(323.7)	13.4	4.1%
Income tax	**(173.4)**	(165.5)	7.9	4.8%
Profit for the year	**967.9**	895.7	72.2	8.1%
Less: Non-controlling interests	**(16.9)**	(14.4)	2.5	17.4%
Profit attributable to equity shareholders of the Company	**951.0**	881.3	69.7	7.9%
EBITDA*	**2,192.3**	2,067.3	125.0	6.1%

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

FINANCIAL REVIEW

Profit attributable to equity shareholders of the Company

Profit attributable to equity shareholders of the Company for the year ended 31 December 2018 amounted to HK$951.0 million, an increase of HK$69.7 million or 7.9% when compared with the corresponding period of 2017. Excluding the valuation gain on investment property of HK$23.7 million (2017: HK$50.6 million), profit attributable to equity shareholders of the Company for the year would amount to HK$927.3 million (2017: HK$830.7 million) which represents a year-on-year increase of 11.6% as the Group strengthened its capabilities in its major businesses.

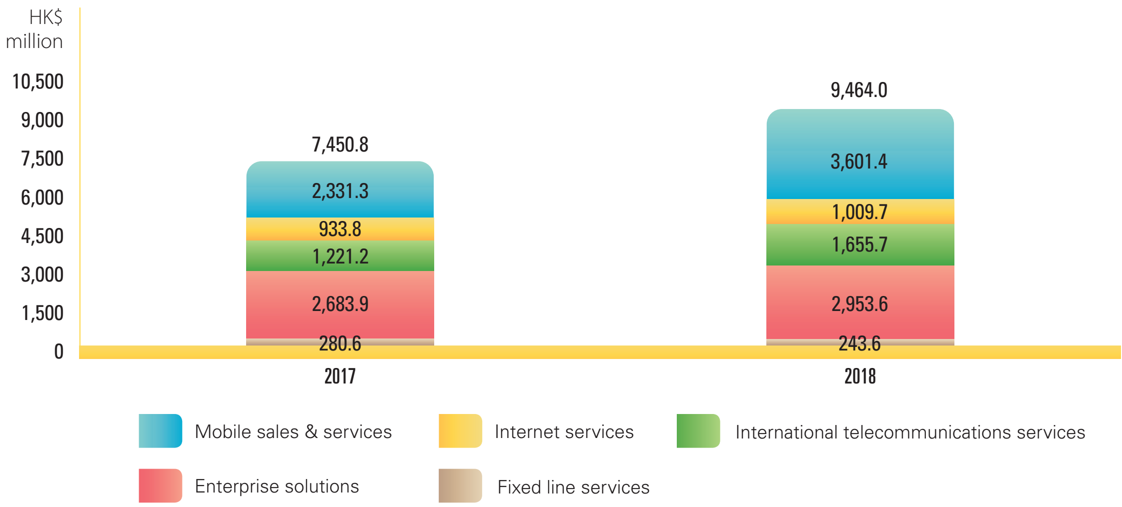


* Corporate expenses included staff costs for corporate functions, equity-settled share-based payment expenses, listing fee and others.

FINANCIAL REVIEW

Revenue by Services

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



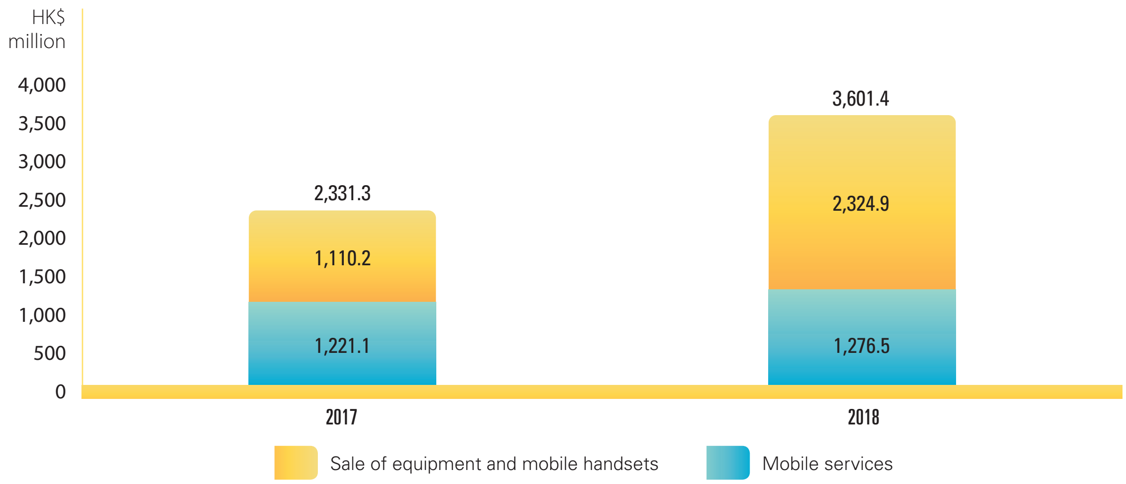
Note: Comparative figures for international telecommunications services and enterprise solutions were amended to conform to current year's presentation.

The Group's revenue from telecommunications services for the year ended 31 December 2018 amounted to HK$7,139.1 million, which represented a year-on-year increase of 12.6% or HK$798.5 million. The Group's total revenue amounted to HK$9,464.0 million, which represented a year-on-year increase of 27.0% or HK$2,013.2 million. The increase is mainly contributed by the surge in equipment and mobile handsets sales of HK$1,214.7 million, growth in international telecommunications services revenue of HK$434.5 million, growth in enterprise solutions revenue of HK$269.7 million, growth in Internet services revenue of HK$75.9 million and growth in mobile services revenue of HK$55.4 million, but the increase was partly offset by the decrease in fixed line services revenue of HK$37.0 million during the year.

FINANCIAL REVIEW

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$3,601.4 million for the year ended 31 December 2018, an increase of 54.5% when compared to the corresponding period of 2017. There were growth in both international roaming, as well as prepaid revenue, but the main contributor for the significant increase during the year was the surge in equipment and mobile handsets sales.



The overall number of subscribers as at 31 December 2018 was around 953,000, a decrease of around 1.8% when compared with 31 December 2017 of which approximately 97.7% (31 December 2017: around 89.0%) were 4G subscribers. The Group's mobile market share in Macau was around 43.7% as at 31 December 2018 (31 December 2017: 43.1%), while the Group had around 46.3% market share in the 4G subscribers of Macau mobile market as at 31 December 2018 (31 December 2017: 46.2%).

Internet services

Internet services revenue including the Group's data centre revenue amounted to HK$1,009.7 million for the year which represented a year-on-year increase of 8.1% or HK$75.9 million. 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 2.8% increase in the number of broadband users to over 187,300 subscribers.

The Group's Internet market share and broadband market penetration rate in Macau was similar to last year at around 97.0% (31 December 2017: 97.6%) and 89.0% (31 December 2017: 88.3%) respectively as at 31 December 2018.

FINANCIAL REVIEW

International telecommunications services

Voice services revenue for the year ended 31 December 2018 increased by HK$284.6 million or 32.7% year-on-year to HK$1,155.8 million as a result of unusual increases in traffic to regions with relatively higher tariffs during the year.

The Group was able to capitalise on the business opportunities resulting from growing concerns over banking security which has led to increased demand for SMS based services like authentication services and confirmation of transactions. Also, changes in consumer's communication behavior have resulted in more and more enterprises using A2P SMS as a key customer relationship management tool to connect with their customers. SMS revenue was up 37.9% year-on-year to HK$386.7 million.

The Group's "DataMall自由行" service has been well received by consumers travelling abroad since its launch in 2016 and with its extended coverage in the second half of 2017 revenue from "DataMall自由行"service reached HK$113.2 million for the year ended 31 December 2018 which represented a year-on-year increase of 62.9% or HK$43.7 million.

Enterprise solutions

Enterprise solutions revenue increased by 10.1% from HK$2,683.9 million in 2017 to HK$2,953.6 million for the year ended 31 December 2018 mainly due to the Group's continued growth in enterprise solutions services in Mainland China, but the increase was slightly offset by the lower enterprise solutions revenue in Macau due to the phasing of casinos, resorts and government projects, despite growth in leased lines revenue in Macau.

Fixed line services

In line with global trends of declining fixed IDD traffic volumes and the decrease in fixed residential lines, fixed line services revenue was down by 13.2% year-on-year to HK$243.6 million for the year ended 31 December 2018.

Profit for the year

The Group achieved HK$967.9 million in profit for the year, an increase of HK$72.2 million when compared with the corresponding period of 2017. The increase was mainly due to the combined effect of the following factors:

Revenue

The Group's revenue from telecommunications services amounted to HK$7,139.1 million, an increase of 12.6% when compared with 2017. Total revenue including equipment and mobile handsets sales amounted to HK$9,464.0 million for the year, representing a year-on-year increase of 27.0%. This is contributed by the growth in the majority of the Group's major businesses for the year, especially for equipment and mobile handsets sales.

Cost of sales and services

Cost of sales and services included costs of goods sold, and network, operations and support expenses. Cost of sales and services amounted to HK$5,583.8 million, a year-on-year increase of 44.9% or HK$1,731.0 million. Despite successful efforts in achieving greater cost efficiency, the increase in cost of sales and services was mainly due to the surge in equipment and mobile handsets sales during the year.

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 31 December 2018 by the Group's independent surveyors with a valuation gain of HK$23.7 million (2017: HK$50.6 million).

FINANCIAL REVIEW

Staff costs

Due to the increase in headcount as a result of the Group's continuous expansion, staff costs for the year ended 31 December 2018 increased year-on-year by 7.7% or HK$73.6 million.

Depreciation and amortisation

Depreciation and amortisation expenses totaled HK$725.4 million for the year ended 31 December 2018, an increase of 4.3% when compared with the corresponding period of 2017.

Other income and net (loss)/gain

Included in other income and net (loss)/gain were mainly the net foreign exchange loss of HK$22.3 million (2017: net foreign exchange gain of HK$11.1 million), interest income of HK$11.5 million (2017: HK$13.2 million) and rental income of HK$22.8 million (2017: HK$23.2 million) as certain floors of the property held by the Group were leased out to third parties and an affiliate of the Group.

Other operating expenses

Other operating expenses for the year ended 31 December 2018 amounted to HK$687.6 million, an increase of HK$28.7 million or 4.4% when compared with the corresponding period of 2017. Included in the amount is an exceptional item, being the write off for other receivables of HK$26.2 million (2017: HK$Nil).

Finance costs

The Group's effective variable interest rate increased by approximately 19.2% from 2.6% p.a. as at 31 December 2017 to 3.1% p.a. as at 31 December 2018 as a result of the increases in the general borrowing rates. However, with the implementation of the Group's effective policies to manage its interest rate risks, finance costs increased by only 4.1% year-on-year to HK$337.1 million for the year.

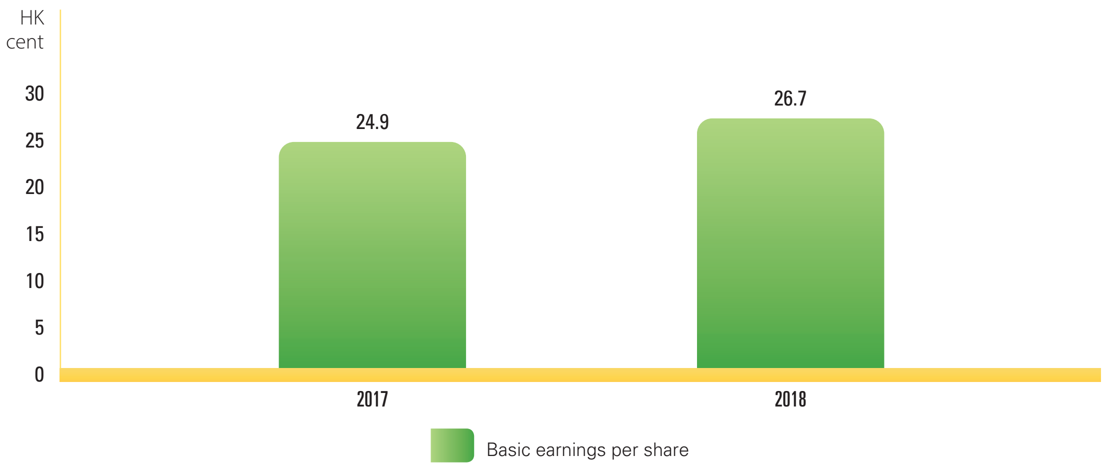
Income tax

Income tax for the year amounted to HK$173.4 million representing an effective tax rate of 15.2% (2017: 15.6%). The total tax expense included the reversal of the over-provision of tax of HK$73.6 million (2017: HK$20.1 million) and the additional tax arising from the tax effect of temporary differences previously not recognised of HK$33.3 million (2017: tax credit of HK$6.3 million) for the year ended 31 December 2018. Excluding finance costs and the net impact from the reversal of the over-provision of tax and the tax effect from the recognition of temporary differences in relation to prior years, the effective tax rate was around 14.5% and 13.9% for the year ended 31 December 2018 and 2017 respectively.

FINANCIAL REVIEW

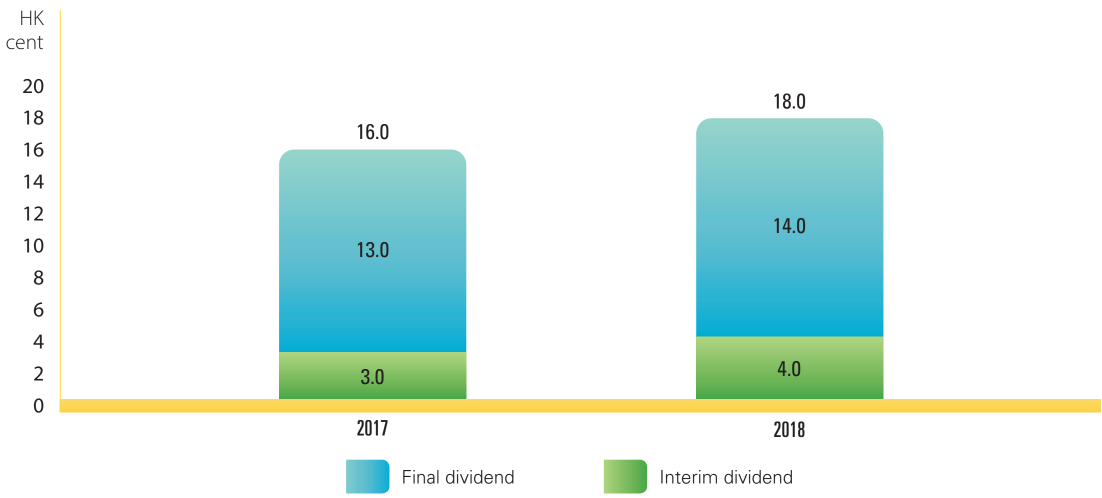
Earnings per share ("EPS")

Both basic EPS and diluted EPS amounted to approximately HK26.7 cents which represents an increase of 7.2% and 7.7% respectively when compared with the corresponding period of 2017.



Dividends per share

Final dividend of HK14.0 cents per share is proposed for the year ended 31 December 2018.



FINANCIAL REVIEW

Cash flows

In HK$ million	Year ended 31 December 2018	2017	Increase/(Decrease)	
Source of cash:				
Cash inflows from business operations	**1,815.6**	1,853.9	(38.3)	(2.1%)
Decrease in pledged deposits	**219.6**	–	219.6	N/A
Other cash inflows	**111.0**	26.6	84.4	> 100%
Sub-total	**2,146.2**	1,880.5	265.7	14.1%
Use of cash:				
Net capital expenditure*	**(603.2)**	(548.9)	54.3	9.9%
Dividends paid to equity shareholders and non-controlling interests	**(614.5)**	(483.3)	131.2	27.2%
Acquisitions of subsidiaries	**–**	(241.6)	(241.6)	N/A
Net cash outflows on loan repayments & borrowing costs	**(1,282.7)**	(456.4)	826.3	> 100%
Increase in pledged deposits	**–**	(53.0)	(53.0)	N/A
Other cash outflows	**–**	(1.1)	(1.1)	N/A
Sub-total	**(2,500.4)**	(1,784.3)	716.1	40.1%
Net (decrease)/increase in cash	**(354.2)**	96.2	N/A	N/A

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

Profit before taxation amounted to HK$1,141.3 million for the year ended 31 December 2018. The Group maintained a strong cash position, where HK$1,815.6 million cash inflow was generated from operations. The use of cash comprised capital expenditure, loans and repayments, dividends distribution to equity shareholders and non-controlling interests and various other payments. In total, the Group had net cash outflow of HK$354.2 million for the year ended 31 December 2018 as the Group utilised part of its excess cash to settle HK$1,370.9 million of its outstanding bank and other loans during the year.

Capital expenditure

The Group's total capital expenditure increased from HK$524.9 million for the year ended 31 December 2017 to HK$575.8 million for the year ended 31 December 2018. As the Group continued to expand its data centres, HK$45.8 million fitting-out costs were incurred in 2018 with the remainder of the capital expenditure mainly for network development and upgrade projects.

Capital commitments

As at 31 December 2018, the Group had outstanding capital commitments of HK$142.7 million, mainly for the data centre development, system upgrades, construction costs of networks and purchase of telecommunications equipment which had yet to be delivered to the Group. Of these commitments, HK$54.4 million were outstanding contractual capital commitments and HK$88.3 million were capital commitments authorised but for which contracts had yet to be entered into.

RISK MANAGEMENT

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

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

FINANCIAL RISK

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

1. Debt and leverage

As the Group's net debt decreased to HK$5,810.2 million, the net gearing ratio decreased from 42% as at 31 December 2017 to 40% as at 31 December 2018.

As at 31 December 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**
Bank and other borrowings	2,699.0	3,508.0	480.3	170.2	–	–	–	**6,857.5**
Obligations under finance leases	–	–	1.8	–	–	–	–	**1.8**
Total debt	2,699.0	3,508.0	482.1	170.2	–	–	–	**6,859.3**
Less: Cash and bank deposits	(291.2)	(286.9)	(60.6)	(35.4)	(141.7)	(167.1)	(66.2)	**(1,049.1)**
Net debt/(cash)	**2,407.8**	**3,221.1**	**421.5**	**134.8**	**(141.7)**	**(167.1)**	**(66.2)**	**5,810.2**

As at 31 December 2018, the Group's net gearing ratio was as follows:

In HK$ million	**31 December 2018**	31 December 2017
Bank and other borrowings	**6,857.5**	7,825.1
Obligations under finance leases	**1.8**	3.3
Total debt	**6,859.3**	7,828.4
Less: Cash and bank deposits	**(1,049.1)**	(1,635.6)
Net debt	**5,810.2**	6,192.8
Total equity attributable to equity shareholders of the Company	**8,854.8**	8,396.4
Total capital	**14,665.0**	14,589.2
Net gearing ratio	**40%**	42%

RISK MANAGEMENT

As at 31 December 2018, the principal of total debt amounted to HK$6,890.7 million, of which HK$328.5 million will be matured in the coming year, against cash and bank deposits of HK$1,049.1 million.

The maturity profile of the Group's total debt in principal amount as at 31 December 2018 was as follows:

In HK$ million	2019	2020	2021	2022	2023	2024 & beyond	Total
Bank and other loans	327.5	2,311.6	739.8	–	–	–	**3,378.9**
Obligations under finance leases	1.0	0.8	–	–	–	–	**1.8**
US$450 million 6.1% guaranteed bonds	–	–	–	–	–	3,510.0	**3,510.0**
	328.5	**2,312.4**	**739.8**	**–**	**–**	**3,510.0**	**6,890.7**

Note: For illustrative purpose, the above analysis is based on the principal amount of 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$6,890.7 million which was mainly due to the early repayment of bank loans amounted to HK$1,000.0 million from its surplus cash during the year.

Available sources of financing

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

The Group's cash balance as at 31 December 2018 was more than sufficient to cover the repayments of principal amount of total debt of HK$328.5 million in the coming year and contractual capital commitments of HK$54.4 million as at 31 December 2018.

As at 31 December 2018, the Group had available trading facilities of HK$299.0 million. The amount of HK$83.4 million was utilised as guarantees for performance to customers/the Macau Government and costs payable to telecoms operators and others.

Around HK$14.5 million of the utilised facilities were required to be secured by pledged deposits or other property, plant and equipment as at 31 December 2018.

As at 31 December 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	3,073.6	3,073.6	–
– Uncommitted facilities:			
Short-term facilities	799.0	305.3	493.7
	3,872.6	3,378.9	493.7
Obligations under finance leases – Committed facilities	1.8	1.8	–
Guaranteed bonds – Committed facility			
US$450 million 6.1% guaranteed bonds	3,510.0	3,510.0	–
Trading facilities – Uncommitted facilities	299.0	83.4	215.6
Total	**7,683.4**	**6,974.1**	**709.3**

RISK MANAGEMENT

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 provisions, which are commonly found in lending arrangement with financial institutions. If the Group were to breach the covenants or in any case of an event of default, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 31 December 2018, the Group was in compliance with the relevant requirements.

4. Contingent liabilities

As at 31 December 2018, the Group had no significant contingent liabilities.

5. Performance bonds, guarantees and pledged assets

As at 31 December 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$78.5 million. In addition, HK$4.9 million was utilised as guarantees for the Group's purchases from telecoms operators, utilities deposits and others.

As at 31 December 2018, bank deposits of HK$11.3 million and other property, plant and equipment of HK$2.7 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 (approximately HK$3,510.0 million) guaranteed bonds with a maturity of twelve years due on 5 March 2025 and the bonds bore interest at 6.1% per annum. The bonds were unconditionally and irrevocably guaranteed by the Company.

As at 31 December 2018, the Company issued guarantees of HK$880.3 million for its subsidiaries in respect of the various forms of facility lines from financial institutions.

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

RISK MANAGEMENT

6. Interest rate risk

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

Interest rate risk is managed by fixed rate borrowing or through use of interest rate swap, if necessary. As at 31 December 2018, approximately 51.4% of the Group's borrowings were linked to fixed interest rates. During the year, the Group did not enter into any interest rate swap arrangement.

Average borrowing costs

As at 31 December 2018, the average borrowing costs, after the inclusion of amortisation of transaction costs, was approximately 4.6%.

7. Foreign currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The major places of operating companies within the Group are located in Hong Kong and Macau, whose functional currency is either Hong Kong dollars or Macau Patacas.

A substantial portion of the Group's revenue and cost of sales and services are denominated in United States dollars, Macau Patacas, Hong Kong dollars, Renminbi and Singapore dollars. The majority of the Group's current assets, current liabilities and transactions are denominated in United States dollars, Macau Patacas, Hong Kong dollars, Renminbi and Singapore dollars. As the Hong Kong dollars is linked to the United States dollars and the Macau Patacas is pegged to the Hong Kong dollars, it will not pose significant foreign currency risk between Hong Kong dollars, Macau Patacas and United States dollars to the Group. 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.

Individual 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. Loss allowances for trade debtors and contract assets 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 32.9% and 39.8% of the Group's total trade debtors and contract assets as at 31 December 2018 and 31 December 2017 respectively. The credit risk exposure to the balances of trade debtors and contract assets has been and will continue to be monitored by the Group on an ongoing basis.

RISK MANAGEMENT

9. Counterparty risk

The Group's exposure to credit risk arising from cash and bank deposits is limited because 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 its group companies. As at 31 December 2018, the Group has maintained a cash balance of HK$1,025.5 million in the above-mentioned financial institutions, representing approximately 97.8% of the total cash and bank deposits of the Group. To achieve a balance between maintaining the flexibility of the Group's operations and minimising the exposure to credit risk arising from cash and bank deposits, the Group has a pre-defined policy and regular review on the rest of the cash portfolio. It is considered that the Group is exposed to a low credit risk in this respect.

ECONOMIC ENVIRONMENT

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

The Group also has significant operations across the Asia-Pacific region. However, these regions have also been adversely affected by the global economic slowdown and any continued slowdown may have an adverse effect on the Group's existing operations, and planned expansion, in these regions.

OPERATIONAL RISK

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

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

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

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

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

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

SECURITY OR PRIVACY BREACHES

The Group's systems may be vulnerable to physical break-ins, computer viruses, attacks by computer hackers or similar disruptive problems. If unauthorised users gain access to the Group's databases, they may be able to embezzle, publish, delete or modify sensitive information that is stored or transmitted on the Group's networks and which the Group is required by its contracts to keep confidential. A security or privacy breach could result in an interruption of service or a reduced quality of service.

Confidential internal information to the Group may also be disclosed to unauthorised personnel who may use such information in a manner adverse to the interests of the Group. The Group may therefore be required to make significant expenditures in connection with corresponding corrective or preventive measures. In addition, a security or privacy breach may harm the Group's reputation and cause its customers to reduce their use of such services, which could harm the Group's revenues and business prospects. In relation to privacy protection, we face changes in expectations from government and industry groups on issues including data availability and use, compliance with international frameworks such as the General Data Protection Regulation ("GDPR") and data breach reporting. The sanctions for breaching the GDPR are significantly higher than the previous regime, which could result in a substantial fine in the event of a breach.

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

RISK MANAGEMENT

COMPETITIVE MARKETS

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

– Increasing liberalisation of the telecoms industry in Hong Kong and China may continue to attract new local and foreign entrants and broaden the variety of telecoms services available in the market, thereby increasing the overall level of competition in the industry.

– The fixed telecoms market in Macau is in the process of liberalisation. Moreover, CTM secured 4G network operating licence from the Macau Government, but the 4G network operating licences were also granted to other territory's mobile network operators. It is expected that competition may increase from both existing and new market players. Increased competition may have an adverse effect on the operating performance of CTM and hence affect the value of the business.

– Rapid changes in technology and business models from other telecommunications services providers may increase competition and render the Group's technologies, products or services obsolete or cause the Group to lose market share.

– Rapid development of new technologies, new services and products, and new business models, including Over-the-top products such as instant voice and messaging services, may have a material adverse effect on our business, financial condition and results of operations.

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

OTHER EXTERNAL RISKS AND UNCERTAINTIES

1. Impact of laws and regulations

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

2. Impact of new accounting standards

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

3. Natural disasters or events and terrorism

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

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

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

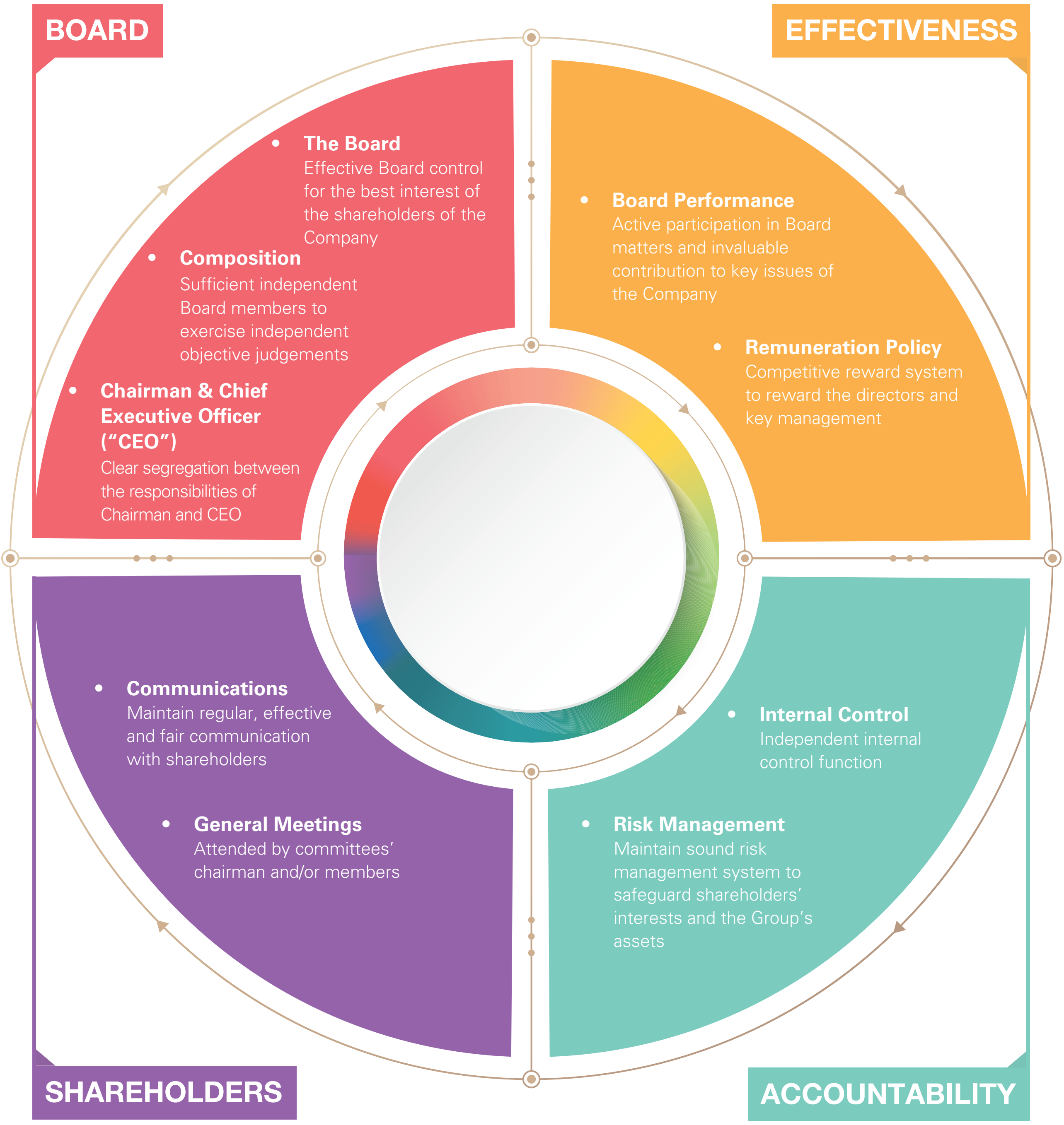
FIVE YEAR SUMMARY

	At 31 December				
	2014 HK$'000	2015 HK$'000	2016 HK$'000	2017 HK$'000	**2018 HK$'000**
Assets and liabilities					
Investment property	–	–	635,328	685,969	**629,352**
Other property, plant and equipment	2,105,909	2,404,952	2,553,923	2,625,731	**2,767,198**
Intangible assets	2,167,628	2,005,221	1,878,846	1,722,074	**1,553,522**
Goodwill	9,281,625	9,276,511	9,596,599	9,729,268	**9,717,906**
Interest in a joint venture	6,265	5,541	7,367	5,972	**8,924**
Non-current contract assets	–	–	–	–	**41,294**
Non-current other receivables and deposits	215,612	163,862	198,920	207,509	**119,937**
Deferred tax assets	33,141	33,227	85,764	81,428	**67,957**
Net current assets	1,109,669	983,496	1,243,178	1,289,492	**912,252**
Non-current interest-bearing borrowings and obligations under finance leases	(7,867,586)	(7,372,492)	(7,860,743)	(7,542,491)	**(6,530,842)**
Non-current other payables	(73,040)	(65,656)	(77,594)	(61,808)	**(44,487)**
Net defined benefit retirement obligation	(103,729)	(117,307)	(112,878)	(68,303)	**(99,578)**
Deferred tax liabilities	(281,218)	(260,297)	(249,024)	(244,643)	**(247,719)**
NET ASSETS	6,594,276	7,057,058	7,899,686	8,430,198	**8,895,716**
Capital and reserves					
Share capital	3,780,941	3,848,565	4,262,457	4,280,542	**4,402,388**
Reserves	2,787,417	3,180,822	3,608,047	4,115,865	**4,452,364**
Total equity attributable to equity shareholders of the Company	6,568,358	7,029,387	7,870,504	8,396,407	**8,854,752**
Non-controlling interests	25,918	27,671	29,182	33,791	**40,964**
TOTAL EQUITY	6,594,276	7,057,058	7,899,686	8,430,198	**8,895,716**

	For the year ended 31 December				
	2014 HK$'000	2015 HK$'000	2016 HK$'000	2017 HK$'000	**2018 HK$'000**
Results					
Revenue	8,183,607	8,349,811	7,699,147	7,450,760	**9,464,013**
Profit before taxation	914,294	1,010,443	1,028,089	1,061,233	**1,141,284**
Income tax	(179,339)	(195,611)	(165,368)	(165,477)	**(173,392)**
Profit for the year	734,955	814,832	862,721	895,756	**967,892**
Attributable to:					
Equity shareholders of the Company	723,734	802,213	850,088	881,338	**951,039**
Non-controlling interests	11,221	12,619	12,633	14,418	**16,853**
Profit for the year	734,955	814,832	862,721	895,756	**967,892**
Basic earnings per share (HK cents)	21.7	23.8	24.9	24.9	**26.7**
Diluted earnings per share (HK cents)	21.5	23.6	24.7	24.8	**26.7**
Dividends per share					
Interim dividend (HK cents)	2.70	2.80	2.85	3.00	**4.00**
Final dividend (HK cents)	8.60	9.70	10.35	13.00	**14.00**
	11.30	12.50	13.20	16.00	**18.00**

CORPORATE GOVERNANCE

Key Corporate Governance Performance Overview



CORPORATE GOVERNANCE

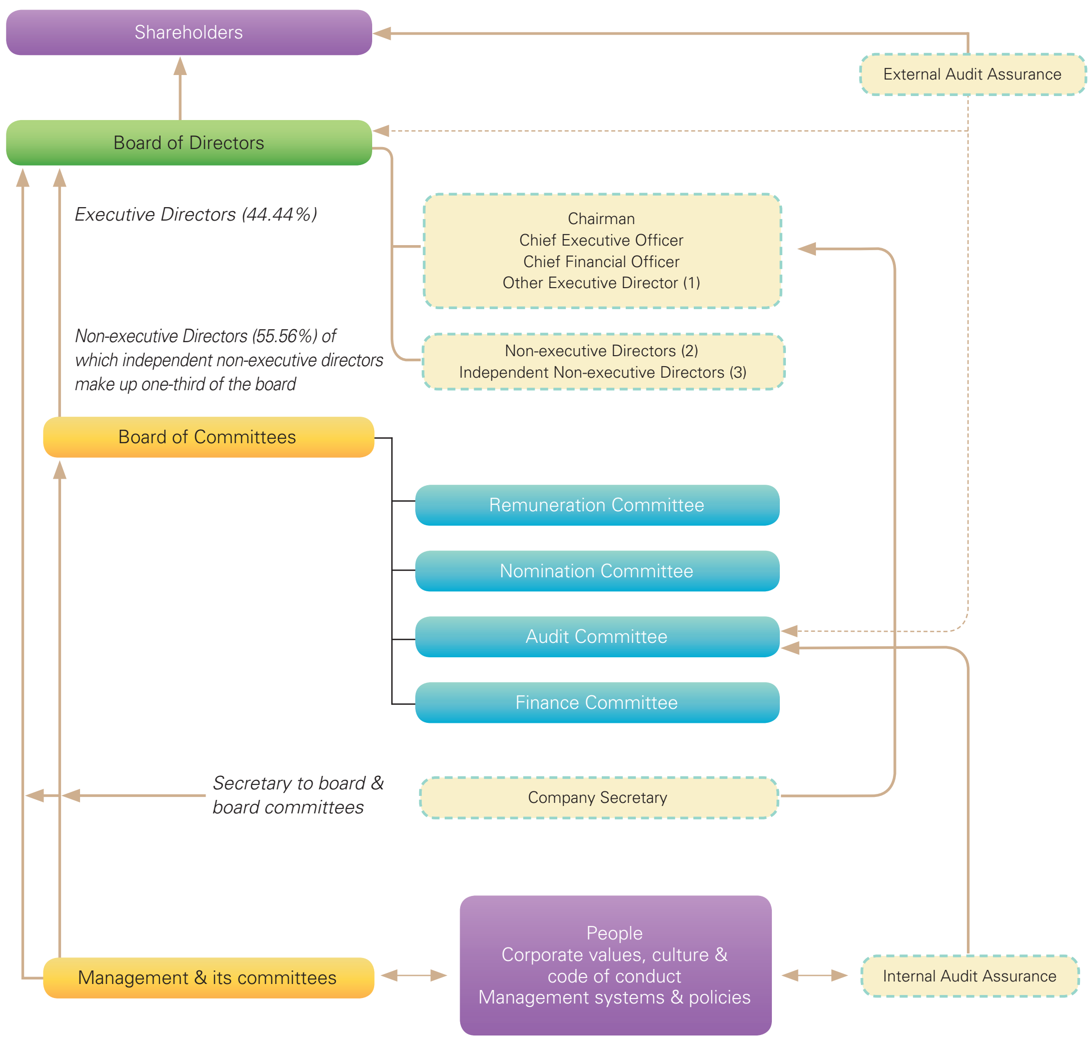
Corporate Governance Practices

The Company is committed to maintaining high standards of corporate governance. The board of directors of the Company (the "Board") believes that good corporate governance practices are important to promote investor confidence and protect the interest of our shareholders. At CITIC Telecom, we attach importance to our people, our code of conduct, and our corporate policies and standards, which together form the basis of our corporate governance practices. We respect the laws, rules and regulations of each country and area in which we operate, and we strive to ensure for our people a healthy and safe working environment which is our paramount concern. We endeavour to contribute to the sustainable development of the Company, with particular focus on our accountability to shareholders and stakeholders.

This report describes how the Company has applied its corporate governance practices to its everyday activities. Save as disclosed below, the Company has fully complied with the applicable code provisions in the Corporate Governance Code (the "Code") set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year of 2018.

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

Corporate Governance Structure

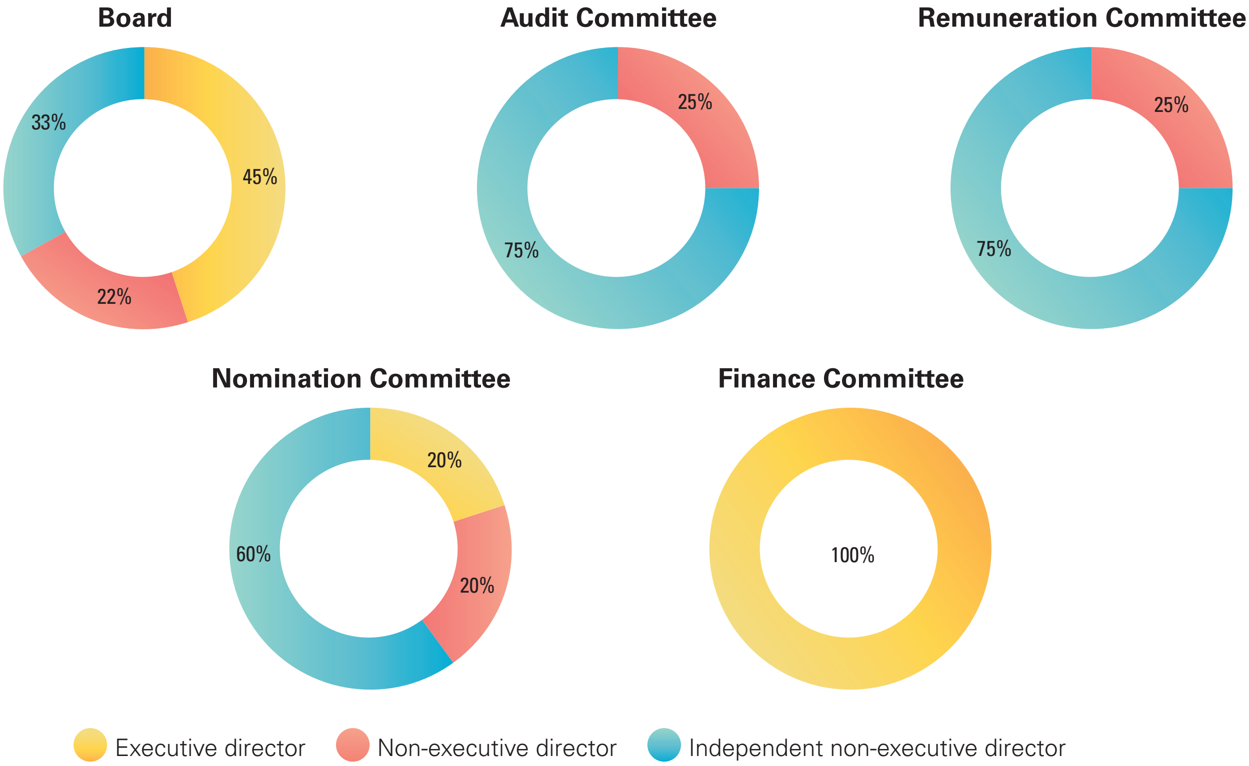


Board of Directors

Key features of our Board

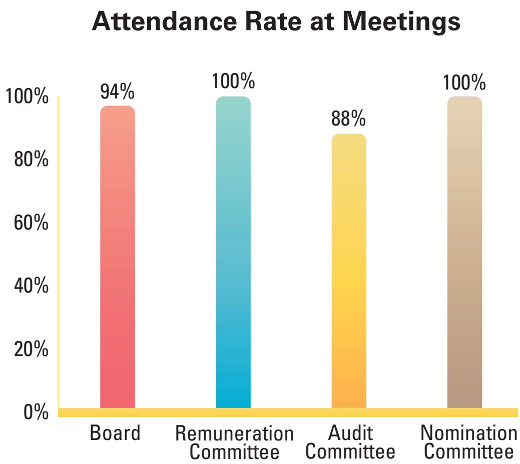
Independence

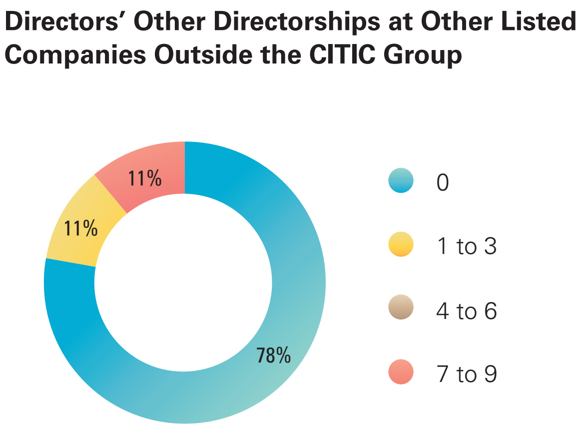
The Company emphasises on independence and objectivity of the Board and all committees. With the services of four executive directors, two non-executive directors and three independent non-executive directors, the Board would have a prudential oversight on the Company's businesses and developments.



Commitment

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





CORPORATE GOVERNANCE

Attendance at Meetings

The following table summarises directors' attendance at Board and committees' meetings and general meeting held in 2018:

✓ Attended ✗ Absent – Not Applicable

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

Note 1: Dr. David Chan Tin Wai also attended the Audit Committee meetings as the Chief Financial Officer of the Company.

Overall Accountability

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

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

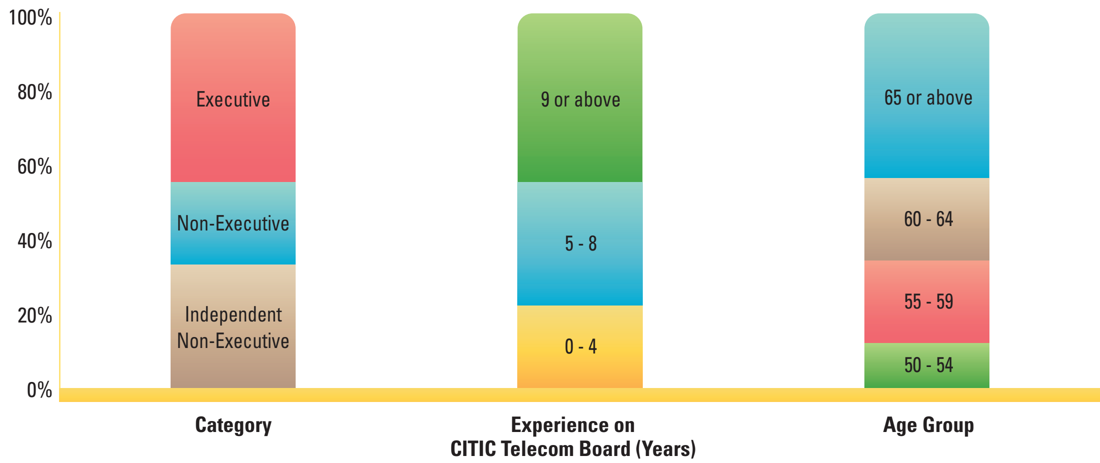
CORPORATE GOVERNANCE

Board Composition, Diversity and Balance

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

The Board currently comprises four executive and five non-executive directors of whom three are independent as defined in the Listing Rules. The directors are of diverse academic background in the areas of communications, engineering, accounting, law, business administration and management. Brief biographical particulars of the directors are set out on pages 65 to 67 of this Annual Report. The Company believes that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Group's business.

Board Diversity Statistics



Independent non-executive directors constitute one-third and non-executive directors constitute more than half of the Board. The Company has received from each independent non-executive director a confirmation of his independence pursuant to the independence guidelines set out in Rule 3.13 of the Listing Rules (the "Independence Guidelines") and considers that all independent non-executive directors are independent.

Each director has entered into an appointment letter with the Company. Under the Articles of Association of the Company, any director appointed by the Board either to fill a casual vacancy or as an additional director is subject to re-election at the next general meeting of the Company. Also, one-third of the directors for the time being, or, if their number is not a multiple of three, then the number nearest to one-third, must retire from office at each annual general meeting ("AGM"). Thus, every director, including the non-executive directors, shall be subject to retirement by rotation at least once every three years. These directors are eligible for re-election. Their re-election is subject to a vote of the shareholders and separate resolutions are proposed for the election of each director.

Roles of the Board

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

CORPORATE GOVERNANCE

Board Responsibilities and Delegation

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

The Board has delegated some of its functions to the Board committees, details of which are set out below. Matters specifically reserved for the Board include approval of financial statements, dividend policy, significant changes in accounting policies, material contracts, changes to appointments such as company secretary and external auditor, terms of reference of Board committees, as well as major corporate policies.

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

The Company has arranged directors and officers liability and company reimbursement insurances for its directors and officers.

Details of the responsibilities, membership, attendance and activities during the year of each Board committee are set out on pages 47 to 56 of this Annual Report.

Board Meetings and Attendance

The Board meets regularly to review the financial and operating performance of the Group and to discuss future strategy. Four regular Board meetings were held in 2018. At the Board meetings, the Board reviewed significant matters including, inter alia, the Group's annual and interim financial statements, annual budget, proposals for final and interim dividends, annual report and interim report, connected transactions and the risk management report. At least 14 days' notice is given to all directors for all regular Board meetings and all directors are given the opportunity to include matters for discussion in the agenda. The agenda and Board papers for each meeting are sent to all directors more than 3 days in advance of every regular Board meeting. All minutes of the Board meetings are kept by the company secretary and are available to all directors for inspection. For the sake of good corporate governance, the Chairman of the Company has also held a meeting with the independent non-executive directors without the presence of the other directors during the year.

The attendance record of each director at the Board meetings and general meeting in 2018 is set out below:

	Attendance/Number of Meetings	
Directors	**Board Meeting**	**General Meeting**
Executive Directors		
Mr. Xin Yue Jiang – *Chairman*	4/4	1/1
Dr. Lin Zhenhui – *Chief Executive Officer*	4/4	1/1
Mr. Luo Ning	3/4	0/1
Dr. David Chan Tin Wai – *Chief Financial Officer*	4/4	1/1
Non-executive Directors		
Mr. Liu Jifu	4/4	1/1
Mr. Fei Yiping	4/4	1/1
Independent Non-executive Directors		
Mr. Liu Li Qing	4/4	0/1
Mr. Zuo Xunsheng	3/4	1/1
Mr. Lam Yiu Kin	4/4	1/1

CORPORATE GOVERNANCE

The Company's external auditor also attended annual general meeting of the Company held on 14 May 2018 ("2018 AGM"). Messrs. Luo Ning and Liu Li Qing were unable to attend the 2018 AGM as they had other engagements.

Chairman and Chief Executive Officer

Mr. Xin Yue Jiang serves as the Chairman of the Company and Dr. Lin Zhenhui as the Chief Executive Officer of the Company. The Chairman and Chief Executive Officer have segregated defined responsibilities whereby the Chairman is primarily responsible for leadership and effective functioning of the Board, ensuring all key and appropriate issues are addressed by the Board in a timely manner, as well as providing strategic direction of the Group, and also take primary responsibility for ensuring good corporate governance practices and procedures are established. The Chief Executive Officer is responsible for the day-to-day management of the Group and the effective implementation of corporate strategy and policies. Their respective roles and responsibilities are set out in writing, which have been approved and adopted by the Board.

Directors' Continuing Professional Development Programme

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

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

During the year, the Company has also organised two briefing sessions relating to the latest development of Listing Rules and the Greater Bay Area conducted by Messrs. Mayer Brown and KPMG respectively for the directors of the Company.

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

Directors	Type of continuous professional development programme
Executive Directors	
Mr. Xin Yue Jiang	A, B, C
Dr. Lin Zhenhui	A, B, C
Mr. Luo Ning	A, B, C
Dr. David Chan Tin Wai	A, B, C
Non-executive Directors	
Mr. Liu Jifu	A, B, C
Mr. Fei Yiping	A, B, C
Independent Non-executive Directors	
Mr. Liu Li Qing	A, B, C
Mr. Zuo Xunsheng	A, B, C
Mr. Lam Yiu Kin	A, B, C

Notes:
A: attending briefings and/or seminars
B: reading materials and updates relating to the latest development of the Listing Rules and other applicable regulatory requirements
C: reading monthly updates on the Group's performance, position and prospects

CORPORATE GOVERNANCE

Board Committees

Board Committees	Composition	Members
Remuneration Committee ("RC")	• Four members: All NEDs • Three out of four members, including the RC Chairman, are INEDs	• Mr. Liu Li Qing *(Chairman)* • Mr. Liu Jifu • Mr. Zuo Xunsheng • Mr. Lam Yiu Kin
Audit Committee ("AC")	• Four members: All NEDs • Three out of four members, including the AC Chairman, are INEDs	• Mr. Lam Yiu Kin *(Chairman)* • Mr. Fei Yiping • Mr. Liu Li Qing • Mr. Zuo Xunsheng
Nomination Committee	• Five members • Three out of five members are INEDs	• Mr. Xin Yue Jiang *(Chairman)* • Mr. Liu Jifu • Mr. Liu Li Qing • Mr. Zuo Xunsheng • Mr. Lam Yiu Kin
Finance Committee	• Three members	• Mr. Xin Yue Jiang • Dr. Lin Zhenhui • Dr. David Chan Tin Wai

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

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

Remuneration Committee

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

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

CORPORATE GOVERNANCE

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

Membership and Attendance

Members	Attendance/ Number of Meeting
Independent Non-executive Directors	
Mr. Liu Li Qing – *Chairman*	1/1
Mr. Zuo Xunsheng	1/1
Mr. Lam Yiu Kin	1/1
Non-executive Director	
Mr. Liu Jifu	1/1

A meeting was held during the year. The remuneration committee has reviewed the remuneration policies and approved, inter alia, the salaries and bonuses of the executive directors and senior management. No director took part in any discussion about his own remuneration. The remuneration committee has communicated with the Chairman of the Company about proposals relating to the remuneration packages of other executive directors and senior management.

Details of the Company's remuneration policies are set out in the Sustainability Report on page 98 of this Annual Report, and directors' emoluments and retirement benefits are disclosed on pages 159 to 160 and 182 to 186 of this Annual Report. Share options granted under the Company's share option plan are disclosed on pages 81 to 85 and pages 187 to 192 of this Annual Report.

The remuneration paid to the directors of the Company, by name, for the year ended 31 December 2018 is set out in note 8 to the financial statements. The remuneration paid to the senior management, by band, for the year ended 31 December 2018 is set out below:

Remuneration of senior management other than directors for the full year of 2018

Total Remuneration Bands	Number of Executives
HK$0 – HK$3,000,000	1
HK$3,000,001 – HK$6,000,000	2
HK$6,000,001 – HK$9,000,000	1
HK$9,000,001 – HK$12,000,000	0
HK$12,000,001 – HK$15,000,000	1

Audit Committee

The audit committee reviews financial information of the Group, monitors the effectiveness of the external audit and oversees the appointment, remuneration and terms of engagement of the Company's external auditor, as well as their independence. The audit committee is also responsible for reviewing the financial reporting process and the systems of risk management and internal controls, including the internal audit function as well as arrangements for concerns raised by the staff on financial reporting and other matters. The Board also delegated certain corporate governance functions to the audit committee, including, inter alia, the review and monitoring of the Company's policies and practices on compliance with legal and regulatory requirement, the code of conduct of the Company and the Company's policies and practices on corporate governance and its compliance with the Code and disclosures in the Corporate Governance Report, etc.. The terms of reference setting out the committee's authority and its role and responsibilities are available on the Company's website (www.citictel.com) and the Stock Exchange's website.

CORPORATE GOVERNANCE

The audit committee currently consists of a non-executive director and three independent non-executive directors having the relevant professional qualifications and expertise. The Chairman of the committee is Mr. Lam Yiu Kin, an independent non-executive director. The company secretary of the Company acts as secretary of the committee. Sufficient resources are made available to the committee when independent legal or professional advice is required.

The audit committee meets at least twice a year. The Chief Financial Officer and the external and internal auditors attend the meetings, take part in the discussions and answer questions from the committee members. By invitation of the audit committee, other directors and senior executives may also attend the meetings. The audit committee Chairman and other committee members also meet once a year in separate private session with the external auditor without the presence of management.

The audit committee held two meetings in 2018. The agenda and accompanying committee papers were sent to the committee members more than 3 days prior to each meeting.

The Audit Committee discussed with the management and the external auditor on the key audit matters summarised below and procedures performed by the external auditor. Please refer to pages 117 to 119 of this Annual Report for details of procedures performed by the external auditor.

Key Audit Matters	How did the Audit Committee address the matters
Assessment of potential impairment of goodwill, intangible assets and other property, plant and equipment	The Audit Committee considered the methodology, estimates and assumptions used in assessing the potential impairment of goodwill, intangible assets and other property, plant and equipment. The Audit Committee was satisfied that the methodology, estimates and assumptions adopted were consider appropriate.
Revenue recognition	The Audit Committee considered the implemented policies and internal controls in connection with the Group's revenue cycles and was satisfied that adequate internal controls are in place to ensure the accuracy, existence and completeness of the Group's revenue recognition. The Audit Committee was satisfied that the key internal controls were operating effectively throughout 2018.

The company secretary of the Company prepared full minutes of the audit committee meetings with details of discussions and decisions reached. The draft and final versions of minutes were sent to all committee members within a reasonable time after each meeting.

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

Membership and Attendance

Members	**Attendance/ Number of Meetings**
Independent Non-executive Directors	
Mr. Lam Yiu Kin – *Chairman*	2/2
Mr. Liu Li Qing	2/2
Mr. Zuo Xunsheng	1/2
Non-executive Director	
Mr. Fei Yiping	2/2

During 2018, the audit committee has considered the external auditor's proposed audit fees; discussed with the external auditor their independence and the nature and scope of the audit; reviewed the interim and annual financial statements of the Group, particularly judgmental areas, before submission to the Board; reviewed the risk management and internal control system and the internal audit plan, findings and management's response; reviewed the Group's adherence to the code provisions in the Code; reviewed the risk management report and the amendments to the whistle-blowing policy before submitting to the Board for approval. The audit committee recommended the Board to adopt the interim and annual financial statements for 2018. The audit committee has also performed the corporate governance duties as set out in its terms of reference.

Nomination Committee

The nomination committee is authorised by the Board to determine the policy for the nomination of directors, to set out the nomination procedures and the process and criteria adopted to select and recommend candidates for directorship. The nomination committee is also responsible for reviewing the structure, size and diversity of the Board. The full terms of reference are available on the Company's website (www.citictel.com) and the Stock Exchange's website.

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

The committee currently comprises five members, a majority of whom are independent non-executive directors and is chaired by the Chairman of the Board. The company secretary of the Company serves as secretary of the nomination committee. Minutes for the meetings are sent to the nomination committee members within a reasonable time after the meetings.

CORPORATE GOVERNANCE

Two meetings were held and a resolution in writing was passed in 2018. The composition of the nomination committee during the year as well as the meeting attendance of the committee members are as follows:

Membership and Attendance

Members	**Attendance/ Number of Meetings**
Executive Director	
Mr. Xin Yue Jiang – *Chairman*	2/2
Non-executive Director	
Mr. Liu Jifu	2/2
Independent Non-executive Directors	
Mr. Liu Li Qing	2/2
Mr. Zuo Xunsheng	2/2
Mr. Lam Yiu Kin	2/2

In 2018, the nomination committee reviewed the director nomination policy before submitting to the Board for approval. The nomination committee has assessed the independence of independent non-executive directors and made recommendations to the Board on the re-election of the directors retiring at the 2018 AGM. The nominations were made after considering the composition of the Board and the board diversity policy of the Company, with due regard to the overall effective function of the Board as a whole. The relevant members of the Nomination Committee abstained from voting when his own nomination was being considered. The nomination committee also reviewed the composition of the management of the Group and its changes during the year. It also reviewed the structure, size and diversity of the Board and discussed the measurable objectives, including knowledge, appropriate professional qualifications, relevant business background and experience, skills, related management expertise and agreed that these measurable objectives were achieved for the diversity on the Board which contributed to the corporate strategy and the business development of the Company.

Finance Committee

The finance committee is delegated the powers of the Board to establish or renew financial and credit facilities and undertake financial and credit transactions such as loans, deposits, commercial papers, bills of exchange and foreign exchange, etc..

The finance committee comprises three executive directors, namely, Mr. Xin Yue Jiang, Dr. Lin Zhenhui and Dr. David Chan Tin Wai. In 2018, a few resolutions in writing were passed by the finance committee to approve the financial transactions of the Company such as acceptance of banking facilities.

Accountability and Audit

Financial Reporting

The Board recognises the importance of integrity of financial information and acknowledges its responsibility for preparing financial statements that give a true and fair view of the Group's financial performance and cash flows in accordance with Hong Kong Financial Reporting Standards and the Hong Kong Companies Ordinance (Chapter 622 of the laws of Hong Kong) (the "Companies Ordinance"). In presenting the financial information, as well as price-sensitive announcements and other financial disclosures as required by regulations, the Board endeavours to present in a timely manner to shareholders and other stakeholders a balanced and understandable assessment of the Group's performance, position and prospects. Accordingly, appropriate accounting policies are selected and applied consistently, and judgments and estimates made by the management for financial reporting purpose are prudent and reasonable. Prior to the adoption of the financial statements and the related accounting policies, the relevant financial information is discussed between the external auditor and the management, and then submitted to the audit committee for review.

The Board considers that the adoption of new and revised financial reporting standards has impacted on the accounting policies of the Group, but has not had a significant impact on the Group's financial statements, details of which are disclosed in notes 1(a) and 1(c) to the financial statements.

The responsibilities of the external auditor with respect to the financial statements for the year ended 31 December 2018 are set out in the Independent Auditor's Report on pages 117 to 121 of this Annual Report.

External Auditor and their Remuneration

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

During the year, the fees charged by KPMG for the audit of the Company and its subsidiaries amounted to approximately HK$5,614,000. In addition, approximately HK$1,537,000 was charged by KPMG for non-audit services. The non-audit services mainly consist of taxation services, interim review, advisory and other professional services. The fees charged by other auditors of the Group for audit services and non-audit services during the year amounted to approximately HK$2,051,000 and HK$155,000 respectively.

Risk Management and Internal Control

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

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

CORPORATE GOVERNANCE

Risk management and internal control system features

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

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

Management process for significant risks

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

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

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

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

The Group's significant risks can be found in the "Risk Management" section on pages 36 to 43 of this Annual Report.

CORPORATE GOVERNANCE

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

Risk factors	Impacts to the Group	Risk Mitigation Measures
Competitive market conditions	Rapid changes in telecommunications technology are lowering barriers to entry and increasing the level of competition in the industry. The effect of increasingly competitive market conditions, including any decline in the Group's revenue and margins of our products and services, may adversely impact on the Group's financial condition and results of operations.	• Striving to promote the development and transition from existing services into new services with new technology. • Providing new services to customers by partnering with industry leaders. • Monitoring the market conditions proactively to facilitate the Group's business strategies, as well as new business developments.
Major regulatory changes	Regulatory or policy changes (e.g. open telecommunication market, price cut, tariff reduction, privacy policy, etc.) may directly impact our strategy and business model as well as increase complexity, and may continue to adversely affect the Group's profitability and financial conditions.	• Developing and maintaining relationships with relevant regulatory stakeholders and policy makers proactively, in an effort to minimise potential adverse effects of policy and regulatory decisions. • Establishing clear, transparent and timely communications with our stakeholders (including customers, government and regulators) about our company and corporate strategy, and seeking to understand their views and maintain good relationships.
Cyber security	With the advent of information technology and its increased application, the frequency and intensity of cyber-attacks are on the rise. The Group's critical information assets are exposed to threats, damage or unauthorized access in the digital world. Any system breakdown or breach in security may have adverse impact on the integrity, accuracy and confidentiality of data and information about the Group and our customers.	• Reviewing and updating the security controls on our network continually, especially in times of global ransomware and other cyber-crime events. • Providing training in relation to data security and privacy awareness for all employees. • Conducting regular cyber security drills across the organisation to test the level of staff compliance and vigilance.
Business resilience	There are multiple threats to Group's ability to ensure resilience and continuity of key processes, system and people, including extreme weather events, natural disasters, terrorist attacks, etc.. These events could harm the Group's revenue and prospects.	• Maintaining business capabilities, strategies, and plans in place which seek to prevent, respond to and recover from disruptions of critical network/service. • Partnering with our external vendors to deliver improved management of our technology asset lifecycles and resilience.
Interest rate risk	The Group is exposed to interest rate risk through the impact of rate changes on interest from long term borrowings. The Group may be affected by changes in the prevailing interest rates of the global credit market. Any increase in interest rate in connection with the currencies the Group borrows will increase the Group's finance costs and may adversely affect the Group's financial condition and results of operations.	• Performing regular review to achieve a balance between minimising the Group's overall cost of fund and managing large interest rate movements, as well as having regard to the floating/fixed rate mix appropriate to its current business portfolio.

CORPORATE GOVERNANCE

Monitoring the effectiveness of risk management and internal control system

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

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

- The management assessed and considered the adequacy of the resources, qualifications and experience of employees in the internal audit, risk management, accounting and financial reporting functions, as well as the sufficiency of training sessions and related budgets.

- The management regularly assessed the risks and internal controls with reference to the five components of the COSO Enterprise Risk Management – Integrated Framework. The result of the review has been summarised and reported to the audit committee and the Board.

- The audit committee regularly reviewed the internal audit findings and opinions on the effectiveness of the Group's risk management and internal control system and reports to the Board on such reviews.

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

Internal Audit

The Group has continued to engage the Internal Audit Department of CITIC Pacific Limited to perform internal audits for the Group. The Internal Audit Department performs independent internal audit reviews for business units and functions in the Group on a systematic and ongoing basis. The frequency of review of individual business units or functions is determined after an assessment of the risks involved. The audit committee endorses the internal audit plan annually. The Internal Audit Department has unrestricted access to all parts of the business and direct access to any level of management including the Chairman of the Company and the Chairman of the audit committee as it considers necessary. It submits regular reports for the audit committee's review in accordance with the approved internal audit plan. Concerns which have been reported by the Internal Audit Department are responded by management by taking appropriate remedial actions. During the year, the internal audit of a major subsidiary of the Group was completed on a co-sourcing basis with a leading professional accounting firm to increase the internal audit value.

Business Ethics

Code of conduct

To ensure the highest standard of integrity in our business, the Group adopted a code of conduct defining the ethical standards expected of all employees as well as non-discriminatory employment practices. Briefings on the code of conduct are held regularly for new employees during orientation sessions. The code of conduct can be accessed through the Company's intranet. The audit committee receives reports on the execution of the code of conduct and its compliance at least once a year.

Whistle-blowing policy

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

According to the whistle-blowing policy, concerns can be raised via email or by post to the Head of Internal Control and Compliance Department; or in writing to any of the (i) Chairman or Chief Executive Officer, (ii) Chairman of the audit committee, (iii) Head of Human Resources & Administration Department, or (iv) Head of Finance Department. All allegations received shall be registered and will be evaluated to determine the credibility, materiality and verifiability. To this end, the allegation will be evaluated to determine whether there is a legitimate basis to warrant an investigation. Member of corporate management and the above department heads will handle the investigation and directly report to the Chairman of the Group. Those who have conflict of interest will not be included.

Inside Information/Price-Sensitive Information

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

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules. All directors confirmed that they have complied with the required standard set out in the Model Code throughout 2018. The interests held by individual directors in the Company's securities at 31 December 2018 are set out in the Directors' Report on page 86 of this Annual Report.

Good Employment Practices

In Hong Kong, the Company has followed the guide to good employment practices issued by the Employers' Federation of Hong Kong to ensure legally compliant, non-discriminatory and professional employment practices are implemented.

Communication with shareholders

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

Information Disclosure on Corporate Website

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

During 2018, the Company has issued announcements in respect of, inter alia, some connected transactions which can be viewed on the Company's website (www.citictel.com).

Dividend Policy

Subject to the availability of the Company's cash and distributable reserves, the Group's investment requirements, and the Group's cashflow and working capital requirements, the directors currently intend to declare and recommend dividends which would amount to not less than 30% of the net profit, if any, from ordinary activities for the financial year ended.

CORPORATE GOVERNANCE

General Meetings with Shareholders

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

Voting by Poll

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

Investor Relations

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

Shareholders' Rights

Set out below is a summary of certain rights of the shareholders of the Company as required to be disclosed pursuant to the mandatory disclosure requirement under the Code:

Convening of general meeting

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

The request –

(a) must state the general nature of the business to be dealt with at the meeting;

(b) may include the text of a resolution that may properly be moved and is intended to be moved at the meeting;

(c) may consist of several documents in like form;

(d) may be sent in hard copy form or in electronic form to the company secretary at the Company's registered office (25th Floor, CITIC Telecom Tower, 93 Kwai Fuk Road, Kwai Chung, New Territories, Hong Kong) or via email at contact@citictel.com; and

(e) must be authenticated by the person or persons making it.

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

Procedures for directing shareholders' enquiries to the Board

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

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

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

Procedures for putting forward proposals at general meetings by shareholders

- Circulating a resolution for an AGM

  Shareholder(s) can make a request to circulate a resolution for an AGM pursuant to Section 615 of the Companies Ordinance if they:

  (a) represent at least 2.5% of the total voting rights of all shareholders who have a right to vote on the resolution at the AGM to which the request relates; or

  (b) at least 50 shareholders who have a right to vote on the resolution at the AGM to which the request relates.

  The request –

  (a) may be sent in hard copy form or in electronic form to the company secretary at the Company's registered office (25th Floor, CITIC Telecom Tower, 93 Kwai Fuk Road, Kwai Chung, New Territories, Hong Kong) or via email at contact@citictel.com;

  (b) must identify the resolution of which notice is to be given;

  (c) must be authenticated by the person or persons making it; and

  (d) must be received by the Company not later than 6 weeks before the AGM to which the request relates or if later, the time at which notice is given of that AGM.

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

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

  (a) represent at least 2.5% of the total voting rights of all shareholders who have a relevant right to vote; or

  (b) at least 50 shareholders who have a relevant right to vote (as defined in section 580(4) of the Companies Ordinance).

CORPORATE GOVERNANCE

The request –

(a) may be sent in hard copy form or in electronic form to the Company Secretary at the Company's registered office (25th Floor, CITIC Telecom Tower, 93 Kwai Fuk Road, Kwai Chung, New Territories, Hong Kong) or via email at contact@citictel.com;

(b) must identify the statement to be circulated;

(c) must be authenticated by the person or persons making it; and

(d) must be received by the Company at least 7 days before the meeting to which it relates.

- Proposing a candidate for election as a Director

  Article 108 of the Company's Articles of Association provides that no person (other than a retiring director) shall, unless recommended by the Board for election, be eligible for election to the office of director at any general meeting, unless a shareholder shall have given a notice in writing of the intention to propose that person for election as a director and a notice in writing by that person of his willingness to be elected shall have been given to the Company in the period commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than 7 days prior to the date of such meeting, provided that such period shall be at least 7 days. The written notice must state that person's biographical details as required by Rule 13.51(2) of the Listing Rules.

Constitutional Documents

There are no changes in the constitutional documents of the Company in 2018.

Non-Competition Undertaking

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

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

DIRECTORS AND SENIOR MANAGEMENT

Directors

Executive Directors

#^ **Mr. Xin Yue Jiang**, aged 70, has been appointed as the Chairman of the Company from 19 March 2009. He joined the Company in January 2008 as executive director and Vice Chairman of the Board. Mr. Xin is also the Chairman of Companhia de Telecomunicações de Macau, S.A.R.L. ("CTM") and CITIC Telecom International CPC Limited ("CPC"), both being subsidiaries of the Company. Mr. Xin graduated from China Naval Aeronautic Engineering Institute and Central University of Finance and Economics and obtained a Master degree in Economics and Management from the Graduate School of Chinese Academy of Social Sciences. After serving a substantial period of time in the government of the People's Republic of China (the "PRC") in which Mr. Xin was involved in the administration of science, technology information and economics, Mr. Xin joined in succession various major conglomerates as senior management, researcher or chief engineer. When Mr. Xin was with China Netcom (Hong Kong) Operations Limited, he held the position of Senior Vice President and Senior Consultant. Mr. Xin had also participated in the planning, implementation and management of many different important state projects. Mr. Xin thus possesses extensive knowledge and experience in science and technology information, business operation and management, and capital market operation. Since 1985, Mr. Xin has joined many different overseas studies and visits, and gained many valuable experiences in promoting co-operation with overseas enterprises, technology exchange, product research and development, and product marketing. Mr. Xin has long participated in the study and research of corporate governance and corporate culture, in particular the characteristics of Western economy and the corporate governance practices adopted by overseas enterprises, and has made significant achievement in that regard.

^ **Dr. Lin Zhenhui**, aged 56, has been an executive director and the Chief Executive Officer (the "CEO") of the Company since 1 January 2015. Dr. Lin is also the Vice Chairman of CTM and China Enterprise ICT Solutions Limited ("CEC", a subsidiary of the Company), and a director of CPC. Dr. Lin is a professorate senior engineer. He obtained a Bachelor degree of Engineering from the Beijing University of Posts and Telecommunications, a Master degree of Business Administration from the Australian National University and a Doctor degree of Business Administration from The Hong Kong Polytechnic University. Dr. Lin was formerly the Deputy Managing Director of Guangdong China Mobile Co., Ltd.© (廣東移動有限責任公司) and Chairman and General Manager of China Mobile Group Yunnan Company Limited. Before joining the Company, Dr. Lin was the Chairman of China Mobile Hong Kong Company Limited and the Chairman and CEO of China Mobile International Limited. Dr. Lin has been conferred the national science and technology progress award (second class), Yunnan Provincial Labour Medal and China provincial management innovation award (first class).

Mr. Luo Ning, aged 60, was appointed as a non-executive director of the Company in February 2013 and has been re-designated as an executive director of the Company since April 2014. Mr. Luo is currently an assistant president of CITIC Group Corporation ("CITIC Group", the ultimate holding company of the Company), CITIC Limited (listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), a controlling shareholder of the Company and a subsidiary of CITIC Group) and CITIC Corporation Limited (a wholly-owned subsidiary of CITIC Limited and holds certain interests of the Company indirectly), the Chairman of CITIC TMT© (中信數字媒體網絡有限公司), CITIC Networks Company Limited© (中信網絡有限公司) and CEC. He is also the Chairman of CITIC Guoan Information Industry Company Limited (listed on the Shenzhen Stock Exchange in the PRC). He is also the Deputy Chairman and executive director of Frontier Services Group Limited, a non-executive director of Asia Satellite Telecommunications Holdings Limited and Lajin Entertainment Network Group Limited (all of which are listed on the Stock Exchange). Mr. Luo is also a director of Baiyin Nonferrous Group Co., Ltd. (listed on the Shanghai Stock Exchange in the PRC). He also holds directorships in several other subsidiaries of CITIC Group. Mr. Luo was a Vice Chairman of CITIC Guoan Group Co. Ltd. Mr. Luo has extensive experience in telecommunications business and holds a bachelor degree in Communication Speciality from The Wuhan People's Liberation Army Institute of Communication Command (武漢解放軍通信指揮學院). He graduated from the Party School of the Central Committee of the Communist Party of China (中共中央黨校) as a professional postgraduate of the modern history of the PRC.

DIRECTORS AND SENIOR MANAGEMENT

^ **Dr. Chan Tin Wai, David**, aged 54, is the Chief Financial Officer of the Company and he joined the Company in June 2006. Dr. Chan is also a director of CTM, CEC and CPC. Dr. Chan obtained a LLB (Hons) degree and a Master degree of Law from the University of London in the United Kingdom, a Master degree of Accounting from Curtin University in Australia and a Doctor degree of Business Administration from the University of Newcastle in Australia. He is a member of the Institute of Chartered Accountants in England and Wales and also a fellow member of the Association of Chartered Certified Accountants, the Institute of Chartered Secretaries and Administrators, the Hong Kong Institute of Certified Public Accountants, the Taxation Institute of Hong Kong and the Hong Kong Institute of Chartered Secretaries. Dr. Chan worked in CITIC Limited during the period from 1994 to 2000. He had worked in several multi-national and Hong Kong blue chip companies and has over 30 years of experience in overseeing corporate finance, merger and acquisition activities, accounting, company secretarial, administration, human resources and legal matters. Dr. Chan was awarded the "Best Investor Relations by CFO" for mid-cap enterprise by the Hong Kong Investor Relations Association in 2016.

Non-Executive Directors

Δ# **Mr. Liu Jifu**, aged 75, has been a director of the Company since November 2010. He is also the Chairman of the Supervisory Board of CTM. Mr. Liu is a director of CITIC Pacific Limited ("CITIC Pacific", a controlling shareholder of the Company), CITIC Hong Kong (Holdings) Limited ("CITIC HK") and CITIC International Financial Holdings Limited (all of these three companies are subsidiaries of CITIC Group). Mr. Liu previously served as an executive director of CITIC Limited. He was with the Financial and Economics Research Institute in the Chinese Academy of Social Sciences, an executive director of China Everbright Group Limited, and the Chairman of China Everbright Travel Inc and China PINGHE Import & Export Co., Ltd.

* **Mr. Fei Yiping**, aged 55, has been a director of the Company since June 2016. He is also a director and the chief financial officer of CITIC Pacific, a director and the chief financial officer of CITIC HK, a Vice Chairman of CITIC Pacific China Holdings Limited, a non-executive director of Dah Chong Hong Holdings Limited (a fellow subsidiary of the Company and listed on the Stock Exchange), a director of CTM, and also a director of certain member companies of CITIC Pacific involved in special steel, property and energy and a director of certain member companies of CITIC Limited involved in iron ore mining, property and its interests in McDonald's mainland China and Hong Kong businesses (including, inter alia, Grand Foods Holdings Limited), and also the Chairman of the Audit, Compliance, Risk Management Committee of Grand Foods Holdings Limited. Mr. Fei was also a non-executive director of the Company during the period from January 2010 to February 2013. Mr. Fei is a graduate from Beijing Science and Technology University and received a Master in Business Administration from the University of Edinburgh in the United Kingdom. Mr. Fei is a FCPA of CPA Australia. He has over 23 years experience in accounting and financial management. He has been with CITIC Group since 1991. Between 2001 and 2008, Mr. Fei first acted as treasurer and director of CitiSteel USA, Inc. and then as vice president of CITIC USA Holdings, Inc. and chief representative of CITIC Group in New York. When he returned to China in 2008, he became deputy director-general of the finance department of CITIC Group.

Independent Non-Executive Directors

*Δ# **Mr. Liu Li Qing**, aged 78, joined the Company as an independent non-executive director in March 2007. Mr. Liu, a senior economist, graduated from Management Engineering in Beijing University of Posts and Telecommunications in 1963. Mr. Liu served as a Vice Minister of Ministry of Posts and Telecommunications during the period from 1996 to 1998 and the Head of State Post Bureau from March 1998 to April 2003. After 2003, Mr. Liu also served as the Deputy Director of the Committee for Economic Affairs of the Tenth National Committee of the Chinese People's Political Consultative Conference, the Chairman of Sino-French Life Insurance Co., Ltd., the Vice Chairman of China Optimization Society of Capital Construction, the Honorary President of China Institute of Communications, as well as the Chairman and Honorary Chairman of China Association of Communications Enterprises. Mr. Liu is now the Senior Consultant of China Association of Communications Enterprises.

DIRECTORS AND SENIOR MANAGEMENT

*∆# **Mr. Zuo Xunsheng**, aged 68, joined the Company as an independent non-executive director in April 2014. He obtained an EMBA degree from Guanghua School of Management of Peking University in 2004. From July 1993 to October 1997, Mr. Zuo served as the Director of the former Bureau of Telecommunications of Jinan City, Shandong Province. From October 1997 to May 2000, he served as the Director of the former Posts and Telecommunications Bureau of Shandong Province. He was the President of the former Shandong Telecommunications Company from May 2000 to April 2002.

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

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

*∆# **Mr. Lam Yiu Kin**, aged 64, joined the Company as an independent non-executive director in June 2017. Mr. Lam is a fellow member of each of the Association of Chartered Certified Accountants, the Institute of Chartered Accountants in England and Wales, the Chartered Accountants of Australia and New Zealand, and Hong Kong Institute of Certified Public Accountants ("HKICPA"). He graduated from The Hong Kong Polytechnic University with a higher diploma in Accountancy in 1975. He was conferred an Honorary Fellow of The Hong Kong Polytechnic University in 2002.

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

Mr. Lam is currently an independent non-executive director of each of (i) Global Digital Creations Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange; (ii) Spring Asset Management Limited as the manager of Spring Real Estate Investment Trust which is listed on the Main Board of the Stock Exchange; (iii) Vital Mobile Holdings Limited, a company listed on the Main Board of the Stock Exchange; (iv) Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd., a company listed on the Main Board of the Stock Exchange; (v) Shougang Concord Century Holdings Limited, a company listed on the Main Board of the Stock Exchange; (vi) COSCO SHIPPING Ports Limited, a company listed on the Main Board of the Stock Exchange; (vii) Nine Dragons Paper (Holdings) Limited, a company listed on the Main Board of the Stock Exchange; (viii) WWPKG Holdings Company Limited, a company listed on the Growth Enterprise Market of the Stock Exchange; and (ix) Bestway Global Holding Inc., a company listed on the Main Board of the Stock Exchange.

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

© *for identification purpose only*

DIRECTORS AND SENIOR MANAGEMENT

Senior Management

Mr. Poon Fuk Hei, aged 53, is the Vice President of the Company and CEO and Chairman of the Executive Committee of CTM, which became a subsidiary of the Group since June 2013. Mr. Poon has joined CTM for 32 years. Mr. Poon became the CEO of CTM in 2007 and has been playing a pivotal role for the sustainable development of CTM.

Mr. Poon is committed to innovation and the development of "Digital Macau", under Mr. Poon's leadership, CTM has been consolidating the leadership position in the local telecoms arena in a rapidly changing market. In 2007, CTM was the pioneer to introduce 3G service to Macau. In October 2015, CTM took the lead again to launch 4G+ service integrating with cutting-edge technology and diversified services, ushering the Macau community into a new era of telecommunications. At the end of the same year, CTM achieved the goal of 100% full fibre network coverage across Macau, making Macau became one of the few advanced cities in the world with full fibre network coverage. Along with the popularisation of "Fibre to All" and "4G to all" in 2017, the penetration rate of fibre and 4G of Macau were further enhanced, in addition, whilst CTM Wi-Fi service was further extended to the land and sea public transports. In 2018, CTM took the lead and successfully conducted 5G technology testing in Macau to accelerate the pace for construction of "Digital Macau".

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

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

Mr. Ho Wai Chung, Stephen, aged 60, is the Vice President of the Company and CEO of CPC. He joined CITIC Pacific Communications Limited, a wholly-owned subsidiary of CITIC Limited, as Executive Vice President in April 2001. Mr. Ho was appointed CEO of CPC in 2002 and was transferred to the Group in 2007 when CPC was acquired by the Group. Mr. Ho was also appointed as President of CEC in 2010. Mr. Ho holds an Honor Bachelor Degree in Electrical Engineering specialising in digital communications from McGill University of Canada. Prior to joining the CITIC Limited Group, Mr. Ho held senior positions at Cable and Wireless Systems Limited, Hong Kong Telecom CSL Limited, Hong Kong Telecommunications Limited and iAdvantage Limited.

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

DIRECTORS AND SENIOR MANAGEMENT

Mr. Cheung Yuet Pun, aged 46, is the Vice President of the Company. He joined the Company in February 2002 and was responsible in areas such as product marketing, development and management and was appointed to be the Chief Technology Officer of the head office in 2008. Mr. Cheung obtained a Bachelor of Science degree of Electrical Engineering from Queen's University at Kingston, Canada in 1995 and also completed the Master of Science (MSc) in Financial Analysis and the Executive Diploma in Management at the Hong Kong University of Science and Technology in 2010 and 2006 respectively. From his professional certification aspect, he was granted the Professional Engineer License of Ontario, Canada since 1999. Mr. Cheung previously held various positions within Nortel Networks Corporation during 1996 to 2002, responsible for software design, technical support, and sales and marketing. To date, Mr. Cheung has about 23 years of operational experience in the telecoms industry.

He is the Vice Chairman of Communications Association of Hong Kong (CAHK), the Consultative and Advisory Panel (CAP) member of Hong Kong Internet Registration Corporation Limited (HKIRC) and a member of the Radio Spectrum and Technical Standards Advisory Committee (SSAC) and the Telecommunications Regulatory Affairs Advisory Committee (TRAAC) of Office of the Communications Authority (OFCA). He has also been appointed as the incu-Apps admission panel member for Hong Kong Science & Technology Parks Corporation (HKSTPC) to foster technology and innovation advancement in Hong Kong. He was also a member in the Steering Committee of i3 Forum, which comprised fixed and mobile operators representing a combined retail base in excess of two billion customers in over 100 countries. Previously, he was a committee member of the Cyberport IncuTrain Centre Vetting Committee.

Mr. Wong Ching Wa, aged 44, is the Vice President of the Company. Mr. Wong joined the Company in January 2008 as director of China business department and was responsible for China market and business development of the head office. Mr. Wong is a director of CEC. Mr. Wong obtained a Bachelor degree of Telecom Engineering Management from Beijing Information Technology College in 1996 and a Master degree of Engineering Management from Sichuan University in 2002. Mr. Wong previously held management positions in different telecoms and technology companies in the PRC. Before joining the Company, he was the General Manager of operations management department of China Netcom (Hong Kong) Operations Limited. To date, Mr. Wong has more than 22 years experience in the telecoms industry.

DIRECTORS' REPORT

The directors have pleasure in submitting their Annual Report together with the audited financial statements for the year ended 31 December 2018.

Principal Place of Business

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

Principal Activities and Business Review

The principal activity of the Company is investment holding. The principal activities and other particulars of the principal subsidiaries are set out in note 14 to the financial statements. A fair review of the business of the Company and further discussion and analysis of the Group's activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group, important events affecting the Group occurred since the end of the financial year 2018, if any, and indication of likely future developments of the Group's business, can be found in the Chairman's Statement, the Business Review, the Financial Review and the Risk Management set out on pages 14 to 17, pages 20 to 27, pages 28 to 35 and pages 36 to 43 of this Annual Report respectively. This discussion forms part of this Directors' Report.

The environmental, employees, customers and suppliers matters and compliance with relevant laws and regulations that have a significant impact on the Company can be found in the Risk Management, the Corporate Governance and the Sustainability Report as set out on pages 36 to 43, pages 45 to 64 and pages 92 to 116 of this Annual Report respectively.

Dividends

The directors declared an interim dividend of HK4.00 cents (2017: HK3.00 cents) per share in respect of the year ended 31 December 2018 which was paid on 24 September 2018. The directors recommended, subject to the approval of the shareholders at the forthcoming annual general meeting of the Company to be held on 15 May 2019 (the "Annual General Meeting"), the payment of a final dividend of HK14.00 cents (2017: HK13.00 cents) per share in respect of the year ended 31 December 2018 payable on 4 June 2019 to shareholders on the Register of Members at the close of business on 23 May 2019.

Major Customers and Suppliers

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

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer	4.9%	
Five largest customers in aggregate	14.7%	
The largest supplier		34.8%
Five largest suppliers in aggregate		53.9%

So far as the directors of the Company are aware, the directors of the Company, their close associates or any shareholder of the Company (which to the knowledge of the directors of the Company own more than 5% of the Company's total number of issued shares) do not have any interest in these major customers and suppliers during the year.

Charitable Donations

Charitable donations made by the Group during the year amounted to approximately HK$1,443,000 (2017: HK$1,596,000).

Directors

The directors of the Company who held office during the year ended 31 December 2018 and up to the date of this report were:

Mr. Xin Yue Jiang
Dr. Lin Zhenhui
Mr. Luo Ning
Dr. David Chan Tin Wai
Mr. Liu Jifu
Mr. Fei Yiping
Mr. Liu Li Qing
Mr. Zuo Xunsheng
Mr. Lam Yiu Kin

Pursuant to Article 104(A) of the Articles of Association of the Company, Mr. Xin Yue Jiang, Mr. Luo Ning and Mr. Fei Yiping shall retire by rotation in the Annual General Meeting. All, being eligible, offer themselves for re-election.

The names of all directors who have served on the boards of the subsidiaries of the Company during the year ended 31 December 2018 or during the period from 1 January 2019 to the date of this Report are available on the Company's website at www.citictel.com.

Directors' Service Contracts

As at 31 December 2018, there were no service contracts which were not determinable by the employer within one year without payment of compensation (other than statutory compensation) between any company in the Group and any director of the Company proposed for re-election at the Annual General Meeting.

Indemnity of Directors

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

Directors' Interests in Transactions, Arrangements or Contracts

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

DIRECTORS' REPORT

Competing Interests

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

Mr. Luo Ning, an executive director of the Company, is the chairman of 中信網絡有限公司 (CITIC Networks Company Limited) ("CITIC Networks").

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

Continuing Connected Transactions

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

1. Pursuant to the exclusive service agreement* (the "ESA") entered into between China Enterprise ICT Solutions Limited ("CEC", a non-wholly owned subsidiary of the Company and in which CITIC Group holds 45.09% equity interest), China Enterprise Netcom Corporation Limited ("CEC-HK", a wholly-owned subsidiary of the Company) and CITIC Telecom International CPC Limited ("CPC", another wholly-owned subsidiary of the Company), CEC shall provide technical and support services to the customers of CEC-HK and CPC in the PRC to facilitate the provision of value-added telecoms services to these customers. A service fee shall be payable to CEC monthly with reference to CEC's costs in servicing such customers provided that CEC-HK and CPC shall be entitled to retain the first 30% of the corresponding sales proceeds from customers such that the service fee shall not in any event exceed 70% of the relevant sales proceeds. If CEC's costs shall be less than 70% of the corresponding sales proceeds, CEC on one hand and CEC-HK and CPC on the other shall be entitled to share the surplus equally. Such service fee was agreed by CPC, CEC-HK and CEC on an arms' length basis and shall be settled monthly.

   On 25 September 2018, CEC was given consent in accordance with the terms of the ESA to provide similar services to and enter into relevant agreements with some of the other telecom operators for the period from 25 September 2018 until expiry of the subsisting term of the ESA.

   In accordance with the Listing Rules, CEC is an associate of CITIC Group, the indirect holding company of the Company, and, therefore, is a connected person of the Company.

   The services fees payable to CEC are subject to the following annual caps: (i) RMB297.44 million (equivalent to approximately HK$368.83 million) for the year ended 31 December 2018; and (ii) RMB148.45 million (equivalent to approximately HK$184.08 million) for the period from 1 January 2019 to 23 June 2019.

   The aggregate service fee paid by CEC-HK and CPC to CEC for the year ended 31 December 2018 under the ESA was approximately RMB269.62 million.

   * The ESA was first entered into on 24 November 2010 and was subsequently renewed or supplemented by supplemental agreements dated 7 August 2013, 19 February 2014, 22 April 2015 and 14 June 2018. The subsisting term of the ESA will expire on 23 June 2019.

DIRECTORS' REPORT

2. Pursuant to the management consultancy and technical service agreement** (the "MSA") entered into between the Company and CITIC Networks, the Company (or designated subsidiary(ies) of the Company as agreed by CITIC Networks) shall provide comprehensive technical support, business support and relevant consultancy services to CITIC Networks relating to China Express Network, being a nation-wide optical fibre backbone network in the PRC (the "China Express Network"), including technical support and consultancy services in respect of the operation and management of the assets and business operation, the network maintenance and expansion, the development and sales of products and services, and the marketing, human resources and administration, financial and strategic planning of CITIC Networks relating to China Express Network (the "Management Consultancy and Technical Services").

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

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

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

   During the year ended 31 December 2018, no service fee under the MSA was charged to CITIC Networks by the Company, as CITIC Group was in the process of disposing of 49% of its interests in CITIC Networks in 2018 and no Management Consultancy and Technical Services are provided during the year.

   ** The MSA was first entered into on 25 April 2014 and was subsequently amended or supplemented by supplemental agreements dated 22 April 2015 and 1 September 2016. The subsisting term of the MSA will expire on 31 August 2019.

3. On 21 August 2015, CITIC Telecom International Limited ("CITIC Telecom", a wholly-owned subsidiary of the Company) entered into the following tenancy agreements with Tendo Limited ("Tendo"):

   a) the main premises renewal tenancy agreement (the "2015 Main Premises Tenancy Agreement") in relation to the leasing of the main premises (the "Main Premises") comprising the whole of the 5th floor, a portion of the ground floor, a portion of the 3rd floor podium, a portion of the roof floor, and an area for cable duct and trunking at the building located at No.111 Lee Nam Road, Ap Lei Chau, Hong Kong (the "Ap Lei Chau Building") to CITIC Telecom by Tendo for a term of three years commencing from 20 September 2015 and expiring on 19 September 2018 (both days inclusive), with an aggregate monthly rental of approximately HK$774,865. CITIC Telecom shall also pay its share of management charges in respect of the Main Premises, being approximately HK$69,738 per month, subject to revision. CITIC Telecom shall also be responsible for the payment of its own utility charges, government rates and government rent in respect of the Main Premises; and

DIRECTORS' REPORT

b) other premises renewal tenancy agreement (the "Other Premises Tenancy Agreement") in relation to the leasing of the Mezzanine floor (including the store room) of the Ap Lei Chau Building (the "Other Premises") to CITIC Telecom by Tendo for a term of three years commencing from 20 September 2015 and expiring on 19 September 2018 (both days inclusive). In addition to a monthly rental of approximately HK$72,141, CITIC Telecom shall pay its share of management charges as well as air-conditioning charges in respect of the Other Premises during the term of the Other Premises Tenancy Agreement, being approximately HK$4,515 per month and HK$11,000 per month respectively, subject to revision. CITIC Telecom shall also be responsible for the payment of its own utility charges, government rates and government rent in respect of the Other Premises.

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

On 19 September 2018, CITIC Telecom exercised its option granted under the Main Premises Renewal Option Agreement to renew the 2015 Main Premises Tenancy Agreement for the first new term of three years commencing from 20 September 2018 and expiring on 19 September 2021 (both days inclusive) and entered into a main premises renewal tenancy agreement (the "2018 Main Premises Tenancy Agreement") with Tendo. Pursuant to the Main Premises Renewal Option Agreement, upon expiration of the 2018 Main Premises Tenancy Agreement, CITIC Telecom shall have the option to renew the lease of the Main Premises for a second term subject to the terms thereof. After reviewing the business needs, the Group has not renewed the lease of the Other Premises upon the expiration of the Other Premises Tenancy Agreement on 19 September 2018.

The aggregate monthly rental payable by CITIC Telecom under the 2018 Main Premises Tenancy Agreement is approximately HK$822,000. CITIC Telecom shall also pay its share of management charges in respect of the Main Premises, being approximately HK$76,000 per month, subject to revision. CITIC Telecom shall also be responsible for the payment of its own utility charges, government rates and government rent in respect of the Main Premises during the term of the 2018 Main Premises Tenancy Agreement.

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

The maximum amounts (including the rentals, the management charges, the air-conditioning charges and other outgoings such as rentals for car parking spaces to be leased by Tendo to CITIC Telecom from time to time) payable by CITIC Telecom to Tendo under (i) 2015 Main Premises Tenancy Agreement; and (ii) Other Premises Tenancy Agreement for the period from 1 January 2018 to 19 September 2018 was approximately HK$8,500,000.

In addition, the maximum amounts (including the rentals, the management charges, other charges and other outgoings such as rentals for car parking spaces to be leased by Tendo to CITIC Telecom from time to time) payable by CITIC Telecom to Tendo under the 2018 Main Premises Tenancy Agreement are set out below:

	For the period from 20 September 2018 to 31 December 2018	For the year ending 31 December 2019	For the year ending 31 December 2020	For the period from 1 January 2021 to 19 September 2021
HK$ (in million)	3.5	11.5	11.5	8.5

The aggregate amounts paid by CITIC Telecom to Tendo under (i) the 2015 Main Premises Tenancy Agreement and the Other Premises Tenancy Agreement for the period from 1 January 2018 to 19 September 2018; and (ii) the 2018 Main Premises Tenancy Agreement for the period from 20 September 2018 to 31 December 2018 were approximately HK$8,122,000 and HK$3,043,000 respectively.

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4. Pursuant to the telecoms services agreement dated 5 August 2016 (the "Telecoms Services Agreement") entered into between CEC and CITIC Networks, CEC shall engage CITIC Networks as service provider for the provision of various telecoms services, such as leasing of circuits and racks for data networking, to CEC for a term of three years from 7 August 2016 to 6 August 2019. An estimated basic monthly service fee of approximately RMB1,640,000, subject to adjustment based on actual usage, shall be payable to CITIC Networks by CEC.

   The annual caps for the transactions under the Telecoms Services Agreement for the year ended 31 December 2018 and the period from 1 January 2019 to 6 August 2019 are HK$67,510,000 and HK$51,250,000 respectively.

   The aggregate service fee paid by CEC to CITIC Networks under the Telecoms Services Agreement for the year ended 31 December 2018 was approximately HK$34,550,000.

5. Upon completion of the acquisition on 28 October 2016 of, inter alia, the entire share capital of Neostar Investment Limited ("Neostar"), which holds portions of ground floor, 1st floor to 3rd floor and car parking spaces thereof, the whole of 6th floor to 13th floor, 15th floor, 19th floor to 22nd floor, common areas and facilities of CITIC Telecom Tower situated at 93 Kwai Fuk Road, Kwai Chung, New Territories, Hong Kong ("CITIC Telecom Tower"), the transaction as subsisted under the tenancy agreement (the "2015 DCH Tenancy Agreement") entered into between Neostar as the landlord and Dah Chong Hong Holdings Limited ("DCH") as the tenant on 29 May 2015 in respect of the whole of 7th floor to 12th floor of CITIC Telecom Tower at a monthly rental of approximately HK$1,300,000 (exclusive of government rent, rates and management charges and other outgoings) and monthly management charges of approximately HK$200,000 became a continuing connected transaction of the Company. The 2015 DCH Tenancy Agreement is for a term of three years commencing from 1 June 2015 and expiring on 31 May 2018.

   As the 2015 DCH Tenancy Agreement expired on 31 May 2018, Neostar and DCH had entered into a tenancy agreement (the "2018 DCH Tenancy Agreement") in respect of the whole of 7th floor to 11th floor of CITIC Telecom Tower on 31 May 2018 for a term of three years commencing from 1 June 2018 and expiring on 31 May 2021 (both days inclusive).

   The monthly rental is approximately HK$1,178,000 (exclusive of government rent, rates and management charges and other outgoings) and monthly management charges is approximately HK$192,000.

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

   The annual cap (including the rentals and the management charges) payable by DCH to the Group under the 2015 DCH Tenancy Agreement for the period from 1 January 2018 to 31 May 2018 was HK$9,200,000.

   In addition, the annual caps (including the aggregate rentals, the management charges and other outgoings) payable by DCH to the Group under the 2018 DCH Tenancy Agreement are set out below:

	For the period from 1 June 2018 to 31 December 2018	**For the year ending 31 December 2019**	**For the year ending 31 December 2020**	**For the period from 1 January 2021 to 31 May 2021**
HK$ (in million)	11.0	19.0	20.1	9.0

   The aggregate amounts (including the aggregate rentals, the management charges and other outgoings) paid by DCH under (i) the 2015 DCH Tenancy Agreement for the period from 1 January 2018 to 31 May 2018; and (ii) the 2018 DCH Tenancy Agreement for the period from 1 June 2018 to 31 December 2018 were approximately HK$7,567,000 and HK$9,587,000 respectively.

DIRECTORS' REPORT

6. The Group, through ComNet Investment Limited ("ComNet Investment", a wholly-owned subsidiary of the Company) and Neostar, has ownership over the entire CITIC Telecom Tower.

   On 28 October 2016, ComNet Investment, Neostar and Hang Luen Chong Property Management Company, Limited ("Hang Luen Chong") entered into a management services agreement (the "2016 Management Services Agreement"), pursuant to which Hang Luen Chong shall provide general property management services, chilled water supply and air-conditioning supply in respect of CITIC Telecom Tower to the Group (the "2016 Management Services") for a period of two years commencing from 28 October 2016 and expiring on 27 October 2018.

   Under the 2016 Management Services Agreement, the general management fees payable by the Group for CITIC Telecom Tower are approximately HK$645,000 per month. The chilled water charges payable by the Group for CITIC Telecom Tower are based on the actual volume of chilled water used and are estimated to be approximately HK$138,000 per month. The air-conditioning charges for supply during normal office hours payable by the Group for CITIC Telecom Tower are approximately HK$188,000 per month. The air-conditioning charges for supply after normal office hours payable to Hang Luen Chong are based on the actual usage and are estimated to be approximately HK$5,000 per month.

   As the 2016 Management Services Agreement expired on 27 October 2018, ComNet Investment, Neostar and Hang Luen Chong had entered into a management services agreement (the "2018 Management Services Agreement") on 23 October 2018, pursuant to which Hang Luen Chong will continue to provide general property management services, chilled water supply, air-conditioning supply and other relevant services in respect of CITIC Telecom Tower to the Group (the "2018 Management Services") from 28 October 2018 to 31 December 2020 (both days inclusive), provided that any one of the parties may terminate the 2018 Management Services Agreement with or without cause by giving to the other parties a 3 months' prior notice in writing at any time during the term of the 2018 Management Services Agreement.

   Under the 2018 Management Services Agreement, the general management fees payable by the Group for CITIC Telecom Tower are approximately HK$715,000 per month. The chilled water charges payable by the Group for CITIC Telecom Tower are based on the actual volume of chilled water used and are estimated to be approximately HK$138,000 per month. The air-conditioning charges for supply during normal office hours payable by the Group for CITIC Telecom Tower are approximately HK$188,000 per month. The air-conditioning charges for supply after normal office hours payable to Hang Luen Chong are based on the actual usage and are estimated to be approximately HK$5,000 per month.

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

   The annual cap in respect of the provision of the 2016 Management Services under the 2016 Management Services Agreement for the period from 1 January 2018 to 27 October 2018 was HK$14,200,000.

   In addition, the annual caps in respect of the provision of the 2018 Management Services under the 2018 Management Services Agreement are set out below:

	For the period from 28 October 2018 to 31 December 2018	For the year ending 31 December 2019	For the year ending 31 December 2020
HK$ (in million)	3.0	14.5	16.0

   The aggregate amounts paid to Hang Luen Chong under (i) the 2016 Management Services Agreement for the period from 1 January 2018 to 27 October 2018; and (ii) the 2018 Management Services Agreement for the period from 28 October 2018 to 31 December 2018 were approximately HK$10,259,000 and HK$2,213,000 respectively.

7. On 17 February 2017, CEC and 廣東盈通網絡投資有限公司 (Guangdong Eastern Fibernet Investment Company Limited) ("Guangdong Eastern Fibernet", an associate of CITIC Group) entered into a services agreement (the "Services Agreement"), pursuant to which CEC shall engage Guangdong Eastern Fibernet as service provider for the provision of Synchronous Digital Hierarchy ("SDH", a kind of telecommunications technology for signal transmission) circuit services, such as leasing of circuits and racks for data networking to CEC for a term of three years from 19 February 2017 to 18 February 2020. Guangdong Eastern Fibernet, of which CITIC Group held more than 30% equity interest, is a connected person of the Company.

   For each service order under Services Agreement, the service fee includes (i) a one-off set-up fee; and (ii) a monthly service fee, the amount of which will depend on the location and bandwidth of the SDH circuits provided by Guangdong Eastern Fibernet based on the business needs of CEC. An estimated total basic monthly service fee of approximately RMB603,000 (equivalent to approximately HK$675,000), subject to adjustment based on actual usage, shall be payable to Guangdong Eastern Fibernet by CEC on a monthly prepayment basis.

   The service fees payable by CEC to Guangdong Eastern Fibernet are subject to the following annual caps: (i) RMB15,940,000 (equivalent to approximately HK$17,850,000) for the year ended 31 December 2018; (ii) RMB17,530,000 (equivalent to approximately HK$19,630,000) for the year ending 31 December 2019; and (iii) RMB2,410,000 (equivalent to approximately HK$2,700,000) for the period from 1 January 2020 to 18 February 2020.

   The aggregate service fee paid by CEC to Guangdong Eastern Fibernet for the year ended 31 December 2018 under the Services Agreement was approximately RMB7,809,000.

8. On 15 September 2017, CPC and CEC entered into a funding support agreement (the "Funding Support Agreement"), pursuant to which CPC agreed to provide funding support of not more than RMB35 million to CEC if and when a shortage of funds arises in the operation of the Cloud computing data centre established by CEC in Shanghai, the PRC at any time during the period commencing from 15 September 2017 and ending on 14 September 2020. CPC shall provide funds by way of shareholder's loans and the interest rate shall be equivalent to the RMB benchmark interest rates for loans of financial institutions as announced by the People's Bank of China for the same period.

   The maximum amount of funding support to be provided by CPC to CEC for each of the year ended 31 December 2018, the year ending 31 December 2019 and the period from 1 January 2020 to 14 September 2020 is RMB35 million.

   Throughout the year of 2018, the maximum balance of the funds advanced by CPC to CEC under the Funding Support Agreement was RMB35 million.

9. On 11 June 2018, the Company has entered into a framework agreement (the "Framework Agreement") with CITIC Group for a term commencing from 11 June 2018 and ending on 31 May 2021 (both days inclusive), which set out, inter alia, the basis upon which the Company and its subsidiaries (the "Group") would provide the following services to CITIC Group, its subsidiaries and associates (excluding the Group) (collectively the "CITIC Group Members") from time to time in its ordinary and usual course of business:

   a) Internet Data Centre Services (the "Data Centre Services")

   The Group provides the leasing of equipment and facilities services in relation to Internet data centres to the CITIC Group Members to fulfill their data centre business needs in Hong Kong, Macau, mainland China and overseas.

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

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The key service terms such as the minimum commitment period, the minimum number of equipment and facilities under subscription and the unit service charges will be set out in the individual service order form. The service charges usually include (i) a one-off set up charge per equipment/facility, normally payable in full upon provision of service; and (ii) a monthly rental charge, comprising a fixed recurring charge and a variable charge (if any) which is determined based on the number of committed and additional equipment/facility and power consumption.

The annual caps for the provision of the Data Centre Services contemplated under the Framework Agreement are set out below:

	For the period from 1 June 2018 to 31 December 2018	For the year ending 31 December 2019	For the year ending 31 December 2020	For the period from 1 January 2021 to 31 May 2021
HK$ (in million)	12.9	35.4	53.1	30.9

The aggregate service fees paid by the CITIC Group Members in relation to the Data Centre Services under the Framework Agreement for the period ended 31 December 2018 was approximately HK$5,782,000.

b) *Virtual Private Network Services (the "VPN Services")*

The Group provides the VPN Services by applying the multi-protocol label switching (MPLS) network. The virtual private network is a private network to connect geographically separated offices of an organisation with different classes-of-service, creating one cohesive network, for transmission of voice, video and data applications with guaranteed quality-of-service.

The VPN Services are generally provided on the basis of the Group's standard service order form, which has incorporated the general terms and conditions of service of the relevant members of the Group. Subject to the guidelines and terms and conditions set out in the Framework Agreement, the terms and conditions of such standard service order form may be modified to cater for specific requirements of some customers, when necessary.

The key service terms such as the minimum commitment period, bandwidth and location of services will be set out in the individual service order form. The service charges usually include (i) a one-off set up charge, normally payable in full upon provision of service; and (ii) a fixed recurring monthly service charge during the service term, which is determined with reference to the subscribed bandwidth, locations, class of services and the requisite support services for provision of the VPN Services.

The annual caps for the provision of the VPN Services contemplated under the Framework Agreement are set out below:

	For the period from 1 June 2018 to 31 December 2018	For the year ending 31 December 2019	For the year ending 31 December 2020	For the period from 1 January 2021 to 31 May 2021
HK$ (in million)	16.5	45.1	67.7	39.5

The aggregate service fees paid by the CITIC Group Members in relation to the VPN Services under the Framework Agreement for the period ended 31 December 2018 was approximately HK$13,777,000.

c) *The Internet Access Services*

The Group provides the high-availability, high-speed Metro Ethernet/broadband local loop circuits, and related network services, which enable access to the Internet among customers' designated locations, servers in the data centres, and Cloud computing platforms (the "Internet Access Services").

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

The key service terms such as the minimum commitment period, bandwidth and location of services will be set out in the individual service order form. The service charges usually include (i) a one-off set up charge, normally payable in full upon provision of service; and (ii) a fixed recurring monthly service charge during the service term, which is determined with reference to the subscribed bandwidth, locations, interface of connection and the requisite application services for provision of the Internet Access Services.

The annual caps for the provision of the Internet Access Services contemplated under the Framework Agreement are set out below:

	For the period from 1 June 2018 to 31 December 2018	For the year ending 31 December 2019	For the year ending 31 December 2020	For the period from 1 January 2021 to 31 May 2021
HK$ (in million)	5.9	16.2	24.2	14.1

The aggregate service fees paid by the CITIC Group Members in relation to the Internet Access Services under the Framework Agreement for the period ended 31 December 2018 was approximately HK$5,402,000.

10. The following tenancy agreements for properties in the PRC (collectively the "PRC Tenancy Agreements") have been entered into in 2018:

a) On 29 June 2018, CEC and 武漢富信天地商業發展有限公司 (Wuhan Fuxin Tiandi Commercial Development Co., Ltd., ("Wuhan Fuxin")), a wholly-owned subsidiary of CITIC Pacific Limited ("CITIC Pacific"), which in turn is a wholly-owned subsidiary of CITIC Limited, entered into a tenancy agreement (the "Wuhan Tenancy Agreement"), pursuant to which Wuhan Fuxin leased Room 11 on the 27th floor of the CITIC Pacific Mansion at No. 1627, Zhong Shan Da Road, Jiang An District, Wuhan, the PRC (the "Wuhan Premises") to CEC for a term of three years from 16 July 2018 to 15 July 2021 (both days inclusive).

The monthly rental payable to Wuhan Fuxin is in the amount of approximately RMB35,000 (equivalent to approximately HK$41,000) from 16 July 2018 to 15 July 2019 and approximately RMB38,000 (equivalent to approximately HK$44,000) from 16 July 2019 to 15 July 2021.

During the renovation period from 16 July 2018 to 15 August 2018 (both days inclusive), CEC shall pay a one-off management fees of approximately RMB4,000 (equivalent to approximately HK$5,000). For the rest of the term of the Wuhan Tenancy Agreement, CEC shall pay monthly management fees to Wuhan Fuxin in the sum of approximately RMB8,000 (equivalent to approximately HK$9,000), subject to revision. Such monthly rental and monthly management fees shall be payable on a monthly basis. CEC shall also be responsible for the payment of its own utility charges and other charges in respect of the Wuhan Premises during the term of the Wuhan Tenancy Agreement.

CEC has a right of first offer to lease the Wuhan Premises for a new term upon the expiration of the Wuhan Tenancy Agreement subject to the terms and conditions to be agreed between the parties.

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b) On 16 August 2018, CEC and 北京中信國際大廈物業管理有限公司 (CITIC Building Management Co., Ltd.) ("CB Management Co.", an indirectly wholly-owned subsidiary of CITIC Limited) entered into a tenancy agreement (the "Beijing Tenancy Agreement"), pursuant to which CB Management Co. (as property agent of CITIC Limited which owns the premises comprising part of the 1st floor and the 3rd to 5th floors of #5 Building of the CITIC Building at No. 19 Jian Guo Men Wai Road, Chao Yang District, Beijing, the PRC (the "Beijing Premises")), leased the Beijing Premises to CEC for a term of two years from 1 September 2018 to 31 August 2020 (both days inclusive).

The monthly rental of approximately RMB0.41 million (equivalent to approximately HK$0.48 million) and the management fees (which is subject to revision and covers air-conditioning charges during normal business hours) of approximately RMB0.11 million (equivalent to approximately HK$0.13 million), shall be payable quarterly in advance. CEC is also responsible for the payment of its own utility charges and other charges in respect of the Beijing Premises. Both CEC and CB Management Co. shall have right to early terminate the Beijing Tenancy Agreement by giving three months prior written notice to each other. CEC has a right of first offer to lease the Beijing Premises for a new term upon the expiration of the Beijing Tenancy Agreement subject to the terms and conditions to be agreed between the parties.

CEC also continued related agreements and arrangement with CB Management Co. and its subsidiary relating to the leasing of car parking spaces at the CITIC Building in Beijing and provision of management services in respect of certain utility facilities at the Beijing Premises to CEC during the term of the Beijing Tenancy Agreement. The fees payable by CEC under such related agreements and arrangement include (i) one-off installation fees for telephone and Internet facilities and monthly fees for the use of telephone and Internet facilities; (ii) air-conditioning (outside normal business hours only) and electricity charges, the amount of which is based on actual usage; (iii) monthly charges for providing plantation services in the Beijing Premises; and (iv) monthly rental for car parking spaces. It is estimated that the total monthly fees payable by CEC to CB Management Co. under such related agreements and arrangement will be approximately RMB30,000 (equivalent to approximately HK$35,000).

Both Wuhan Fuxin and CB Management Co. are indirect wholly-owned subsidiaries of CITIC Limited, a controlling shareholder of the Company, and, therefore, both Wuhan Fuxin and CB Management Co. are connected persons of the Company.

As the Wuhan Tenancy Agreement and the Beijing Tenancy Agreement are of similar nature and use of the properties and they have been entered into the same 12-month period, they were aggregated and treated as if they were one transaction.

The expected maximum amounts (including the rentals, the management fees and other charge and other outgoings) payable by CEC under the PRC Tenancy Agreements are set out below:

	For the period from 1 September 2018 to 31 December 2018	**For the year ending 31 December 2019**	**For the year ending 31 December 2020**	**For the period from 1 January 2021 to 15 July 2021**
RMB (in million)	2.7	7.9	5.5	0.4
Approximate equivalent to HK$ (in million)	3.1	9.2	6.4	0.5

The aggregate amount (including the rentals, the management fees and other charge and other outgoings) paid by CEC under the PRC Tenancy Agreements for the period ended 31 December 2018 was approximately RMB2,381,000.

DIRECTORS' REPORT

Review of the Continuing Connected Transactions:

The independent non-executive directors of the Company have reviewed the aforesaid continuing connected transactions conducted in the year ended 31 December 2018 and confirmed that the transactions had been entered into

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

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "*Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*" and with reference to Practice Note 740 "*Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules*" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing the findings and conclusions in respect of the Continuing Connected Transactions disclosed by the Group on pages 72 to 80 of this Annual Report in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Related Party Transactions:

Details of material related party transactions undertaken in the normal course of business are provided under note 30 to the financial statements. None of these related party transactions constitutes a discloseable connected transaction as defined under the Listing Rules, except for those described in the section of "Continuing Connected Transactions", in respect of which the disclosure requirements in accordance with Chapter 14A of the Listing Rules have been complied with.

Share Option Plan

The Company adopted a share option plan (the "Plan") on 17 May 2007 and was valid and effective till 16 May 2017. The major terms of the Plan are as follows:

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

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

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

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

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

DIRECTORS' REPORT

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

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

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

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

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:

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

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. No options were granted nor cancelled during the year ended 31 December 2018.

DIRECTORS' REPORT

A summary of the movements of the share options during the year ended 31 December 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 year ended 31.12.2018	Lapsed during the year ended 31.12.2018	Balance as at 31.12.2018	Percentage to the number of issued shares %
Xin Yue Jiang	19.8.2011	19.8.2013 – 18.8.2018	1,377,701	1,377,000 *(Note 1)*	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	
						7,150,000	0.199
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	0.175
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 2)*	–	–	
	26.6.2013	26.6.2013 – 25.6.2018	2,717,000	2,506,000 *(Note 2)*	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	0.151
Liu Jifu	24.3.2015	24.3.2016 – 23.3.2021	1,000,000	1,000,000 *(Note 3)*	–	–	
	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 *(Note 3)*	–	–	
	24.3.2017	24.3.2019 – 23.3.2024	1,000,000	–	–	1,000,000	
						2,000,000	0.056

DIRECTORS' REPORT

Name of director	Date of grant	Exercise period	Number of share options: Balance as at 1.1.2018	Exercised during the year ended 31.12.2018	Lapsed during the year ended 31.12.2018	Balance as at 31.12.2018	Percentage to the number of issued shares %
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

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

Date of grant	Exercise period	Number of share options: Balance as at 1.1.2018	Exercised during the year ended 31.12.2018 *(Note 4)*	Lapsed during the year ended 31.12.2018 *(Note 5)*	Balance as at 31.12.2018
19.8.2011	19.8.2013 – 18.8.2018	3,706,866 *(Note 6)*	3,376,749	330,117	–
26.6.2013	26.6.2013 – 25.6.2018	31,597,817 *(Note 6)*	15,528,000	16,069,817	–
24.3.2015	24.3.2016 – 23.3.2021	31,467,817 *(Note 6)*	5,697,000	1,554,250	24,216,567
24.3.2015	24.3.2017 – 23.3.2022	32,515,500 *(Note 6)*	3,535,500	1,555,250	27,424,750
24.3.2017	24.3.2018 – 23.3.2023	35,894,000 *(Note 6)*	7,734,500	1,912,000	26,247,500
24.3.2017	24.3.2019 – 23.3.2024	35,894,000 *(Note 6)*	–	3,358,000	32,536,000

C. Others *(Note 7)*

		Number of share options			
Date of grant	Exercise period	Balance as at 1.1.2018	Exercised during the year ended 31.12.2018 *(Note 8)*	Lapsed during the year ended 31.12.2018 *(Note 5)*	Balance as at 31.12.2018
19.8.2011	19.8.2013 – 18.8.2018	190,555 *(Note 6)*	190,000	555	–
26.6.2013	26.6.2013 – 25.6.2018	4,381,000 *(Note 6)*	55,000	4,326,000	–
24.3.2015	24.3.2016 – 23.3.2021	1,124,000 *(Note 6)*	25,000	75,000	1,024,000
24.3.2015	24.3.2017 – 23.3.2022	1,236,500 *(Note 6)*	25,000	75,000	1,136,500
24.3.2017	24.3.2018 – 23.3.2023	915,000 *(Note 6)*	–	–	915,000
24.3.2017	24.3.2019 – 23.3.2024	915,000 *(Note 6)*	–	–	915,000

Notes:

1. The weighted average closing price of the shares immediately before the date on which Mr. Xin Yue Jiang exercised the options was HK$2.18.

2. 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.

3. The weighted average closing price of the shares immediately before the dates on which Mr. Liu Jifu exercised the options was HK$2.74.

4. The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK$2.58.

5. These are in respect of options i) granted to some employees under continuous contracts who have subsequently resigned; or ii) lapsed upon the expiry of the relevant share options during the year.

6. 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.

7. 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.

8. The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK$2.34.

DIRECTORS' REPORT

Directors' Interests in Securities

The interests of the directors of the Company in shares of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as at 31 December 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 31 December 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 in the Listing Rules.

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

Substantial Shareholders

As at 31 December 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	2,129,345,175	59.36
CITIC Polaris Limited	2,129,345,175	59.36
CITIC Glory Limited	2,129,345,175	59.36
CITIC Limited	2,129,345,175	59.36
CITIC Corporation Limited	2,129,345,175	59.36
CITIC Investment (HK) Limited	2,129,345,175	59.36
Silver Log Holdings Ltd.	2,129,345,175	59.36
CITIC Pacific	2,129,345,175	59.36
Crown Base International Limited	2,129,345,175	59.36
Effectual Holdings Corp.	2,129,345,175	59.36
CITIC Pacific Communications Limited	2,129,345,175	59.36
Douro Holdings Inc.	2,129,345,175	59.36
Ferretti Holdings Corp.	2,129,345,175	59.36
Ease Action Investments Corp.	2,129,345,175	59.36
Peganin Corp.	2,129,345,175	59.36
Richtone Enterprises Inc.	2,129,345,175	59.36

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

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

DIRECTORS' REPORT

Contracts of Significance with Controlling Shareholders

The Company and the controlling shareholders of the Company have entered into the following contracts of significance which were subsisting during the year ended 31 December 2018:

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

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

3. Administrative services agreement dated 20 August 2014 (the "Administrative Services Agreement") entered into between the Company and CITIC Pacific, a controlling shareholder of the Company, pursuant to which CITIC Pacific and the Company will share the company secretarial services and the internal audit services with retrospective effect from 1 July 2014. The amount payable by the Company to CITIC Pacific for the services received shall be determined on costs basis with payment terms to be agreed between the parties from time to time. The Administrative Services Agreement may be terminated if CITIC Limited, the immediate holding company of CITIC Pacific, shall hold less than 30% of the shares of the Company and is terminable by giving a six months' prior notice in writing by either party. Messrs. Liu Jifu and Fei Yiping are directors of CITIC Pacific and Mr. Fei Yiping is also the chief financial officer of CITIC Pacific. Therefore, both of them have indirect interests in the Administrative Services Agreement. A copy of the Administrative Services Agreement will be available for inspection at the Annual General Meeting.

4. Trademark licence agreement dated 17 November 2016 entered into between the Company and CITIC Group, pursuant to which CITIC Group agreed to licence, on a non-exclusive basis, the trademarks "中信", "CITIC" and "" for use by the Company. The agreement is for a term of three years up till 16 November 2019, and may be renewed thereafter. No consideration is payable by the Company to CITIC Group for the use of the aforesaid trademarks.

Apart from the above and the transactions as mentioned in the section of "Continuing Connected Transactions", none of the Company or any of its subsidiaries has entered into any other contract of significance with the Company's controlling shareholders or their subsidiaries which were subsisting during the year ended 31 December 2018.

Equity-Linked Agreements

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

Sufficiency of Public Float

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

Borrowings and Issue of Guaranteed Bonds

On 5 March 2013, CITIC Telecom International Finance Limited ("CITIC Finance"), a wholly-owned subsidiary of the Company, issued US$450 million 6.1% guaranteed bonds due 2025 (the "Bonds") to professional investors pursuant to a subscription agreement made between the Company (as guarantor), CITIC Finance and CITIC Securities Corporate Finance (HK) Limited, Deutsche Bank AG, Singapore Branch, Standard Chartered Bank and UBS AG, Hong Kong Branch on 26 February 2013 for financing part of the consideration paid by the Company in respect of the acquisition of 79% interest in Companhia de Telecomunicações de Macau, S.A.R.L. The Bonds are listed on the Stock Exchange on 6 March 2013. All of the Bonds remained outstanding at 31 December 2018.

Particulars of borrowings of the Group at 31 December 2018 are set out in notes 21 to 23 to the financial statements.

Share Capital

During the year ended 31 December 2018, a total of 43,096,802 shares of the Company were issued upon the exercise of share options granted under the Plan as mentioned in the section of "Share Option Plan".

Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year ended 31 December 2018 and the Company has not redeemed any of its shares during the year ended 31 December 2018.

Confirmation of Independence

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

Five Year Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 44 of this Annual Report.

Property

Particulars of the property held for investment of the Group are shown on page 214 of this Annual Report.

Retirement Schemes

The Group operates a defined benefit retirement plan and several defined contribution retirement plans. Particulars of the retirement schemes are set out in note 24 to the financial statements.

DIRECTORS' REPORT

Update on Directors' Information Pursuant to Rule 13.51B(1) of the Listing Rules

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

Name of director	Previous monthly salary	Monthly salary (with effect from 1 January 2019)
Xin Yue Jiang	HK$328,400	HK$339,240
Lin Zhenhui	HK$319,330	HK$329,860
David Chan Tin Wai	HK$227,330	HK$234,830

Note: For information in relation to the 2018 full year emoluments of the directors of the Company, please refer to note 8 to the financial statements.

Auditor

The accounts for the year have been audited by Messrs. KPMG, Certified Public Accountants, who will retire as auditor of the Company upon expiration of its term of office at the Annual General Meeting. The board proposed to appoint, subject to approval of the shareholders at the Annual General Meeting, Messrs. PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, as the auditor of the Company to hold office until the conclusion of the next annual general meeting of the Company.

By Order of the Board
Xin Yue Jiang
Chairman

Hong Kong, 28 February 2019

FORWARD LOOKING STATEMENTS

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

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

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

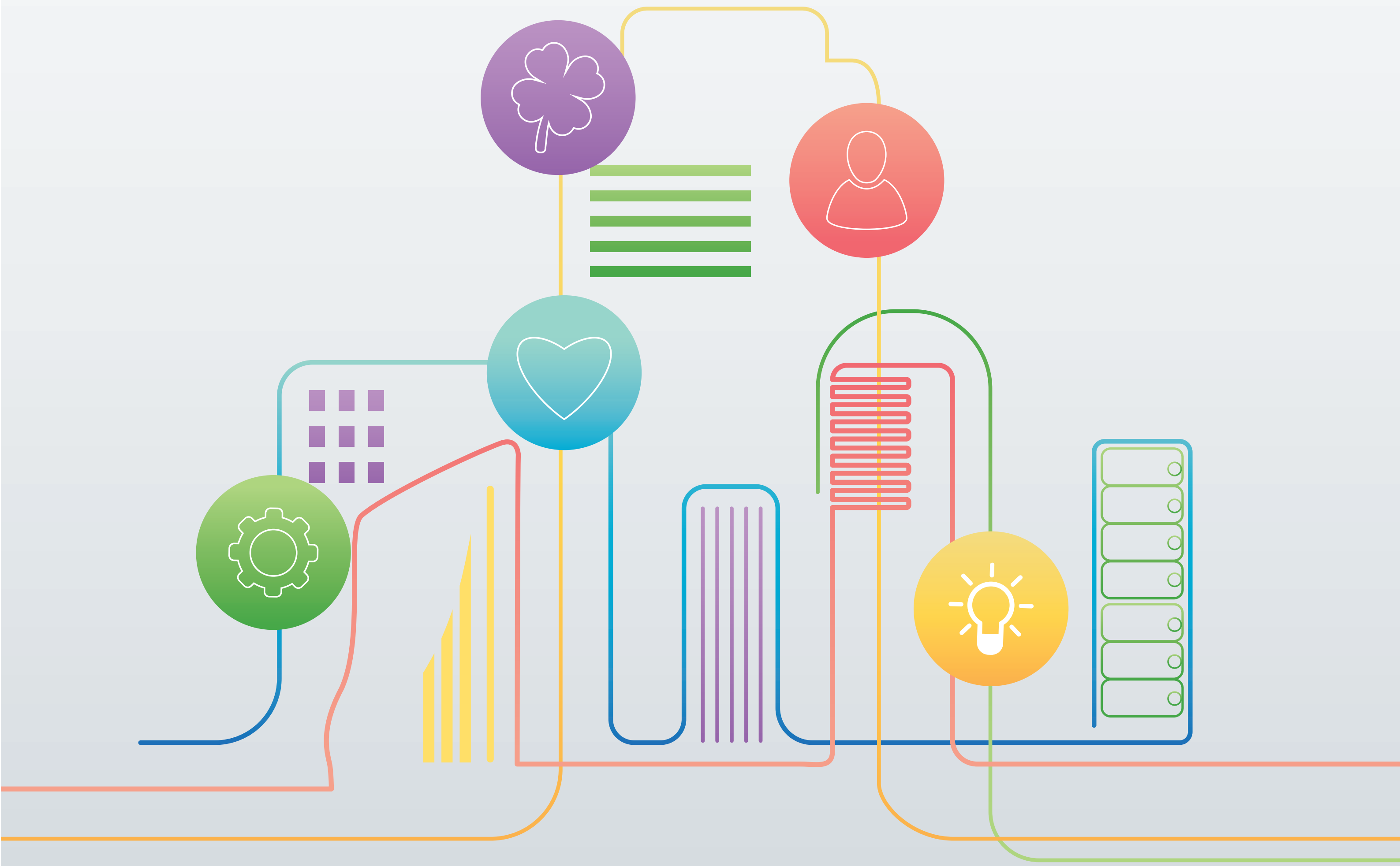
SUSTAINABILITY REPORT

Sustainability Core Values

The Group has a strong sense of commitment in fulfilling corporate social responsibility ("CSR") and ensuring that it is part of our core corporate values in daily operation. It is our belief that a responsible business creates a win-win situation for the Group, its shareholders, customers, employees, business partners, and the community. Therefore, CSR has always been an integral part of the Group's corporate business strategy and philosophy that drives the Group's continued growth.

The provision of high-quality and reliable services to customers underlies the core value of the Group. We charge ourselves with the mission of providing quality communication services to customers in a stable and uninterrupted manner, while leveraging our inherent strengths to serve the community in different ways.

Corporate governance is a matter of top priority for the Group, which places a strong emphasis on staff training and development as well as environmental protection, in a bid to drive corporate development and social progress in a joint effort to realise its corporate vision and sustainable development of the society.



SUSTAINABILITY REPORT

Communication with stakeholders

The Group holds the invaluable views of stakeholders in high regard and actively seeks to reach out to and communicate with all stakeholders, including shareholders and investors, customers, staff, suppliers and business partners, non-government organisations, community groups and media through different channels and means.

Principal stakeholders	Concerns	Means of communication
Shareholders and investors	Investment return Business strategies Results and development plans	Group annual reports and announcements General meetings Investors' meetings Roadshows Group website
Customers	Product and service quality	Regular visits and interviews Customers satisfaction survey Collection and analysis of customer service benchmarks
Staff	Employment terms Career prospects Training and development Occupational health and safety	Staff forum Staff training and development programmes Performance management system Internal communications Staff suggestion box
Suppliers and partners	Supply chain management	Establishment of supplier and business partner management system Advocacy of green supply chain management and signing of environmental agreements with suppliers Performance evaluation Tenders and other regular meetings
Non-government organisations, community groups, media	Transparency Reliability Timely updates of Group news and activities	Community welfare activities News releases, press conferences and presentations Regular meetings

Operational Management

Pledge for premium products and services

The Group's quality assurance teams make ongoing efforts to enhance and improve the quality of various services and simplify the service processes, in order to stay atop among its peers in terms of service quality and reliability.

Key customer service indicators are formulated and monitored on a regular basis, and internal tests and user experience tests are conducted in respect of its products and services. The performance standards of various services are analysed and specific recommendations for improvement are provided, with a view to improving experience in and satisfaction for customer services on an ongoing basis.

The Group's staff collect customers' comments on various services and products through multiple channels and conduct meticulous analysis on data received, on the basis of which improvement plans and internal quality benchmarks are effectively set to enhance product and service quality on an ongoing basis such that customers are constantly getting services of better quality.

The Group conducts customer satisfaction survey in Macau regularly to collect and analyse key customer service indicators:

- *Third parties engaged to conduct annual customer satisfaction survey with the completion of approximately 1,000 phone surveys, analyze and report the results*
- *Monthly service satisfaction surveys conducted with approximately 600 customers*
- *Monthly user experience test with up to 300 customers in respect of key network indicators*
- *Up to 400 pole tests each month in respect of mobile network quality*
- *Multiple monthly user experience tests in respect of the customer service systems*
- *Monthly collection of network usage data for Big Data analysis and in-depth study to identify potential issues*

The Group's customer service teams follow standard procedure to handle customers' enquiries and complaints by investigating the fundamental causes for complaints and adopt effective measures to resolve such issues. Specific improvement measures will be recommenced and formulated to effectively reduce and avoid the occurrence of similar cases.

As a telecommunications operator providing global communication services, the Group strives best effort to protect personal data by complying with Personal Data (Privacy) Ordinance to ensure proper handling and management of personal data. IT security policies and procedures have been implemented to prevent unauthorized access. Unauthorized use of customer data is strictly prohibited. The Group formulates and regularly updates its regulations and guides on confidentiality and privacy protection. We also provide regular staff training on privacy protection relating to communication networks, training in information security policies, and talks on the EU General Data Protection Regulation, in order to strengthen our employees' understanding of our policies on personal data protection and confidentiality and privacy protection in communication and ensure that such policies are stringently implemented.

Our subsidiary was awarded the "Customer Relationship Excellent (CRE) Awards" by Asia Pacific Customer Service Consortium for eleven consecutive years in recognition of our longstanding effort to provide customers with world-class services, in a further testimony to our pledge to customers for the delivery of premium services.

Effective Supply Chain Management

The Group was committed to comply with the procedures of our supply chain management during all purchasing activities. The procedures provide clear guidelines on the selection, evaluation and management of suppliers and require regular examination and monitoring of suppliers. The Group purchases suitable products and services in the most cost-effective and environmentally-efficient manner to ensure products and services are in the best quality to satisfy customers' requirements through effective and compliant purchases.

Distribution of supplier	Hong Kong	Mainland China	Macau	Other countries/regions
2018	44%	7%	24%	25%
2017	47%	5%	25%	23%

SUSTAINABILITY REPORT

In support of the notion of "green supply chain" management, the Group takes into consideration factors such as sustainability, environmental protection and energy saving in the process of procurement. For example, compliance with environment-friendly requirements is an important consideration in our procurement of electronic products and electrical appliances:

- Energy Label
- Energy Star Label
- Restriction of Hazardous Substances ("RoHS")
- CE certification

Such that we can fulfill our responsibility for the environment and the aim of improving our environmental performance on an ongoing basis. Moreover, through effective supplier management and communication, such as the signing of environmental agreements with suppliers, the Group has guided the supply chain partners to fulfill their social responsibilities together.

Equal Employment Policy

The Group is an equal opportunity employer and adheres to non-discriminatory employment practices and procedures in recognising and respecting individuals' rights. The Group not only promotes equal opportunities to applicants and existing employees, but also determines staff promotion and development in accordance with individual performance and job requirements. Discrimination is prohibited in daily management. During the year, officials of the "Equal Opportunities Commission" were invited to speak at our staff forum and talks on "anti-discrimination laws" to further enhance staff awareness and ensure the implementation of relevant systems.

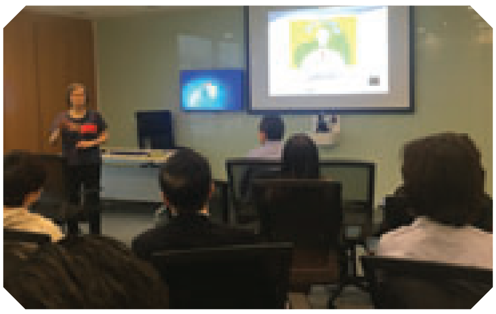
Our staff recruitment is based on the fundamental principle of meritocracy. The Group complies with Discrimination Ordinances and safeguards employees from any kinds of discrimination, including but not limited to family status, races, gender and disability in recruitment process and opportunities for career development.

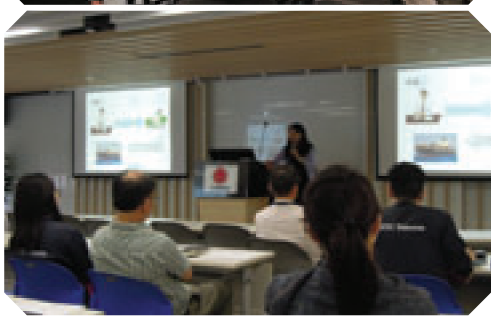
High Standard of Business Ethics

The Group upholds a high standard of business ethics and personal conduct of its employees. Every employee of the Group is required to strictly comply with the Code of Conduct and Conflict of Interest Policy. Moreover, the Group places a strong emphasis on integrity and regularly invites the ICAC of Hong Kong and regulatory authorities from other places where we collaborate to host "integrity training", in order to remind and enhance employees' understanding of integrity and anti-corruption.

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

The Group ensures strict compliance with local laws on bribery, extortion and fraud and has formulated a series of regulations on reporting and monitoring, including reports on compliance of Code of Conduct and the whistle-blowing policy to ensure legal compliance and enhance the efficiency of corporate governance. The Group is not aware of any material non-compliance with relevant laws and regulations that have a significant impact on the Group during the reporting period.





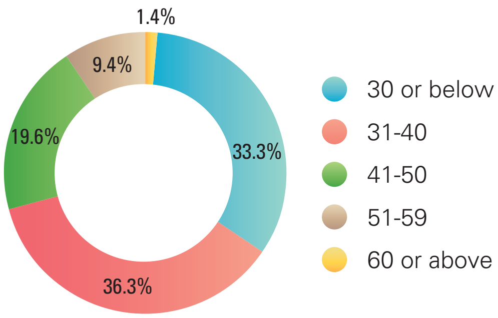
Human Resources

Building and Strengthening the "CITIC Telecom Team"

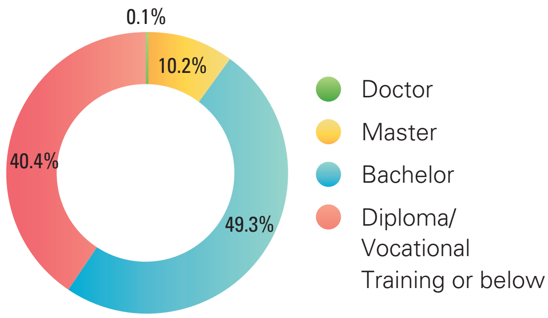
Employee distribution by geographical location

	2018	2017	2016
Hong Kong	541	520	513
Mainland China	650	558	503
Macau	1,043	1,062	1,077
Other Asian countries	234	224	241
American countries	21	21	23
European countries and others	79	79	3
Number of employees	**2,568**	**2,464**	**2,360**

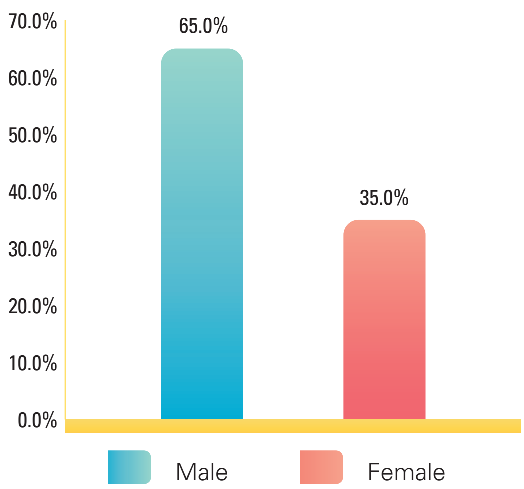
Employee distribution by age



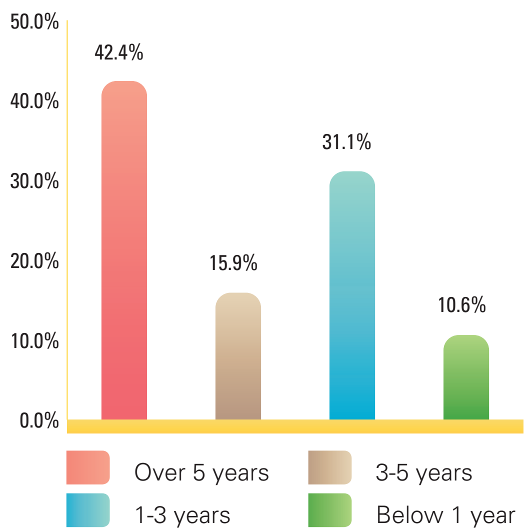
Employee distribution by educational background



Employee distribution by gender



Employee distribution by years of service



SUSTAINABILITY REPORT

People

As at the end of December 2018, the Group employed a total of 2,568 employees, a 4.2% increase from 2017 mainly due to organic growth. Apart from this, there was no significant variation in employment numbers.

Staff Retention

The Group's employee turnover rate was increased from 16.3% in 2017 and 14% in 2016 to 16.6% in 2018. The loss of employees may weaken the Group's competitiveness and operational efficiency. In order to maintain the Group's competitive advantages and to maintain the talent pool of excellent telecommunications expertise, the Group plans to expand the recruitment channels and review employees' compensation and benefit scheme in order to recruit and retain talents.

Remuneration Policy

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

Comprehensive Benefits

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

The Group received the "Good MPF Employer Award" and "Support for MPF Management Award" from the Mandatory Provident Fund Authority this year in recognition of its provision of comprehensive retirement benefits for its staff.

Constructive and Open Two-way Communication

The Group recognises that the best way to encourage the work commitment and enthusiasm is to engage wholeheartedly with our staff, communicating openly with them and providing them with respect and opportunities to express their concerns, ideas or suggestions as members of the Group. We have set up a Group intranet platform, suggestion boxes in each office floor and run regular staff forum where staff members can express their concerns to top management. We believe the value in two-way communication which can enable the staff to feel involved in the running of the business and be motivated to perform their very best.

Employee's Health and Safety

Healthy and Safe Working Environment

The Group complies with Occupational Safety and Health Ordinance to ensure that our staff enjoy a healthy, safe and positive work environment. There is zero fatal case arising from work injury. We have effective safety measures for employee protection according to the local rules and regulations in different locations and offices. Moreover, work safety training sessions and fire drills have been held and health and safety information has been furnished on a regular basis to enhance the knowledge and awareness of employees and ensure that they can work safely with ease of mind.

In fulfillment of its corporate social responsibility, the Group observes strict compliance with pertinent law and regulation against child labour and forced labour of all places where we operate.

Work-Life Balance

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

The Group supports and organises various kinds of outdoor sports activities and ball games competitions. Through the activities, our staff were provided with opportunities to participate and build team spirit, and to promote the importance of physical exercise. The Group respectively organised basketball championship, badminton competition and football match in this year.

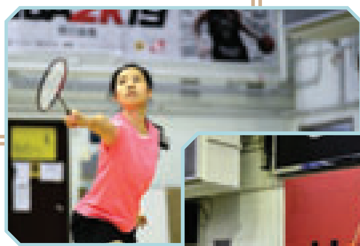
The Group has also provided the fitness facilities of gym room and multi-functional recreation centre in our headquarter in Hong Kong to allow our staff to enjoy all kinds of body-building and leisure activities regardless of the weather conditions. Fitness classes and health tips are also provided as part of our initiatives to care for staff health.

The Group organised various outing activities for our employees and their families throughout the year to enhance work-life balance, relieve stress, as well as employee relations.

The Group was again awarded the "Happy Company 2018" by the Hong Kong Productivity Council and the Promoting Happiness Index Foundation this year in recognition of our commitment to foster a happy workplace culture and raise the happiness-at-work level of the workforce.

The Group was also awarded the "Family-Friendly Employers Award" and "Special Mention Gold Award" organised by the Family Council in recognition of our continuous effort and outstanding achievements in the implementation of family-friendly practices and policies.

SUSTAINABILITY REPORT



SUSTAINABILITY REPORT

Training and Development

Our staff is our greatest asset. The Group continues its effort in staff training and development to support the needs of its business and staff. In respect of training and development, the Group has been adopting "optimisation of professional performance, motivation of staff's potentials, and revitalisation of learning culture" as our approaches.

The Group has continued to provide various training opportunities this year, both internally and externally, to enhance employees' versatility and provide ongoing training, in order to enhance the competitiveness of the Group. Such training areas and scopes cover advanced management skills, team building, project work quality improvement/case study, and seminars on innovative technologies and techniques, sales techniques / key account management workshop, finance management and language, etc.

To encourage our staff to develop themselves further, the Group launched various policies for culture learning and talents development scheme. The Group also encourages and facilitates knowledge sharing and skill transfer between staff in Hong Kong and other regions, such as the cross-cultural workshop held during the year, to strengthen business integration. The management is determined to nurture elites and enhance their comprehensive working and management capabilities by actively providing potential staff with leadership skill training and talent development programmes, such as management training and leadership and corporate management development courses, which are important to the Group's success as well as succession planning.

The Group emphasises continuous training and development for our senior executives. It is believed that ongoing professional training, attending seminar and international conference will be essential to them for industry knowledge update, professional techniques enhancement and personal conduct compliance, enhancing their performance and efficiency as senior management. The Group will continuously keep on providing training in a systematic and proper manner in addition to the learning through normal work practices and on the job training.

The Group also encourages and provides financial support for self-initiated personal development of our employees to prepare themselves for corporate as well personal developments. In 2018, the Group provided a variety of training courses to employees, approximately 50,000 hours of training (2017: over 48,000 hours of training) was accumulated in total.

The Group was awarded the "Manpower Developer" in the ERB Manpower Developer Award Scheme launched by Employees Retraining Board in recognition of its emphasis on staff training and development and outstanding accomplishments in manpower training and development.

Internship Schemes

The Group develops a talent pool in preparation for its future growth. The Group and our subsidiary have launched technical/management trainee scheme covering professional knowledge and soft skills training to enhance the versatile skills of management trainees and nurture a new generation of professional and executive personnel for the telecommunications sector. A subsidiary of the Group garnered the "Award for Excellence in Training and Development 2018" hosted by the Hong Kong Management Association in recognition of its quality staff training and development programme and its management trainee programme which helped to nurture future leaders for the business community and the society.

Continuous Professional Development for Directors and Senior Management

All board directors and members of senior management also participated in continuous professional training to develop and refresh their knowledge and skills. During the year, the Group organised briefing sessions relating to corporate governance and accounting knowledge for the directors.

Prospects

Along with the growth and needs of the Group, training no longer focuses on the level of technical training and on the-job training solely, but also on the level of personal development of the management, which helps the Group to nurture successors with potential and promote diversified learning culture. Also, staff is encouraged to develop continuously and communicate effectively with each other in order to establish a sound management team. Looking forward, the Group will lay a solid foundation for optimisation of its management and nurture talents to match corporate and social development.

Caring and Support for the Community

Caring for the Community

As a responsible corporate citizen, the Group clearly understands the needs of integrating into the society, creating harmony and encouraging staff to take part in community and volunteer activities in different forms to serve the society.

Donations and Support

The Group made charitable donations in excess of HK$1.44 million in 2018 for the support of underprivileged groups, education, healthcare, sports and environmental initiatives. The Group has always been committed to participating and supporting a wide range of charitable activities. The Group supports and encourages staff members to offer their time and care to the people in need in our community. The "CITIC Telecom International Volunteer Service Team" is actively involved in different services and the Group spent more than 610 hours in volunteer service in 2018.

2018 Community Services

Beneficiary		Community Services
The Elderly	1	Launch of the "Peng On Tung Mobile Emergency Call Service"
	2	"Smart Cellphones" handset and SIM card trials for elderly centres
		Macau Holy House of Mercy through donation and food hampers delivery
		Charity run for "Bright Hill Evergreen Home"
The Youth and Children		"Youth Development Program"
		"CITIC Telecom Scholarship" for students of Singapore Polytechnic
		"CTM Scholarship" for students of University of Macau
	3	Support for the "Running Mates" campaign organised by the Bosco Youth Service Network
	4	Visits to the Data Centre and Big Data Workshop co-organised with the Hong Kong Federation of Youth Groups
		Support for the "Give Shoes Give Love" campaign organized by Soles4souls in Singapore
The Disabled	5	ORBIS fundraising activity the "Moonwalkers"
	6	Barrier Busters 2018
Others:		
– The residents of Hong Kong and Macau		Safeguarding normal operation of network communication services during the Super Typhoon Mangkhut which affected Hong Kong and Macau
– Environmental Protection • Planet Care		"Earth Hour" by turning the lights off during the hour
	7	"Environmental Workshop: making of environment-friendly soaps" and charity sales
	8	"Green Power Hike"
	9	"Food For Good Jockey Club Green Living Education Programme"
		Support for the "Energy Conservation Week 2018"

SUSTAINABILITY REPORT

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SUSTAINABILITY REPORT

Community Disaster Relief

Staff of the Group devoted their best effort to safeguard the normal operation of network communication services under adverse conditions as Super Typhoon Mangkhut wreaked havoc in Hong Kong and Macau this year, in fulfillment of their mission as telecommunication professionals.

The technical teams of the Network Operations and Data Centre of the Group's headquarter work on a shift of more than 40 hours during the typhoon, making incessant efforts to ensure uninterrupted communication services. The teams of our subsidiary provided support to local customers in Macau as needed in the aftermath of the typhoon and helped to expedite the restoration of services for customers in flooded areas after the return of power supply, as well as handling other aftermath tasks.

During the typhoon, the Group's teams had prepared technical improvement schemes, preventive facilities and contingency plans before the onset of the typhoon, while frontline staff worked on an overtime basis during and after the typhoon to cover maintenance and repair tasks, in fulfillment of our service pledge to customers and our mission of making contributions to the society.

Nurturing Youth

Youngsters are the future leaders of our society. The Group has been making efforts to groom youngsters in various ways and increase their knowledge and understanding of the business world and the communication industry in order to nurture all-rounded talents for society.

The Group has received youngsters from various schools and young groups and briefed them on the operation of a telecommunication business and related IT systems and facilities, in order to increase their understanding of the industry and assist them with their future career planning.

Our subsidiary in Macau organised "Youth Development Program" for six consecutive years, aiming at helping the youngsters to broaden their horizon, unleash the potential and talent and to enhance their confidence with summer programmes, so as to help them to identify positive personal goals and strengthen existing capacities and abilities.

Support for the Community Leveraging Our Inherent Strengths

The Group is committed to the principle of rewarding the society and serving the community. Apart from encouraging our staff to actively participate in volunteer work and charitable activities at leisure, the Group continues to utilise our strength on communication and information technology to support the community.

Promote the Development of "Digital Macau"

To support the implementation of a range of projects under the "Digital Macau" initiative, the Group has been increasing its investment in the construction of network infrastructure facilities in Macau, and has been leveraging its network strengths to actively explore smart service applications at different levels through IoT, Data Centre and Cloud computing technologies. We have been working with various business partners to enhance cooperation in AI smart platforms, Big Data analysis and IoT application and to accelerate the development of "Digital Macau" Smart City to create more application scenarios tailored to the daily life and work of corporations and individuals, so that they could experience more convenient and efficient smart living. In the future, we will endeavor to build more advanced application platforms for various sectors in Macau capitalising on our inherent network and technological resources, as well as maintaining close liaison with stakeholders to step up with the development of "Digital Macau" Smart City with joint efforts.

Promote the Development of "Digital Campus"

The subsidiary in Macau continued to promote the "Digital Campus" service in order to support for the "Digital Macau" with the launch of smart applications such as "Education Cloud" and "School Communication" to provide effective and convenient channels facilitating instant communication and exchange of a wide range of educational information among schools, parents and students. We worked actively with the education sector and entered into a memorandum with University of Macau for further cooperation in academic and practical aspects, including the commercialisation of deliverables from academic and research efforts, in order to further enhance the conversion of research results and training of talents to contribute to the development of Macau into a leading Smart City.

SUSTAINABILITY REPORT

Support to Communications Industry Development

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

50222 Hiker SMS Tracking Service

The Group continues to support community work in the communication sector. The Group together with mobile operators in Hong Kong have continued to provide full support to the 50222 Hiker SMS Tracking Service. This is a potentially life-saving SMS-based tool available to all users of Hong Kong's country parks as a free SMS service to report their tracks as marked on posts in the parks to "50222" indicating trail distance, thereby helping the Hong Kong Government's emergency services to more accurately pinpoint their locations in the event of a rescue attempt by reference to the track number left by the hikers.

Awards and commendations

The Group is honoured to received recognition and commendation from different groups for its effort and contributions in social service.

The Group has been awarded as 5 Years Plus "Caring Company", while the Macau subsidiary has been commended under the "Caring Business Campaign 2017~2018" for our dedication to promote corporate social responsibility through caring for the community, employees and environment. The Group was awarded "Award for Volunteer Service Commitment" by Agency for Volunteer Service in recognition of our active participation in community services.

The Group was granted the logo of "Corporate Citizenship" and "Corporate Citizenship 5+" under the "Hong Kong Corporate Citizenship Award Scheme" organised by the Hong Kong Productivity Council, to recognise our contribution in sustainable development and environmental protection. The Group also received the "Social Capital Builder Award" which was issued by the Community Investment and Inclusion Fund of the Labour and Welfare Bureau. It served as an encouragement of our promotion of social capital and solidarity through participation in social services to uphold the spirit of mutual aid and benefit.

The subsidiary of the Group received a "Fair Trade Supporter" award from Hong Kong Fair Trade as a token of thanks for the Company's vigorous participation in various activities in the past to promote fair trade. The Group's Macau subsidiary received an "Outstanding Corporate Volunteer Team" award from the Association of Volunteer Social Service Macao in recognition of the efforts and contributions of the subsidiary in community care.

Caring for the Environment

Climate change is one of the most important challenges facing mankind. The Group's impact on the environment is mainly concerned with power and energy consumption by its offices, data centres and other network operations. In view of the above, the Group is committed to formulation and ongoing improvement of policies relating to environmental protection, energy saving and discharge reduction, in order to operate its business and implement environmental management in a responsible manner so that the goal of sustainable development can be accomplished.

The Group has formulated specific environmental policies to provide guidance in reducing energy and paper consumption and waste disposal. As the business of the Group does not involve massive emission and discharge of air and water pollutants, our existing environmental policy does not cover these aspects.

Our Green Policy:

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

SUSTAINABILITY REPORT

Construction and operation of green data centres

For the data centre, which is an important segment of the Group's operations, environment-friendly and energy-saving schemes are adopted in all aspects from the procurement system, telecom chamber construction and facilities planning to day-to-day operation and effective measures are implemented to put the notion of green data centre into practice.

System procurement

Superior energy efficiency represents an important consideration of the Group in the procurement of two systems in the data centre which command the largest power consumption: the air-conditioning system (accounting for approximately 35-40% of total power consumption) and the cabinet power supply system (accounting for approximately 50-55% of total power consumption).

Air-conditioning system:

- Employing the eco-friendly CRAC system with regulatory functions such as EC Fan and Smart Control.

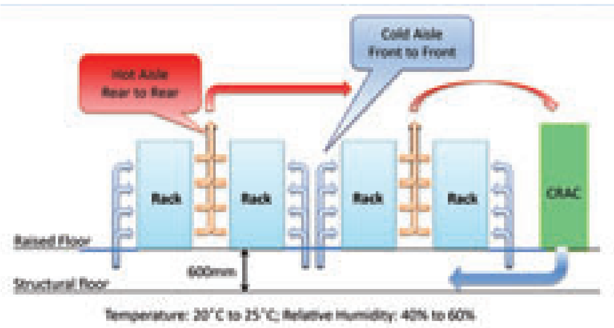
Cabinet power supply system:

- Employing UPS and PDU systems compliant with environmental requirements such as ISO 14006 Eco-design, EU, RoHS and WEEE.

Designated materials for air-conditioner components:

- Using copper coil and copper fin which require higher costs to increase heat dissipation and durability and reduce power consumption.

Graph 1:



Telecom chamber construction and facilities planning

The Group's data centre at its headquarter in CITIC Telecom Tower has taken energy conservation and energy efficiency enhancement into full consideration in the design of telecom chambers and planning of facilities. The following arrangements have been implemented:

- Cold/hot air convection and platform design to reduce the chance of the mixing of cold/hot airflow (refer to Graph 1).
- Use of high-efficiency air-dampers to prevent the room temperature of the data centre from being affected by outdoor humidity.
- Installation of containment doors between cabinets to reduce mixing of cold/hot airflow and wear-out.
- Installation of air-grille floor panels in front of heat-releasing cabinets to increase cold airflow.
- Installation of blanking plates in vacant cabinets to reduce mixing of cold/hot airflow and wear-out.
- Increase the temperature of chilled water supply for the air-conditioning based on the overall power consumption of the data centre cabinets to reduce power consumption for refrigeration of the air-conditioning system.
- Addition of a spray system for the air-conditioning units (refer to Graph 2).

Graph 2:

SUSTAINABILITY REPORT

Energy-saving measures in day-to-day operation

To put into practice the notion of sustainable eco-friendly operations, the Group has concurrently adopted a range of energy-saving measures in the day-to-day operations of the data centre:

- On-site inspection by the duty engineer on a 7x24 basis to monitor the room temperature and humidity in the data centre.
- Use of WiFi temperature and humidity data-logger to facilitate automated monitoring of temperature and humidity changes of cold airflow.
- Monitoring operation of various mechanical and electrical systems and facilities through the system.
- Employment of tools provided by the power supplier, such as the metering online provided by CLP, to track power usage on a daily basis, such that investigation and adjustment can be made as soon as practicable when power usage rises or falls, in order to reduce unnecessary consumption.
- Temperature of the data centre's telecom chamber for internal use is raised by 2°C in a best effort to conserve energy.

The Group has also been improving its operating system and measures on an ongoing basis to comply with the requirements for a green data centre, such as the conduct of green planning in the management system of the data centre:

Planning I: performance of the data centre and annual carbon emission

Through the data centre performance dashboard, indoor temperature and humidity changes and PEU power efficiency rates of the data centre can be obtained on a real-time basis. In addition, the system is connected to the observatory for real-time weather information and forecasts for areas near the data centre, such that staff responsible for the operation of the data centre can adjust the air-conditioning units ahead of time to save electricity.

Planning II: real-time monitoring of the energy efficiency of on-site mechanical and electrical equipment in the data centre

Through the interface for real-time monitoring of the energy efficiency of on-site mechanical and electrical equipment in the data centre, all mechanical and electrical systems are shown on one single interface, allowing faster identification of issues of interaction among different mechanical and electrical systems and action taken to ensure optimal operating efficiency.

Planning III: analysis of operating conditions of mechanical and electrical equipment and master chart of capacity allocation

Through analysis of the operating conditions of mechanical and electrical equipment, data on the operating conditions of mechanical and electrical equipment can be swiftly obtained and analysed, such that timely adjustments can be made to attain optimal operating efficiency. Meanwhile, the master chart of capacity allocation provides information on the overall loading of the data centre to help avoid overloading.

Planning IV: on-site risk alert and management system in the data centre

Through the risk alert and management system, staff responsible for the operation of the data centre can swiftly obtain alerts of abnormal operation of mechanical and electrical equipment and take prompt actions to reduce the occurrence of warning signals on the equipment.

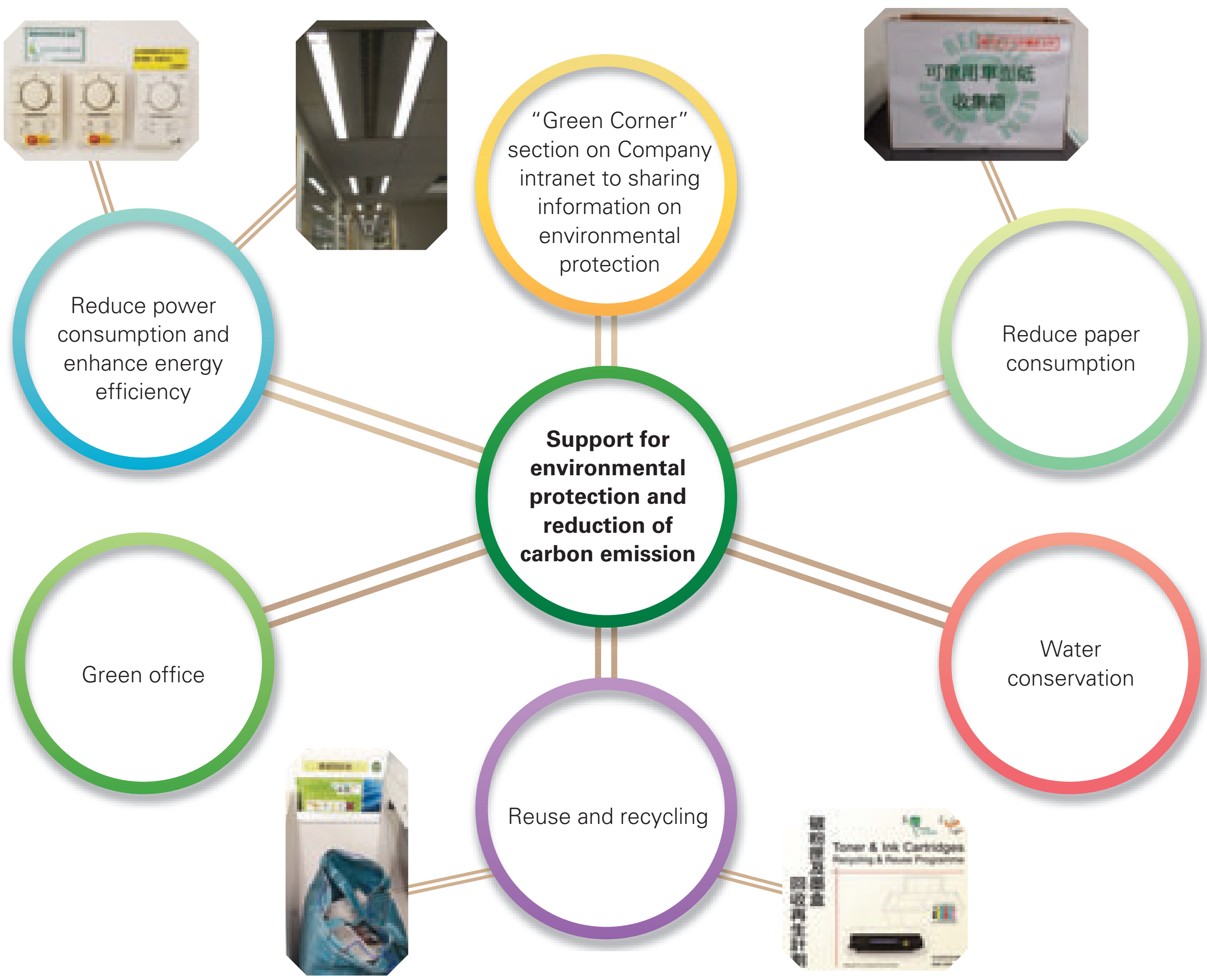
Planning V: system for the management of electricity usage statements of data centre customers

Through the system for the management of electricity usage statements, customers are clearly informed of the monthly energy consumption data (minimum, maximum and average value) for each cabinet and make timely adjustments accordingly if needed, so as that reduce imbalances in dual power supply.

We will continue to plan for data centre expansion and new data centres will feature more energy-saving designs, such that the purpose and effect of environmental protection and energy conservation can be consistently achieved and enhanced.

Green initiatives in day-to-day operations

The Group emphasises compliance with the environmental policy and consistently implements 4R environmental management in day-to-day office operations with the adoption of different measures to support environmental protection and reduce carbon emission through practical actions:



SUSTAINABILITY REPORT

While our Group does not generate a substantial amount of waste, whether hazardous or non-hazardous, in its daily operations, we nevertheless commit our best effort to reduce waste and conduct recycling. Recycling boxes are placed beside the copiers in the office for the reuse of printed paper, while green paper recycling bags have also been provided to collect non-reusable paper. Computer hardware and printer ink cartridges are collected by professional recycling service providers on a regular basis. During the year, a total of 1.4 tonnes of paper were recycled at office floors of our headquarter in CITIC Telecom Tower, facilitating the reduction of greenhouse gas ("GHG") emissions by more than 6.7 tonnes of CO2-e.

Environmental performance data

Materiality and Scope

The Group has collected and analysed key performance indicators ("KPIs") and related information with a significant impact on operations based on their business nature, in accordance with the Environmental, Social and Governance Reporting Guide issued by The Stock Exchange of Hong Kong Limited, including environmental KPIs A1.2, A1.5, A1.6, A2.1, A2.2, A2.3 and A3.1 which are material to the Group, and has disclosed the same in this report. The remaining environmental KPIs are not material to the Group and therefore have not been disclosed in this report. The Group will continue to evaluate the materiality of the environmental KPIs and will disclose should it become material.

During the year, the Group measured GHG emissions of its main data centres and office areas at the headquarter for the reporting period 1 April 2017 to 31 March 2018 with an effective and scientific method to determine measures to reduce GHG emissions. During the year, we continued to conduct carbon audit in accordance with uniform international standards, to measure GHG emissions. GHG emissions of its main data centres and office areas at the headquarter in 2017/2018 reduced by 2.2% compared to the same period last year. The Group continued to be awarded the international ISO 14064 certificate for GHG examination and audit for its office floors of CITIC Telecom Tower, affirming the Group's performance in sustainable development for the environment.

The results of total GHG emission under the carbon audit and the comparative figures for the same period last year are set out as follows:

Total GHG Emission (in tonnes CO2-equivalent)	**April 2017 to March 2018**	**April 2016 to March 2017**	**Difference**
Office floors of Group headquarter in CITIC Telecom Tower	315.72	318.74	-0.9%
Data centres in CITIC Telecom Tower and Apleichau	11,244.74	11,501.32	-2.2%
Total	**11,560.46**	**11,820.06**	**-2.2%**

SUSTAINABILITY REPORT

Our office floors of CITIC Telecom Tower of Hong Kong headquarter:

GHG Emissions/Removal Sources	April 2017 to March 2018	April 2016 to March 2017	Difference
GHG Emissions (in tonnes of CO2-equivalent)			
Scope 1: Direct GHG Emissions			
Stationary Combustion Sources	–	–	–
Mobile Combustion Sources	32.14	31.58	1.8%
Fugitive Emissions	0.01	0.02	–50.0%
Scope 2: Energy Indirect GHG Emissions			
Electricity Purchased	278.34	278.32	0.01%
Towngas Purchased	–	–	–
Scope 3: Other Indirect GHG Emissions			
Methane Generation at Landfill due to Disposal of Paper Water	4.25	7.75	–45.2%
Electricity for Processing Fresh Water	0.65	0.73	–11.0%
Electricity for Processing Sewage	0.33	0.34	–2.9%
GHG Offsets/removals (in tonnes of CO2-equivalent)	–	–	–
Total GHG Emissions (in tonnes of CO2-equivalent)	**315.72**	**318.74**	**–0.9%**

Data centres in CITIC Telecom Tower and Ap Lei Chau:

GHG Emissions/Removal Sources	April 2017 to March 2018	April 2016 to March 2017	Difference
GHG Emissions (in tonnes of CO2-equivalent)			
Scope 1: Direct GHG Emissions			
Stationary Combustion Sources	3.14	7.94	–60.5%
Mobile Combustion Sources	–	–	–
Fugitive Emissions	598.33	598.33	0.0%
Scope 2: Energy Indirect GHG Emissions			
Electricity Purchased	10,642.51	10,894.37	–2.3%
Towngas Purchased	–	–	–
Scope 3: Other Indirect GHG Emissions			
Methane Generation at Landfill due to Disposal of Paper Water	–	–	–
Electricity for Processing Fresh Water	0.50	0.46	8.7%
Electricity for Processing Sewage	0.26	0.22	18.2%
GHG Offsets/removals (in tonnes of CO2-equivalent)	–	–	–
Total GHG Emissions (in tonnes of CO2-equivalent)	**11,244.74**	**11,501.32**	**–2.2%**

SUSTAINABILITY REPORT

Year-on-year comparisons have also been made in respect of the energy consumption and water consumption volumes by the Group's Hong Kong headquarter and Macau Subsidiary in 2017/2018 to facilitate understanding of current conditions, so that the Group may formulate further practicable measures for discharge reduction and energy conservation in ongoing drive of its environmental initiatives.

Hong Kong headquarter and Macau subsidiary:

	April 2017 to March 2018	April 2016 to March 2017	Difference
Energy consumption			
Electricity	46,311,713 kwh	46,975,756 kwh	–1.4%
Petrol	102,291 litres	101,795 litres	0.5%
Diesel	14,087 litres	15,279 litres	–7.8%
Intensity of energy consumption (Energy consumption/revenue)	7,651 kwh/ HKD (million)	7,721 kwh/ HKD (million)	–0.9%
Water consumption			
Water consumption	21,948 tonnes	23,381 tonnes	–6.1%
Intensity of water consumption (Water consumption/revenue)	3.5 tonnes/ HKD (million)	3.8 tonnes/ HKD (million)	–7.9%

Environmental activities, awards and certifications

The Group was honoured the Silver Award under the Media and Communications Sector of the Hong Kong Awards for Environmental Excellence which was co-organised by the Environmental Campaign Committee, Environmental Protection Department, the Hong Kong Productivity Council and other organisations. The award is for recognition of our strategic accomplishments in "Green Leadership", "Programme & Performance" and "Partner Synergy".

The Group's subsidiary was also awarded the title and logo of "Hong Kong Green Organisation Certification" (HKGOC) by achieving the targets of "Energywi$e Certificate" and "Carbon Reduction Certificate" in the HKGOC scheme co-organised by nine organisations in total including the Environmental Campaign Committee and the Environmental Protection Department. Meanwhile, the Group participated in the "Energy Saving Charter" scheme for consecutive years which was launched by Electrical and Mechanical Services Department of the Hong Kong SAR Government, and continued to support the "Toner & Ink Cartridges Recycling & Reuse Programme" launched by Friends of Earth (HK). We also joined the "Reuse of Red Packets Programme 2018" to demonstrate our implementation of 4Rs in our daily operations.

SUSTAINABILITY REPORT

The Group obtained WWF Hong Kong membership for two consecutive years and supported the organisation on environment conservation work. Moreover, the Group continued to support the WWF "Earth Hour" event by turning the lights off during the hour this year, aiming at drawing attention from the public on climate change.

The subsidiary was again awarded "the Green Office Label" and "Eco-Healthy Workplace" presented by the World Green Organisation ("WGO") in recognition of the Company's promotion and implementation of green measures as an important step towards environmental protection. This year, our subsidiary sponsored the "Green Power Hike", and enrolled in the "Green Hero Alliance 2018" organised by WGO to participate in activities such as the recycling workshop, Sha Lan Beach clean-up, and Green Contest Day, with the aim of educating the staff as well as the public to practice the low carbon lifestyle. In line with our pledge to protect the environment and in order to enhance staff knowledge in environmental protection, the following series of environmental initiatives have also been launched: Food For Good Jockey Club Green Living Education Programme", shoes recycling, recycling of mooncakes and cake boxes, and recycling and reuse of pens.

Our subsidiary in Macau fully supported the "Macau Energy Conservation Week 2018" held by the Office for the Development of the Energy Sector of the Macau SAR Government and acted as one of the sponsors. It helped to promote the importance of energy saving and increase environmental awareness. The subsidiary also actively participated in the "Battery Recycling Campaign" by providing "the battery collection box" at shops, making contributions to environmental protection with our practical actions.

Our Singapore subsidiary has continued its effort to protect the environment. The office was continued to be Eco-office awarded by the Singapore Environment Council to the offices which have displayed environmental consciousness and effective environmental initiatives in their daily operations. Our Singapore subsidiary sponsored "the Singapore Environmental Achievement Award" again in this year to support green initiatives. The subsidiary also continued to sponsor "CITIC Telecom Scholarship" at Singapore Polytechnic to help underprivileged students pursue work for the preservation of the environment.

Environmental, Social and Governance Reporting Guide

Compliance and Scope

The Group prepared its Sustainability report with reference and in compliance to the ESG Reporting Guide issued by the Stock Exchange and report on the "comply or explain" provisions of this Guide.

This report covers the sustainability performance and measures of the Group's headquarter and its subsidiaries for the reporting period of 1 January 2018 to 31 December 2018. For the part "Caring for the Environment", data have been collected for only business units with predominant operations in Hong Kong and Macau for the reporting period of 1 April 2017 to 31 March 2018. The Group will continue to enhance its data collection system and expand the scope of disclosure in the future.

Materiality Analysis

The Group has identified significant issues on sustainability relating with our business and disclosed all General Disclosure, 7 environmental KPIs and 9 social KPIs in this report. The remaining KPIs have been determined to be immaterial and are not disclosed in this report.

SUSTAINABILITY REPORT

Key areas and aspects	General Disclosures and KPIs		Section/Statement	Cross-referencing page number in this report
A. Environmental				
Aspect A1: Emissions		General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Caring for the Environment The Group is not aware of any material non-compliance with relevant laws and regulations that have a significant impact on the Group during the reporting period.	Pages 104 to 111
	KPI A1.1	The types of emissions and respective emissions data.	The business of the Group does not involve massive emission and discharge of air and water pollutants, hence such data is not disclosed. The Group will continue to evaluate the materiality of this KPI and will disclose should it become material.	Not applicable
	KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Caring for the Environment	Pages 108 to 109
	KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	The Group does not generate major hazardous waste in its operations, hence such data is not disclosed. The Group will continue to evaluate the materiality of this KPI and will disclose should it become material.	Not applicable
	KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	The Group does not involve in generating material non-hazardous waste in its business. Such waste is not considered material to its business hence no disclosure is made. The Group will continue to evaluate the materiality of this KPI and will disclose should it become material.	Not applicable

SUSTAINABILITY REPORT

Key areas and aspects	General Disclosures and KPIs		Section/Statement	Cross-referencing page number in this report
	KPI A1.5	Description of measures to mitigate emissions and results achieved.	Caring for the Environment	Pages 104 to 111
	KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Caring for the Environment	Pages 108 to 111
Aspect A2: Use of resources		General Disclosure Policies on the efficient use of resources, including energy, water and other raw materials.	Caring for the Environment	Pages 104 to 110
	KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Caring for the Environment	Page 110
	KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Caring for the Environment	Page 110
	KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Caring for the Environment	Pages 104 to 111
	KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	The Group does not have any issue in sourcing water that is fit for purpose.	Not applicable
	KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Packaging materials are not considered material to the Group's business hence such data is not disclosed. The Group will continue to evaluate the materiality of this KPI and will disclose should it become material.	Not applicable

SUSTAINABILITY REPORT

Key areas and aspects	General Disclosures and KPIs		Section/Statement	Cross-referencing page number in this report
Aspect A3: The environment and natural resources		General Disclosure Policies on minimising the issuer's significant impact on the environment and natural resources.	Caring for the Environment	Pages 104 to 111
	KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Caring for the Environment	Pages 104 to 111
B. Social				
Employment and labour practices				
Aspect B1: Employment		General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Operational Management and Human Resources The Group is not aware of any material non-compliance with relevant laws and regulations that have a significant impact on the Group during the reporting period.	Pages 96 to 98
	KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	Human Resources	Page 97

SUSTAINABILITY REPORT

Key areas and aspects	General Disclosures and KPIs		Section/Statement	Cross-referencing page number in this report
Aspect B2: Health and safety		General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Human Resources The Group is not aware of any material non-compliance with relevant laws and regulations that have a significant impact on the Group during the reporting period.	Page 98
	KPI B2.1	Number and rate of work-related fatalities.	Human Resources	Page 98
	KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Human Resources	Page 98
Aspect B3: Development and training		General Disclosure Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Human Resources	Pages 100 to 101
Aspect B4: Labour standards		General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Human Resources The Group is not aware of any non-compliance with relevant laws and regulations on preventing child or forced labour.	Page 98
Operating practices				
Aspect B5: Supply chain management		General Disclosure Policies on managing environmental and social risks of the supply chain.	Operational Management	Pages 95 to 96
	KPI B5.1	Number of suppliers by geographical region.	Operational Management	Page 95

SUSTAINABILITY REPORT

Key areas and aspects	General Disclosures and KPIs		Section/Statement	Cross-referencing page number in this report
Aspect B6: Product responsibility		General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Operational Management The products and services provided by the Group do not involve issues relating to health and safety, advertising and labelling and the Group is not aware of any material non-compliance with relevant laws and regulations that have a significant impact on the Group during the reporting period.	Page 95
	KPI B6.2	Number of products and service related complaints received and how they are dealt with.	Operational Management	Page 95
	KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Operational Management	Page 95
Aspect B7: Anti-corruption General Disclosure		General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Operational Management The Group is not aware of any material non-compliance with relevant laws and regulations that have a significant impact on the Group during the reporting period.	Page 96
	KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Operational Management	Page 96
Aspect B8: Community investment General Disclosure		General Disclosure Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Caring and Support for the Community	Pages 101 to 104
	KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Caring and Support for the Community	Pages 101 to 104
	KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	Caring and Support for the Community	Page 101

INDEPENDENT AUDITOR'S REPORT

KPMG

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

OPINION

We have audited the consolidated financial statements of CITIC Telecom International Holdings Limited and its subsidiaries (together "the Group") set out on pages 122 to 213, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (CONTINUED)

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

Refer to notes 11, 12 and 13 and the accounting policies in note 1(k)(ii) to the consolidated financial statements.

The Key Audit Matter	How the matter was addressed in our audit
The carrying values of the Group's goodwill, intangible assets and other PP&E as at 31 December 2018, which amounted to HK$9,718 million, HK$1,554 million and HK$2,767 million respectively, were allocated to cash-generating units ("CGUs") which comprised: (i) Telecoms Business – Macau, (ii) Enterprise Solutions (outside Macau), and (iii) Other Telecommunications Services. Management performs impairment assessments of goodwill and intangible assets with indefinite useful lives annually or whenever there is an indication that intangible assets with definite useful lives and other PP&E may be impaired. Management compares the aggregate carrying values of the CGUs to which the goodwill, intangible assets and other PP&E have been allocated with their estimated recoverable amounts by preparing discounted cashflow forecasts to determine the amount of impairment which should be recognised for the year, if any. The preparation of discounted cashflow forecasts involves the exercise of significant management judgement, particularly in estimating long term growth rates and the discounts rates applied. We identified assessing potential impairment of goodwill, intangible assets and other PP&E as a key audit matter because the impairment assessments prepared by management are complex and contain certain judgemental assumptions, in particular in respect of the long term growth rates and the discount rates applied, which could be subject to management bias in their selection.	Our audit procedures to assess the potential impairment of goodwill, intangible assets and other PP&E included the following: • evaluating management's identification of CGUs and the value of goodwill, intangible assets and other PP&E allocated to each CGU and assessing the methodology applied by management in the preparation of the discounted cashflow forecasts with reference to the requirements of the prevailing accounting standards; • evaluating the discounted cashflow forecasts prepared by management by comparing data therein with the relevant data, including revenue, cost of sales and services and other operating expenses, contained in the financial budget which was approved by the Board of Directors and by taking into account our understanding, experience and knowledge of the telecommunications sector and the Group's future business plans; • comparing the revenue, cost of sales and services and other operating expenses included in discounted cashflow forecasts prepared in the prior year with the current year's performance to assess how accurate the prior year's discounted cashflow forecasts were and making enquiries of management as to the reasons for any significant variations identified; • engaging our internal valuation specialists to assist us in assessing whether the discount rates applied in the discounted cashflow forecasts were within the range adopted by other companies in the same industry; • comparing the long term growth rates adopted in the discounted cashflow forecasts with those of comparable companies and external market data; and • obtaining from management sensitivity analyses for both the discount rates and long term growth rates adopted in the discounted cashflow forecasts and assessing the impact of changes in the key assumptions on the conclusions reached in the impairment assessments and whether there were any indicators of management bias.

KEY AUDIT MATTERS (CONTINUED)

Revenue recognition: telecommunications billing systems

Refer to note 3 and the accounting policies in note 1(u) to the consolidated financial statements.

The Key Audit Matter	How the matter was addressed in our audit
The Group's revenue principally comprises income from mobile services, Internet services, international telecommunication services and fixed line services which amounted to HK$4,185 million for the year ended 31 December 2018. Revenue is recognised based on reports generated from the telecommunications billing systems which are complex and process large volumes of data with a large combination of different products sold and price changes during the year. As a result, the recognition of revenue is highly reliant on the telecommunications billing systems. We identified revenue recognition in respect of the telecommunications billing systems as a key audit matter because of the complexity of the telecommunications billing systems which process information and calculate the revenue to be recognised and because of the large volumes of data processed.	Our audit procedures to assess the recognition of revenue in respect of the telecommunications billing systems included the following: • evaluating the design, implementation and operating effectiveness of the key internal controls over the capture and processing of revenue, with the assistance of our information technology specialists, with particular emphasis on: – the capturing and recording of data usage; – authorisation of rate changes; and – calculating the amounts billed to customers. • assessing the design, implementation and operating effectiveness of the key non-automated internal controls over the revenue recognition process; • evaluating journal entries posted to revenue accounts, on a specific risk-based sample basis, and comparing the details of these journals entries with relevant underlying documentation, which included reports generated from the telecommunications billing systems; and • comparing cash receipts from customers during the year and subsequent to the financial year end with invoices issued to customers during the year, on a sample basis.

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

KPMG
Certified Public Accountants

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

28 February 2019

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2018 (Expressed in Hong Kong dollars)

	Note	2018 $'000	2017 $'000
Revenue	3	**9,464,013**	7,450,760
Valuation gain on investment property	11	**23,683**	50,641
Other income	4	**44,399**	46,347
Other net (loss)/gain	5	**(25,120)**	7,763
		9,506,975	7,555,511
Cost of sales and services		**(5,583,843)**	(3,852,755)
Depreciation and amortisation	6(c)	**(725,440)**	(695,646)
Staff costs	6(b)	**(1,034,868)**	(961,255)
Other operating expenses		**(687,573)**	(658,917)
		1,475,251	1,386,938
Finance costs	6(a)	**(337,067)**	(323,669)
Share of profit/(loss) of a joint venture		**3,100**	(2,036)
Profit before taxation	6	**1,141,284**	1,061,233
Income tax	7(a)	**(173,392)**	(165,477)
Profit for the year		**967,892**	895,756
Attributable to:			
Equity shareholders of the Company		**951,039**	881,338
Non-controlling interests		**16,853**	14,418
Profit for the year		**967,892**	895,756
Earnings per share (HK cents)	10		
Basic		**26.7**	24.9
Diluted		**26.7**	24.8

The notes on pages 127 to 213 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 26(b).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2018 (Expressed in Hong Kong dollars)

	Note	2018 $'000	2017 $'000
Profit for the year		**967,892**	895,756
Other comprehensive income for the year (after reclassification adjustments)			
Items that will not be reclassified to profit or loss:			
Remeasurement of net defined benefit liability	24(a)(v)	**(43,015)**	49,745
Deferred tax recognised on the remeasurement of net defined benefit liability	7(c)	**5,269**	(5,877)
Surplus on revaluation of land and buildings held for own use upon change of use to investment property, net of $Nil tax	11(b)(ii)	**52,578**	–
		14,832	43,868
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation adjustments:			
– exchange differences on translation of financial statements of operations outside Hong Kong, net of $Nil tax		**(16,804)**	28,368
Other comprehensive income for the year		**(1,972)**	72,236
Total comprehensive income for the year		**965,920**	967,992
Attributable to:			
Equity shareholders of the Company		**950,202**	952,897
Non-controlling interests		**15,718**	15,095
Total comprehensive income for the year		**965,920**	967,992

The notes on pages 127 to 213 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2018 (Expressed in Hong Kong dollars)

	Note	2018 $'000	2017 $'000
Non-current assets			
Investment property	11	**629,352**	685,969
Other property, plant and equipment	11	**2,767,198**	2,625,731
		3,396,550	3,311,700
Intangible assets	12	**1,553,522**	1,722,074
Goodwill	13	**9,717,906**	9,729,268
Interest in a joint venture	15	**8,924**	5,972
Non-current contract assets	17(a)	**41,294**	–
Non-current other receivables and deposits	18	**119,937**	207,509
Deferred tax assets	7(c)	**67,957**	81,428
		14,906,090	15,057,951
Current assets			
Inventories and other contract costs	16	**101,069**	103,771
Contract assets	17(a)	**530,404**	–
Trade and other receivables and deposits	18	**1,375,350**	1,783,151
Current tax recoverable	7(b)	**3,200**	3,701
Cash and bank deposits	19(a)	**1,049,109**	1,635,635
		3,059,132	3,526,258
Current liabilities			
Trade and other payables	20	**1,496,802**	1,739,334
Contract liabilities	17(b)	**156,475**	–
Bank and other loans	21	**327,529**	284,438
Obligations under finance leases	23	**952**	1,541
Current tax payable	7(b)	**165,122**	211,453
		2,146,880	2,236,766
Net current assets		**912,252**	1,289,492
Total assets less current liabilities		**15,818,342**	16,347,443
Non-current liabilities			
Interest-bearing borrowings	22	**6,529,947**	7,540,698
Obligations under finance leases	23	**895**	1,793
Non-current other payables	20	**44,487**	61,808
Net defined benefit retirement obligation	24(a)	**99,578**	68,303
Deferred tax liabilities	7(c)	**247,719**	244,643
		6,922,626	7,917,245
NET ASSETS		**8,895,716**	8,430,198
CAPITAL AND RESERVES			
Share capital	26(c)	**4,402,388**	4,280,542
Reserves		**4,452,364**	4,115,865
Total equity attributable to equity shareholders of the Company		**8,854,752**	8,396,407
Non-controlling interests		**40,964**	33,791
TOTAL EQUITY		**8,895,716**	8,430,198

Approved and authorised for issue by the board of directors on 28 February 2019.

Xin Yue Jiang
Director

Lin Zhenhui
Director

The notes on pages 127 to 213 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018 (Expressed in Hong Kong dollars)

		Attributable to equity shareholders of the Company							
	Note	Share capital $'000	Capital reserve $'000	Property revaluation reserve $'000	Exchange reserve $'000	Retained profits $'000	Total $'000	Non-controlling interests $'000	Total equity $'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 2017:									
Profit for the year		–	–	–	–	881,338	881,338	14,418	895,756
Other comprehensive income for the year		–	–	–	28,129	43,430	71,559	677	72,236
Total comprehensive income for the year		–	–	–	28,129	924,768	952,897	15,095	967,992
Dividend paid to non-controlling interests		–	–	–	–	–	–	(10,486)	(10,486)
Shares issued under share option plan	25(b)(ii)	18,085	(4,253)	–	–	–	13,832	–	13,832
Equity-settled share-based transactions	6(b)	–	31,980	–	–	–	31,980	–	31,980
Dividends approved in respect of the previous financial year	26(b)(ii)	–	–	–	–	(366,503)	(366,503)	–	(366,503)
Release upon lapse of share options	25(b)(ii)	–	(1,653)	–	–	1,653	–	–	–
Dividends declared in respect of the current financial year	26(b)(i)	–	–	–	–	(106,303)	(106,303)	–	(106,303)
		18,085	26,074	–	–	(471,153)	(426,994)	(10,486)	(437,480)
Balance at 31 December 2017		4,280,542	104,594	–	(10,605)	4,021,876	8,396,407	33,791	8,430,198
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 2018:									
Profit for the year		**–**	**–**	**–**	**–**	**951,039**	**951,039**	**16,853**	**967,892**
Other comprehensive income for the year		**–**	**–**	**52,578**	**(16,047)**	**(37,368)**	**(837)**	**(1,135)**	**(1,972)**
Total comprehensive income for the year		**–**	**–**	**52,578**	**(16,047)**	**913,671**	**950,202**	**15,718**	**965,920**
Dividend paid to non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**(8,545)**	**(8,545)**
Shares issued under share option plan	25(b)(ii)	**121,846**	**(24,501)**	**–**	**–**	**–**	**97,345**	**–**	**97,345**
Equity-settled share-based transactions	6(b)	**–**	**16,780**	**–**	**–**	**–**	**16,780**	**–**	**16,780**
Dividends approved in respect of the previous financial year	26(b)(ii)	**–**	**–**	**–**	**–**	**(463,252)**	**(463,252)**	**–**	**(463,252)**
Release upon lapse of share options	25(b)(ii)	**–**	**(17,127)**	**–**	**–**	**17,127**	**–**	**–**	**–**
Dividends declared in respect of the current financial year	26(b)(i)	**–**	**–**	**–**	**–**	**(142,730)**	**(142,730)**	**–**	**(142,730)**
		121,846	**(24,848)**	**–**	**–**	**(588,855)**	**(491,857)**	**(8,545)**	**(500,402)**
Balance at 31 December 2018		**4,402,388**	**79,746**	**52,578**	**(26,652)**	**4,346,692**	**8,854,752**	**40,964**	**8,895,716**

The notes on pages 127 to 213 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2018 (Expressed in Hong Kong dollars)

	Note	2018 $'000	2017 $'000
Operating activities			
Cash generated from operations	19(d)	**2,012,816**	2,043,394
Tax paid:			
– Hong Kong Profits Tax paid		**(82,896)**	(36,508)
– Tax paid for jurisdictions outside Hong Kong		**(133,249)**	(159,270)
Tax refunded:			
– Hong Kong Profits Tax refunded		**16,841**	5,882
– Tax refunded for jurisdictions outside Hong Kong		**2,046**	385
Net cash generated from operating activities		**1,815,558**	1,853,883
Investing activities			
Payment for the purchase of other property, plant and equipment		**(603,926)**	(549,977)
Proceeds from sale of other property, plant and equipment		**803**	1,035
Settlement of cash consideration payable for acquisition of subsidiaries in prior year		**–**	(83,095)
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		**219,631**	(52,981)
Interest received		**13,675**	12,732
Net cash used in investing activities		**(369,817)**	(831,778)
Financing activities			
Proceeds from new bank and other loans	19(e)	**400,316**	361,582
Proceeds from new shares issued under share option plan		**97,345**	13,832
Payment for transaction costs on bank and other loans	19(e)	**(309)**	–
Capital element of finance lease rentals paid	19(e)	**(1,431)**	(3,097)
Repayment of bank and other loans	19(e)	**(1,370,938)**	(508,451)
Interest element of finance lease rentals paid	19(e)	**(120)**	(210)
Other borrowing costs paid	19(e)	**(310,233)**	(306,267)
Dividends paid to equity shareholders of the Company		**(605,982)**	(472,806)
Dividend paid to non-controlling interests		**(8,545)**	(10,486)
Net cash used in financing activities		**(1,799,897)**	(925,903)
Net (decrease)/increase in cash and cash equivalents		**(354,156)**	96,202
Cash and cash equivalents at 1 January		**1,403,556**	1,283,675
Effect of foreign exchange rate changes		**(11,614)**	23,679
Cash and cash equivalents at 31 December	19(a)	**1,037,786**	1,403,556

The notes on pages 127 to 213 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise CITIC Telecom International Holdings Limited (the "Company") and its subsidiaries (together referred to as the "Group") and the Group's interest in a joint venture.

The measurement basis used in the preparation of the financial statements is the historical cost basis, except that investment property (see note 1(g)) and contingent consideration (see note 1(d)) are stated at their fair value as explained in the accounting policies set out below.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies

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.

(i) 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 material impact on the 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:

a. 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. Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under HKFRS 9, see respective accounting policy notes in notes 1(k), (n) and (q).

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.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

(i) HKFRS 9, Financial instruments (continued)

b. 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 1(m)).

For further details on the Group's accounting policy for accounting for credit losses, see note 1(k)(i).

c. 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.

(ii) 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.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the consolidated financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has elected to use the cumulative effect transition method and has concluded that the initial adoption of HKFRS 15 had no material impact on the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKASs 11 and 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 the opening balances of equity at 1 January 2018. However, in future periods it may have material impact on the Group's financial results.

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

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

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

a. 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 goods 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 goods 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 goods 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.

b. Significant financing component

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance 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 goods 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 goods 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*, in accordance with the policies set out in note 1(w).

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

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

c. 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.

d. 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 (see note 1(u)) 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 (see note 1(m)).

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:

(i) Amount of $32,710,000 which was previously included in non-current other receivables and deposits (note 18) is now included under non-current contract assets (note 17(a));

(ii) Amount of $542,827,000 which was previously included in trade and other receivables and deposits (note 18) is now included under contract assets (note 17(a)); and

(iii) Amount of $170,156,000 which was previously included in trade and other payables (note 20) is now included under contract liabilities (note 17(b)).

e. Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of HKFRS 15 on 1 January 2018

The following tables summarise the estimated impact of adoption of HKFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018, by comparing the amounts reported under HKFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under HKASs 18 and 11 if those superseded standards had continued to apply to 2018 instead of HKFRS 15. These tables show only those line items impacted by the adoption of HKFRS 15:

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

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

e. Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of HKFRS 15 on 1 January 2018 (continued)

	Amounts reported in accordance with HKFRS 15 (A) $'000	Hypothetical amounts under HKASs 18 and 11 (B) $'000	Difference: Estimated impact of adoption of HKFRS 15 on 2018 (A) – (B) $'000
Line items in the consolidated income statement for year ended 31 December 2018 impacted by the adoption of HKFRS 15:			
Cost of sales and services	(5,583,843)	(5,590,208)	6,365
Profit before taxation	1,141,284	1,134,919	6,365
Income tax	(173,392)	(172,134)	(1,258)
Profit for the year	967,892	962,785	5,107
Attributable to:			
Equity shareholders of the Company	951,039	947,408	3,631
Non-controlling interests	16,853	15,377	1,476
Earnings per share (HK cents)			
Basic	26.7	26.6	0.1
Diluted	26.7	26.6	0.1
Line items in the consolidated statement of comprehensive income for year ended 31 December 2018 impacted by the adoption of HKFRS 15:			
Total comprehensive income for the year	965,920	960,813	5,107
Attributable to:			
Equity shareholders of the Company	950,202	946,571	3,631
Non-controlling interests	15,718	14,242	1,476
Line items in the consolidated statement of financial position as at 31 December 2018 impacted by the adoption of HKFRS 15:			
Non-current contract assets	41,294	–	41,294
Non-current other receivables and deposits	119,937	161,231	(41,294)
Inventories and other contract costs	101,069	94,704	6,365
Contract assets	530,404	–	530,404
Trade and other receivables and deposits	1,375,350	1,905,754	(530,404)
Total current assets	3,059,132	3,052,767	6,365
Trade and other payables	1,496,802	1,653,277	(156,475)
Contract liabilities	156,475	–	156,475
Current tax payable	165,122	163,864	1,258
Total current liabilities	2,146,880	2,145,622	1,258
Net current assets	912,252	907,145	5,107
Total assets less current liabilities	15,818,342	15,813,235	5,107
Net assets	8,895,716	8,890,609	5,107
Reserves	4,452,364	4,448,733	3,631
Total equity attributable to equity shareholders of the Company	8,854,752	8,851,121	3,631
Non-controlling interests	40,964	39,488	1,476
Total equity	8,895,716	8,890,609	5,107
Line items in the reconciliation of profit before taxation to cash generated from operations for year ended 31 December 2018 (note 19(d)) impacted by the adoption of HKFRS 15:			
Profit before taxation	1,141,284	1,134,919	6,365
Decrease in inventories and other contract costs	2,702	9,067	(6,365)
Increase in trade and other receivables and deposits	(83,175)	(79,336)	(3,839)
Decrease in contract assets	3,839	–	3,839
Decrease in trade and other payables	(65,755)	(79,436)	13,681
Decrease in contract liabilities	(13,681)	–	(13,681)

The significant differences arise as a result of the changes in accounting policies described above.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

(iii) 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.

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

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

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

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

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

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

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

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

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or a joint venture.

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

(e) Joint ventures

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

An investment in a joint venture is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the joint venture that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 1(k)(ii)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with any other long-term interests that in substance form part of the Group's net investment in the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

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

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

On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(g) Investment property

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

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

When an item of investment property is transferred to land and buildings held for own use when there is a change in use evidenced by commencement of own occupation, the fair value at the date of transfer becomes the deemed cost for subsequent accounting as land and buildings held for own use.

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

(h) Other property, plant and equipment

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

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

The cost of self-constructed items of other property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

No depreciation is provided in respect of construction in progress. Upon completion and commissioning for operation, depreciation will be provided at the appropriate rates specified below.

Depreciation is calculated to write off the cost of items of other property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

- Freehold land is not depreciated.

- Buildings situated on freehold land are depreciated over their estimated useful lives, being no more than 50 years after the date of completion.

- Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.

- Telecommunications equipment is depreciated over 2 to 20 years.

- Other assets are depreciated over 2 to 5 years.

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

If an item of land and buildings held for own use is transferred to investment property due to its use has changed, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

Gains or losses arising from the retirement or disposal of an item of other property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(i) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(k)(ii)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

– Trade names/trademarks	10 – 27 years
– Customer relationships	4 – 17 years
– Indefeasible rights of use ("IRU") of telecommunications capacity	10 years
– Order backlog	5 years
– Computer software	3 years

Both the period and method of amortisation are reviewed annually.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 1(g)); and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

(ii) Assets acquired under finance leases

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

(iii) Operating lease charges

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

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 1(g)) or is held for development for sale.

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Credit losses and impairment of assets

(i) Credit losses from financial instruments and contract assets

(A) Policy applicable from 1 January 2018

The Group recognises a loss allowance for ECLs on 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 1(m));

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; and

– 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 debtors 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.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments and contract assets (continued)

(A) Policy applicable from 1 January 2018 (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 ECLs 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

Interest income recognised in accordance with note 1(u)(v) 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments and contract assets (continued)

(A) Policy applicable from 1 January 2018 (continued)

Basis of calculation of interest income (continued)

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.

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables and deposits). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

- 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 debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments and contract assets (continued)

(B) Policy applicable prior to 1 January 2018 (continued)

If any such evidence existed, an impairment loss was determined and recognised as follows:

– For trade and other receivables and deposits and other financial assets carried at amortised cost, impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– other property, plant and equipment (other than properties carried at revalued amounts);

– intangible assets;

– goodwill; and

– investments in subsidiaries and a joint venture in the Company's statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Credit losses and impairment of assets (continued)

(ii) Impairment of other non-current assets (continued)

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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

(iii) Interim financial reporting and impairment

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Inventories and other contract costs

(i) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realisable value. Cost is calculated using the first-in-first-out cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

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

(ii) Other contract costs

Other contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalised as inventory (see note 1(l)(i)), other property, plant and equipment (see note 1(h)) or intangible assets (see note 1(i)).

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained e.g. an incremental sales commission. Incremental costs of obtaining a contract are capitalised when incurred if the costs relate to revenue which will be recognised in a future reporting period and the costs are expected to be recovered. Other costs of obtaining a contract are expensed when incurred.

Costs to fulfil a contract are capitalised if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract; generate or enhance resources that will be used to provide goods or services in the future; and are expected to be recovered. Costs that relate directly to an existing contract or to a specifically identifiable anticipated contract may include direct labour, direct materials, allocations of costs, costs that are explicitly chargeable to the customer and other costs that are incurred only because the Group entered into the contract (for example, payments to sub-contractors). Other costs of fulfilling a contract, which are not capitalised as inventory, other property, plant and equipment or intangible assets, are expensed as incurred.

Capitalised contract costs are stated at cost less accumulated amortisation and impairment losses. Impairment losses are recognised to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the Group expects to receive in exchange for the goods or services to which the asset relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognised as expenses.

Amortisation of capitalised contract costs is charged to profit or loss when the revenue to which the asset relates is recognised. The accounting policy for revenue recognition is set out in note 1(u).

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 1(u)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECLs in accordance with the policy set out in note 1(k)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see note 1(n)).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 1(u)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 1(n)).

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.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 1(u)).

Policy prior to 1 January 2018

In the comparative period, contract balances were included under "non-current other receivables and deposits" and "trade and other receivables and deposits" (as assets) or "trade and other payables" (as a liability) on a contract-by-contract basis. Progress billings not yet paid by the customer were included under "trade and other receivables and deposits". Amounts received before the related work was performed were included under "trade and other payables". These balances have been reclassified on 1 January 2018 as shown in note 17 (see note 1(c)(ii)).

(n) Trade and other receivables and deposits

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see note 1(m)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 1(k)(i)).

(o) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 1(w)).

(p) Trade and other payables

Trade and other payables are initially recognised at fair value, which are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECLs in accordance with the policy set out in note 1(k)(i).

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined benefit retirement plan obligations

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

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

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

(iii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial option pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Income tax (continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group or the Company has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Group or the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(t) Provisions, contingent liabilities and onerous contracts

(i) Provision and contingent liabilities

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

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(ii) Onerous contracts

An onerous contract exists when the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of continuing with the contract.

(u) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Revenue and other income (continued)

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Revenue from telecommunications services

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

Revenue from telecommunications services was recognised on a similar basis in the comparative period.

(ii) Sale of equipment and mobile handsets

Revenue is recognised when the customer takes possession of and accepts the goods. If the goods are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

Revenue for sale of equipment and mobile handsets was recognised on a similar basis in the comparative period.

(iii) Revenue from business solution projects

When the outcome of a project can be reasonably measured, project revenue is recognised progressively over time by measuring the progress towards complete satisfaction of a performance obligation, by reference to surveys of performance completed to date or milestones reached.

The likelihood of the Group earning contractual bonuses for early completion or suffering contractual penalties for late completion are taken into account in making these estimates, such that revenue is only recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

When the outcome of the project cannot be reasonably measured, project revenue is recognised only to the extent of project costs incurred that are expected to be recovered.

If at any time the costs to complete the contract are estimated to exceed the remaining amount of the consideration under the contract, then a provision is recognised in accordance with the policy set out in note 1(t)(ii).

Revenue for business solution projects was recognised on a similar basis in the comparative period.

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Revenue and other income (continued)

(iv) Rental income from operating leases

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

(v) Interest income

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

(v) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Company initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

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

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(w) Borrowing costs

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

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

(y) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(z) Deferred expenditure

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

2 ACCOUNTING JUDGEMENT AND ESTIMATES

Notes 11(c), 13, 24, 25, and 27 contain information about the assumptions and their risk factors relating to valuation of investment property, goodwill impairment, defined benefit retirement obligation, fair value of share options granted, and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Depreciation and amortisation

Other property, plant and equipment and intangible assets are depreciated and amortised on a straight-line basis over its estimated useful lives. The Group reviews annually the useful life of an asset and its residual value, if any. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimation.

(b) Impairment

In considering the impairment losses that may be required for certain non-financial assets of the Group, the recoverable amount of the asset needs to be determined. The recoverable amount is the greater of its fair value less costs of disposal and value in use. It is difficult to precisely estimate fair value because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to items such as level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as revenue and operating costs.

The impairment provisions for trade debtors and contract assets are based on assumptions about the expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the customer's credit worthiness and past collection history, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see note 27(a).

An increase or decrease in the above impairment losses would affect the net profit in future years.

(c) Income tax

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

Deferred tax assets in respect of tax losses carried forward are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted at the end of the reporting period. In determining the carrying amounts of deferred tax assets, expected taxable profits are estimated which involves a number of assumptions relating to the operating environment of the Group and requires significant level of judgement exercised by the directors. Any change in such assumptions and judgement would affect the carrying amounts of deferred tax assets to be recognised and hence the financial results in future years.

NOTES TO THE FINANCIAL STATEMENTS

2 ACCOUNTING JUDGEMENT AND ESTIMATES (CONTINUED)

(d) Business solution projects

As explained in note 1(u)(iii), revenue from business solution projects are recognised over time. Such revenue and profit recognition on an uncompleted project is dependent on estimating the total outcome of the contract, as well as the work done to date. Based on the Group's recent experience and the nature of the business solution activities undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that the outcome of the contract can be reasonably measured. Until this point is reached, the related contract assets disclosed in note 17(a) do not include profit which the Group may eventually realise from the work done to date. In addition, actual outcomes in terms of total costs or revenue may be higher or lower than estimated at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

In the comparative period, the contract assets arising from business solution projects were included in trade and other receivables and deposits and disclosed in note 18, rather than note 17(a).

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

Revenue represents fees from the provision of telecommunications services and sale of equipment and mobile handsets.

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

	2018 $'000	2017 $'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products or service lines:		
Mobile services	**1,276,511**	1,221,068
Internet services	**1,009,680**	933,805
International telecommunications services	**1,655,703**	1,221,184
Enterprise solutions	**2,953,618**	2,683,895
Fixed line services	**243,572**	280,618
Fees from the provision of telecommunications services	**7,139,084**	6,340,570
Sale of equipment and mobile handsets	**2,324,929**	1,110,190
	9,464,013	7,450,760

Disaggregation of revenue from external customers by geographical location is disclosed in note 3(b)(iv).

During the years ended 31 December 2018 and 2017, sale of equipment and mobile handsets is recognised at a point-in-time and revenue from the provision of telecommunications services is substantially recognised over time.

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(a) Revenue (continued)

(ii) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

As at 31 December 2018, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts is $2,869,255,000. This amount represents revenue expected to be recognised in the future from contracts for products or services entered into by the customers with the Group. The Group will recognise the expected revenue in future when or as the service is performed or as the work is completed, which is expected to occur over the next 12 to 84 months.

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its contracts for products or services such that the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for products or services that had an original expected duration of one year or less.

(b) Segment reporting

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.

(i) Segment results, assets and liabilities

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

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

– Revenue and expenses are allocated to the reportable segment with reference to sales generated by the segment and the expenses incurred by the segment or which otherwise arise from the depreciation or amortisation of assets attributable to the segment.

NOTES TO THE FINANCIAL STATEMENTS

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(ii) Reconciliation of reportable segment profit

	2018 $'000	2017 $'000
Profit		
Reportable segment profit	**2,271,103**	2,094,469
Net loss on disposal of other property, plant and equipment	**(2,790)**	(3,373)
Net foreign exchange (loss)/gain	**(22,330)**	11,136
Depreciation and amortisation	**(725,440)**	(695,646)
Finance costs	**(337,067)**	(323,669)
Share of profit/(loss) of a joint venture	**3,100**	(2,036)
Interest income	**11,498**	13,231
Rentals receivable from investment property less direct outgoings	**21,155**	20,218
Change in fair value of contingent consideration	**10,116**	9,931
Valuation gain on investment property	**23,683**	50,641
Unallocated head office and corporate expenses	**(111,744)**	(113,669)
Consolidated profit before taxation	**1,141,284**	1,061,233

(iii) Reconciliations of reportable segment assets and liabilities

	2018 $'000	2017 $'000
Assets		
Reportable segment assets	**17,184,934**	17,706,638
Investment property	**629,352**	685,969
Interest in a joint venture	**8,924**	5,972
Deferred tax assets	**67,957**	81,428
Current tax recoverable	**3,200**	3,701
Unallocated head office and corporate assets	**70,855**	100,501
Consolidated total assets	**17,965,222**	18,584,209
Liabilities		
Reportable segment liabilities	**1,760,382**	1,821,256
Bank and other loans	**327,529**	284,438
Obligations under finance leases	**1,847**	3,334
Current tax payable	**165,122**	211,453
Non-current interest-bearing borrowings	**6,529,947**	7,540,698
Deferred tax liabilities	**247,719**	244,643
Unallocated head office and corporate liabilities	**36,960**	48,189
Consolidated total liabilities	**9,069,506**	10,154,011

NOTES TO THE FINANCIAL STATEMENTS

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(iv) Geographic information

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

	Revenue from external customers		Specified non-current assets	
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
Hong Kong (place of domicile)	**3,262,584**	2,789,123	**1,719,592**	1,682,369
The People's Republic of China (the "PRC")	**662,489**	499,880	**208,626**	171,288
Macau	**4,679,127**	3,467,245	**12,010,605**	12,234,471
Singapore	**501,394**	430,678	**484,179**	414,715
Others	**358,419**	263,834	**253,900**	266,171
	6,201,429	4,661,637	**12,957,310**	13,086,645
	9,464,013	7,450,760	**14,676,902**	14,769,014

4 OTHER INCOME

	2018	2017
	$'000	$'000
Interest income from bank deposits	**7,918**	8,625
Other interest income	**3,580**	4,606
	11,498	13,231
Gross rental income from investment property	**22,785**	23,185
Change in fair value of contingent consideration (note)	**10,116**	9,931
	44,399	46,347

Note: During the years ended 31 December 2018 and 2017, the Group remeasured the fair value of contingent consideration for the acquisition of subsidiaries during the year ended 31 December 2016 with contingent consideration arrangements based on certain criteria stated in the sale and purchase agreement, and gains of $10,116,000 and $9,931,000 were recognised respectively.

5 OTHER NET (LOSS)/GAIN

	2018	2017
	$'000	$'000
Net loss on disposal of other property, plant and equipment	**(2,790)**	(3,373)
Net foreign exchange (loss)/gain	**(22,330)**	11,136
	(25,120)	7,763

NOTES TO THE FINANCIAL STATEMENTS

6 PROFIT BEFORE TAXATION

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

		2018 $'000	2017 $'000
(a)	**Finance costs**		
	Interest on bank and other borrowings	**314,704**	306,237
	Finance charges on obligations under finance leases (note 19(e))	**120**	210
	Other finance charges	**20,196**	14,136
	Other interest expense (note 24(a)(v))	**2,047**	3,086
	Total interest expense on financial liabilities not at fair value through profit or loss	**337,067**	323,669
(b)	**Staff costs (including directors' emoluments (note 8))**		
	Contributions to defined contribution retirement plans	**69,730**	59,101
	Expenses recognised in respect of defined benefit retirement plan (note 24(a)(v))	**9,062**	10,036
	Total retirement costs	**78,792**	69,137
	Equity-settled share-based payment expenses (note 25(b)(iv))	**16,780**	31,980
	Salaries, wages and other benefits	**939,296**	860,138
		1,034,868	961,255
(c)	**Other items**		
	Operating lease charges		
	– leased circuits	**1,051,441**	1,019,410
	– land and buildings	**143,963**	133,000
	Depreciation (note 11(a))	**557,623**	525,587
	Amortisation (note 12)	**167,817**	170,059
		725,440	695,646
	Impairment losses		
	– trade debtors and contract assets (note 27(a))	**12,429**	2,728
	Write off for other receivables	**26,207**	–
	Rentals receivable from investment property less direct outgoings of $1,630,000 (2017: $2,967,000)	**(21,155)**	(20,218)
	Auditors' remuneration		
	– audit services	**7,665**	7,881
	– non-audit services	**1,692**	1,450
	Transaction costs for the acquisition of subsidiaries	**–**	1,007

NOTES TO THE FINANCIAL STATEMENTS

7 INCOME TAX

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

	2018 $'000	2017 $'000
Current tax		
Hong Kong Profits Tax		
– Provision for the year	**90,430**	63,367
– Over-provision in respect of prior years	**(61,908)**	(23)
	28,522	63,344
Jurisdictions outside Hong Kong		
– Provision for the year	**135,478**	129,819
– Over-provision in respect of prior years	**(11,684)**	(20,031)
	123,794	109,788
Deferred tax		
Origination and reversal of temporary differences (note 7(c))	**21,076**	(7,655)
	173,392	165,477

The provision for Hong Kong Profits Tax for 2018 is calculated at 16.5% (2017: 16.5%) of the estimated assessable profits for the year, taking into account a reduction granted by the Hong Kong SAR Government of 75% of the tax payable for the year of assessment 2017/2018 subject to a maximum reduction of $30,000 for each business (2017: a maximum reduction of $20,000 was granted for the year of assessment 2016/2017 and was taken into account in calculating the provision for 2017).

The provision for Macau Complementary Tax for 2018 is calculated at 12% (2017: 12%) of the estimated assessable profits for the year. Assessable profits of the first Macau Patacas ("MOP") 600,000 (equivalent to approximately $583,000) (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.

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

	2018 $'000	2017 $'000
Profit before taxation	**1,141,284**	1,061,233
Notional tax on profit before taxation, calculated at the rates applicable to profits in the cities or countries concerned	**154,984**	138,774
Tax effect of non-taxable income and non-deductible expenses	**55,013**	50,539
Tax effect of unused tax losses not recognised	**5,098**	2,278
Tax effect of temporary differences previously not recognised and recognition of previous unused tax losses	**33,343**	(6,316)
Over-provision in respect of prior years	**(73,592)**	(20,054)
Others	**(1,454)**	256
Actual tax expense	**173,392**	165,477

NOTES TO THE FINANCIAL STATEMENTS

7 INCOME TAX (CONTINUED)

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

	2018 $'000	2017 $'000
Hong Kong Profits Tax		
Provision for the year	**90,430**	63,367
Provisional profits tax paid	**(62,695)**	(34,781)
Balance of profits tax provision relating to prior years	**2,306**	38,988
	30,041	67,574
Jurisdictions outside Hong Kong		
Provision for the year	**135,478**	129,819
Profits tax paid	**(9,457)**	(13,043)
Through acquisition of subsidiaries	**–**	(99)
Balance of profits tax provision relating to prior years	**6,748**	23,767
Exchange adjustments	**(888)**	(266)
	131,881	140,178
	161,922	207,752
Representing:		
Current tax recoverable	**(3,200)**	(3,701)
Current tax payable	**165,122**	211,453
	161,922	207,752

(c) Deferred tax assets and liabilities recognised:

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

	Intangible assets arising from business combination $'000	Depreciation allowances in excess of the related depreciation $'000	Defined benefit retirement obligation $'000	Future benefits of tax losses $'000	Others $'000	Total $'000
Deferred tax arising from:						
At 1 January 2017	226,252	100,095	(13,545)	(143,350)	(6,192)	163,260
Through acquisition of subsidiaries	2,089	–	–	(5,518)	7,284	3,855
(Credited)/charged to profit or loss (note 7(a))	(17,796)	(3,268)	(529)	10,045	3,893	(7,655)
Charged to reserves	–	–	5,877	–	–	5,877
Exchange adjustments	(173)	(114)	1	(1,299)	(537)	(2,122)
At 31 December 2017	210,372	96,713	(8,196)	(140,122)	4,448	163,215
At 1 January 2018	**210,372**	**96,713**	**(8,196)**	**(140,122)**	**4,448**	**163,215**
(Credited)/charged to profit or loss (note 7(a))	**(21,915)**	**(42)**	**1,519**	**42,555**	**(1,041)**	**21,076**
Credited to reserves	**–**	**–**	**(5,269)**	**–**	**–**	**(5,269)**
Exchange adjustments	**(224)**	**188**	**(3)**	**132**	**647**	**740**
At 31 December 2018	**188,233**	**96,859**	**(11,949)**	**(97,435)**	**4,054**	**179,762**

7 INCOME TAX (CONTINUED)

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

Reconciliation to the consolidated statement of financial position

	2018 $'000	2017 $'000
Net deferred tax assets recognised in the consolidated statement of financial position	(67,957)	(81,428)
Net deferred tax liabilities recognised in the consolidated statement of financial position	247,719	244,643
	179,762	163,215

(d) Deferred tax assets not recognised

In accordance with the accounting policies set out in note 1(s), the Group has not recognised deferred tax assets in respect of unused tax losses of $113,523,000 (2017: $250,290,000) at 31 December 2018 as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdictions and entities. $57,962,000 (2017: $210,555,000) of the tax losses do not expire under the current tax legislation, and $55,561,000 (2017: $39,735,000) of the tax losses will expire after 2 to 20 years.

8 DIRECTORS' EMOLUMENTS

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

	2018							
	Directors' fees $'000	Basic salaries and allowances $'000	Discretionary bonuses $'000	Benefits in kind $'000	Retirement scheme contributions $'000	Sub-total $'000	Share-based payments $'000	Total $'000
Executive directors								
Xin Yue Jiang	–	4,269	4,422	73	–	8,764	822	9,586
Lin Zhenhui	–	4,151	3,980	83	18	8,232	723	8,955
Luo Ning	–	–	–	–	–	–	–	–
Chan Tin Wai, David	–	2,955	3,558	59	18	6,590	624	7,214
Non-executive directors								
Liu Jifu	–	–	–	–	–	–	460	460
Fei Yiping	–	–	–	–	–	–	230	230
Independent non-executive directors								
Liu Li Qing	340	–	–	–	–	340	92	432
Zuo Xunsheng	340	–	–	–	–	340	92	432
Lam Yiu Kin	340	–	–	–	–	340	–	340
Total	1,020	11,375	11,960	215	36	24,606	3,043	27,649

NOTES TO THE FINANCIAL STATEMENTS

8 DIRECTORS' EMOLUMENTS (CONTINUED)

	2017							
	Directors' fees $'000	Basic salaries and allowances $'000	Discretionary bonuses $'000	Benefits in kind $'000	Retirement scheme contributions $'000	Sub-total $'000	Share-based payments $'000	Total $'000
Executive directors								
Xin Yue Jiang	–	4,133	4,252	128	–	8,513	1,291	9,804
Lin Zhenhui	–	4,019	3,827	77	18	7,941	1,136	9,077
Luo Ning	–	–	–	–	–	–	–	–
Chan Tin Wai, David	–	2,861	3,421	81	18	6,381	981	7,362
Non-executive directors								
Liu Jifu	–	–	–	–	–	–	722	722
Fei Yiping	–	–	–	–	–	–	361	361
Independent non-executive directors								
Liu Li Qing	340	–	–	–	–	340	144	484
Kwong Che Keung, Gordon (retired on 1 June 2017)	142	–	–	–	–	142	251	393
Zuo Xunsheng	340	–	–	–	–	340	144	484
Lam Yiu Kin (appointed on 1 June 2017)	198	–	–	–	–	198	–	198
Total	1,020	11,013	11,500	286	36	23,855	5,030	28,885

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

A number of the Company's directors were granted share options of the Company. Details of the share option plans are set out in note 25.

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

During the years ended 31 December 2018 and 2017, no emoluments were paid by the Company to any of the directors as an inducement to join or upon joining the Company or as compensation for loss of office. None of the directors has waived or agreed to waive any emoluments except for Mr. Luo Ning who had not accepted the options for 1,000,000 shares granted to him in 2017.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2017: three) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other two (2017: two) individuals are as follows:

	2018 $'000	2017 $'000
Salaries and other emoluments	7,318	7,090
Discretionary bonuses	10,184	8,984
Share-based payments	619	1,016
Retirement scheme contributions	571	553
	18,692	17,643

The emoluments of the two (2017: two) individuals with the highest emoluments are within the following bands:

	2018 Number of individuals	2017 Number of individuals
$		
6,000,001 – 6,500,000	1	1
11,000,001 – 11,500,000	–	1
12,000,001 – 12,500,000	1	–

During the years ended 31 December 2018 and 2017, no emoluments were paid by the Company to any of the highest paid individuals as an inducement to join or upon joining the Company or as compensation for loss of office.

10 EARNINGS PER SHARE

	2018 $'000	2017 $'000
Profit attributable to equity shareholders of the Company	951,039	881,338

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

	Number of shares	
	2018 '000	2017 '000
Issued ordinary shares at 1 January	3,544,164	3,534,581
Effect of share options exercised	16,388	6,026
Weighted average number of ordinary shares (basic) at 31 December	3,560,552	3,540,607
Effect of deemed issue of shares under the Company's share option plan	2,006	7,638
Weighted average number of ordinary shares (diluted) at 31 December	3,562,558	3,548,245
Basic earnings per share (HK cents)	26.7	24.9
Diluted earnings per share (HK cents)	26.7	24.8

NOTES TO THE FINANCIAL STATEMENTS

11 INVESTMENT PROPERTY AND OTHER PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amount

	Land and buildings held for own use (note (d)) $'000	Telecommuni-cations equipment $'000	Other assets (note (g)) $'000	Construction in progress $'000	Sub-total $'000	Investment property (notes (c), (d) and (f)) $'000	Total $'000
Cost or valuation:							
At 1 January 2017	392,208	3,925,706	315,130	175,696	4,808,740	635,328	5,444,068
Additions							
– through acquisition of subsidiaries	3,335	57,595	2,704	–	63,634	–	63,634
– others	–	101,234	40,445	383,231	524,910	–	524,910
Disposals	–	(177,416)	(27,095)	–	(204,511)	–	(204,511)
Reclassification	–	309,666	10,478	(320,144)	–	–	–
Fair value adjustment	–	–	–	–	–	50,641	50,641
Exchange adjustments	147	37,644	5,588	367	43,746	–	43,746
At 31 December 2017	395,690	4,254,429	347,250	239,150	5,236,519	685,969	5,922,488
Representing:							
Cost	395,690	4,254,429	347,250	239,150	5,236,519	–	5,236,519
Valuation – 2017	–	–	–	–	–	685,969	685,969
	395,690	4,254,429	347,250	239,150	5,236,519	685,969	5,922,488
At 1 January 2018	**395,690**	**4,254,429**	**347,250**	**239,150**	**5,236,519**	**685,969**	**5,922,488**
Additions	**19,190**	**217,436**	**52,389**	**286,735**	**575,750**	**–**	**575,750**
Disposals	**–**	**(56,910)**	**(3,362)**	**–**	**(60,272)**	**–**	**(60,272)**
Transfer from investment property to land and buildings held for own use (note (b)(i))	**195,700**	**–**	**–**	**–**	**195,700**	**(195,700)**	**–**
Transfer from land and buildings held for own use to investment property (note (b)(ii))	**(72,151)**	**–**	**–**	**–**	**(72,151)**	**115,400**	**43,249**
Reclassification	**–**	**348,925**	**14,083**	**(363,008)**	**–**	**–**	**–**
Fair value adjustment	**–**	**–**	**–**	**–**	**–**	**23,683**	**23,683**
Exchange adjustments	**311**	**(20,829)**	**(4,282)**	**87**	**(24,713)**	**–**	**(24,713)**
At 31 December 2018	**538,740**	**4,743,051**	**406,078**	**162,964**	**5,850,833**	**629,352**	**6,480,185**
Representing:							
Cost	**538,740**	**4,743,051**	**406,078**	**162,964**	**5,850,833**	**–**	**5,850,833**
Valuation – 2018	**–**	**–**	**–**	**–**	**–**	**629,352**	**629,352**
	538,740	**4,743,051**	**406,078**	**162,964**	**5,850,833**	**629,352**	**6,480,185**
Accumulated depreciation:							
At 1 January 2017	55,008	1,987,519	212,290	–	2,254,817	–	2,254,817
Charge for the year (note 6(c))	15,445	469,140	41,002	–	525,587	–	525,587
Written back on disposals	–	(173,396)	(26,707)	–	(200,103)	–	(200,103)
Exchange adjustments	76	29,115	1,296	–	30,487	–	30,487
At 31 December 2017	70,529	2,312,378	227,881	–	2,610,788	–	2,610,788
At 1 January 2018	**70,529**	**2,312,378**	**227,881**	**–**	**2,610,788**	**–**	**2,610,788**
Charge for the year (note 6(c))	**16,237**	**500,595**	**40,791**	**–**	**557,623**	**–**	**557,623**
Written back on disposals	**–**	**(54,326)**	**(2,353)**	**–**	**(56,679)**	**–**	**(56,679)**
Transfer from land and buildings held for own use to investment property (note (b)(ii))	**(9,329)**	**–**	**–**	**–**	**(9,329)**	**–**	**(9,329)**
Exchange adjustments	**53**	**(16,261)**	**(2,560)**	**–**	**(18,768)**	**–**	**(18,768)**
At 31 December 2018	**77,490**	**2,742,386**	**263,759**	**–**	**3,083,635**	**–**	**3,083,635**
Net book value:							
At 31 December 2018	**461,250**	**2,000,665**	**142,319**	**162,964**	**2,767,198**	**629,352**	**3,396,550**
At 31 December 2017	325,161	1,942,051	119,369	239,150	2,625,731	685,969	3,311,700

NOTES TO THE FINANCIAL STATEMENTS

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

(b) Transfers

(i) Transfer from investment property to land and buildings held for own use

During the year ended 31 December 2018, due to the change of use, part of the Group's investment property was transferred to land and buildings held for own use, which were carried at fair value of $195,700,000 on the date of transfer.

(ii) Transfer from land and buildings held for own use to investment property

During the year ended 31 December 2018, due to the change of use, part of the Group's land and buildings held for own use was transferred to investment property. Upon the date of transfer, the fair value was determined by directors with reference to the professional valuations using direct comparison approach and are categorised as Level 3 fair value measurement as defined in HKFRS 13, *Fair value measurement*. As a result, revaluation surplus of $52,578,000 was recognised in other comprehensive income.

(c) Fair value measurement of investment property

(i) Fair value hierarchy

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

– Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

– Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value at 31 December 2018	**Fair value measurements as at 31 December 2018 categorised into**		
		Level 1	**Level 2**	**Level 3**
	$'000	**$'000**	**$'000**	**$'000**
Recurring fair value measurement				
Investment property:				
– Industrial – Hong Kong	**629,352**	**–**	**–**	**629,352**

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

NOTES TO THE FINANCIAL STATEMENTS

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

(c) Fair value measurement of investment property (continued)

(i) Fair value hierarchy (continued)

During the year ended 31 December 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2017: $Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The Group's investment property was revalued as at 31 December 2018. The valuation was carried out by an independent firm of surveyors, Centaline Surveyors Limited, who have among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The management has discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date.

(ii) Information about Level 3 fair value measurements

	Valuation technique	Major unobservable input	Input amount
Investment property			
Industrial – Hong Kong	Direct comparison approach	Market unit rate	$3,587 per square foot (2017: $3,436 per square foot)

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

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

	2018 $'000	2017 $'000
Investment property – Industrial – Hong Kong:		
At 1 January	**685,969**	635,328
Transfer to land and buildings held for own use	**(195,700)**	–
Transfer from land and buildings held for own use	**115,400**	–
Fair value adjustment	**23,683**	50,641
At 31 December	**629,352**	685,969

Fair value adjustment of investment property is recognised in the line item "valuation gain on investment property" on the face of the consolidated income statement.

The gain recognised in profit or loss for the year arise from the investment property held at the end of the reporting period.

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

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

	2018 $'000	2017 $'000
In Hong Kong		
– medium-term leases	1,001,828	934,667
Outside Hong Kong		
– freehold	3,221	3,364
– medium-term leases	85,553	73,099
	1,090,602	1,011,130
Representing:		
Land and buildings carried at cost	461,250	325,161
Investment property carried at fair value	629,352	685,969
	1,090,602	1,011,130

(e) Assets held under finance leases

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

During the years ended 31 December 2018 and 2017, no addition of other property, plant and equipment was financed by new finance lease. At the end of the reporting period, the net book value of other assets held under finance leases was $2,666,000 (2017: $5,029,000).

(f) Assets leased out under operating leases

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

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

Total future minimum lease payments under non-cancellable operating leases in place at the reporting date will be receivable by the Group in future periods as follows:

	2018 $'000	2017 $'000
Within 1 year	22,834	12,990
After 1 year but within 5 years	28,761	3,721
	51,595	16,711

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

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

NOTES TO THE FINANCIAL STATEMENTS

12 INTANGIBLE ASSETS

	Customer relationships $'000	Order backlog $'000	Trade names/ trademarks $'000	IRU of tele– communications capacity $'000	Computer software $'000	Total $'000
Cost:						
At 1 January 2017	1,696,508	18,096	804,216	626	24,347	2,543,793
Additions through acquisition of subsidiaries	8,355	–	–	–	–	8,355
Exchange adjustments	5,789	328	2,170	–	(2)	8,285
At 31 December 2017	1,710,652	18,424	806,386	626	24,345	2,560,433
At 1 January 2018	**1,710,652**	**18,424**	**806,386**	**626**	**24,345**	**2,560,433**
Write-off	**(73,454)**	**(18,424)**	**–**	**–**	**–**	**(91,878)**
Exchange adjustments	**(375)**	**–**	**(676)**	**–**	**9**	**(1,042)**
At 31 December 2018	**1,636,823**	**–**	**805,710**	**626**	**24,354**	**2,467,513**
Accumulated amortisation:						
At 1 January 2017	523,266	17,470	110,304	626	13,281	664,947
Charge for the year (note 6(c))	135,766	634	30,895	–	2,764	170,059
Exchange adjustments	2,711	320	322	–	–	3,353
At 31 December 2017	661,743	18,424	141,521	626	16,045	838,359
At 1 January 2018	**661,743**	**18,424**	**141,521**	**626**	**16,045**	**838,359**
Charge for the year (note 6(c))	**134,254**	**–**	**30,972**	**–**	**2,591**	**167,817**
Write-off	**(73,454)**	**(18,424)**	**–**	**–**	**–**	**(91,878)**
Exchange adjustments	**(60)**	**–**	**(252)**	**–**	**5**	**(307)**
At 31 December 2018	**722,483**	**–**	**172,241**	**626**	**18,641**	**913,991**
Net book value:						
At 31 December 2018	**914,340**	**–**	**633,469**	**–**	**5,713**	**1,553,522**
At 31 December 2017	1,048,909	–	664,865	–	8,300	1,722,074

NOTES TO THE FINANCIAL STATEMENTS

13 GOODWILL

	2018 $'000	2017 $'000
Cost and carrying amount:		
At 1 January	**9,729,268**	9,596,599
Addition through acquisition of subsidiaries	**–**	121,818
Adjustment to purchase consideration payable for acquisition (note)	**–**	(38,759)
Exchange adjustments	**(11,362)**	49,610
At 31 December	**9,717,906**	9,729,268

Note: The adjustment was made to the purchase consideration payable for an acquisition of subsidiaries during the year ended 31 December 2016, which were previously determined on a provisional basis. During the measurement period of twelve months following a transaction, the Group recognised adjustments to the provisional amounts as if the accounting for the business combination had been completed at the acquisition date. Save as the adjustment to goodwill arising from stated above, a corresponding adjustment to purchase consideration payable for an acquisition of $38,759,000 was made during the year ended 31 December 2017.

Impairment tests for cash-generating units containing goodwill

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

	2018 $'000	2017 $'000
Telecoms business – Macau	**8,894,844**	8,891,181
Enterprise solutions (outside Macau)	**248,030**	255,243
Other telecommunications services	**575,032**	582,844
	9,717,906	9,729,268

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

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

	2018	2017
Long term growth rate	**3.0%**	3.0%
Discount rate	**9.5% – 10.5%**	9.5% – 10.5%

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

NOTES TO THE FINANCIAL STATEMENTS

14 INTERESTS IN SUBSIDIARIES

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

Name of company	Place of incorporation/ operation	Particulars of issued and fully paid-up capital	Proportion of ownership interest		Principal activity
			Held by the Company	Held by subsidiaries	
Acclivis Technologies and Solutions (HK) Limited (formerly known as CITIC Telecom International (Concept) Limited)	Hong Kong	HK$2*	–	100%	Provision of telecommunications services
Acclivis Technologies and Solutions Pte. Ltd.	Republic of Singapore	Singaporean Dollars ("SGD") 16,500,000*	–	100%	Provision of telecommunications services
China Enterprise ICT Solutions Limited ("CEC")	The People's Republic of China	Renminbi ("RMB") 84,620,000	–	49% (note (i))	Provision of value-added telecommunications services
China Enterprise Netcom Corporation Limited	Hong Kong	HK$100*	–	100%	Provision of telecommunications leasing and technology services
CITIC Telecom CPC Estonia OÜ	Republic of Estonia	Euro ("EUR") 20,001*	–	100%	Provision of telecommunications services
CITIC Telecom CPC Netherlands B.V.	Netherlands	EUR131,056.71*	–	100%	Provision of wired telecommunications services and investment holding
CITIC Telecom CPC Poland Sp.zo.o.	Republic of Poland	Polish Zloty 54,000*	–	100%	Provision of telecommunications services
CITIC Telecom International CPC Limited	Hong Kong	HK$402,712,186*	–	100%	Provision of telecommunications services
CITIC Telecom International CPC Japan Limited	Japan	Japanese Yen ("JPY") 10,000,000*	–	100%	Provision of telecommunications services
CITIC Telecom International CPC (Malaysia) Sdn. Bhd.	Malaysia	Malaysian Ringgit 500,000*	–	100%	Provision of telecommunications services
CITIC Telecom International CPC (Singapore) Pte. Ltd.	Republic of Singapore	SGD2,000,000*	–	100%	Provision of telecommunications services
CITIC Telecom International CPC (USA) LLC	United States of America	N/A#	–	100%	Provision of operational support services
CITIC Telecom International (Data) Limited	Hong Kong	HK$2*	–	100%	Provision of data and other telecommunications services
CITIC Telecom International Finance Limited	British Virgin Islands	United States Dollar ("US$")1*	100%	–	Provision of financing services
CITIC Telecom International (Japan) Ltd.	Japan	JPY 10,000,000*	–	100%	Provision of telecommunications services
CITIC Telecom International Limited	Hong Kong	HK$2*	100%	–	Provision of telecommunications services
CITIC Telecom International (SEA) Pte. Ltd.	Republic of Singapore	SGD14,000,002*	–	100%	Provision of telecommunications services

NOTES TO THE FINANCIAL STATEMENTS

14 INTERESTS IN SUBSIDIARIES (CONTINUED)

(a) (continued)

Name of company	Place of incorporation/ operation	Particulars of issued and fully paid-up capital	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by subsidiaries	Principal activity
CITIC Telecom (UK) Limited	United Kingdom	Pound Sterling 2*	–	100%	Provision of telecommunications services
ComNet Investment Limited	Hong Kong	HK$2*	–	100%	Property and equipment holding, and investment holding
ComNet Telecom (Canada) Ltd.	Canada	Canadian Dollars 101**	–	100%	Provision of telecommunications services
ComNet Telecom (HK) Limited	Hong Kong	HK$2*	–	100%	Provision of telecommunications services
ComNet Telecom (M) SDN. BHD.	Malaysia	Malaysian Ringgit 700,000*	–	100%	Provision of telecommunications services
ComNet Telecom International Limited	Hong Kong	HK$2*	–	100%	Provision of telecommunications services
ComNet Telecom (Singapore) Pte. Ltd.	Republic of Singapore	SGD100,000*	–	100%	Provision of telecommunications services
ComNet (USA) LLC	United States of America	N/A***	–	100%	Provision of telecommunications services
Companhia de Telecomunicações de Macau, S.A.R.L.	Macau	MOP150,000,000*	99%	–	Provision of telecommunications services
Neostar Investment Limited	Hong Kong	HK$2*	–	100%	Property holding
Pacific Internet (S) Pte. Ltd.	Republic of Singapore	SGD500,000*	–	100%	Provision of telecommunications services
Pacific Internet (Thailand) Limited	Thailand	Baht 188,176,100*	–	100%	Provision of telecommunications services
中信電訊(上海)科技有限公司	The People's Republic of China	RMB26,600,000	–	100%	Provision of telecommunications services

Notes:

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

* Represents ordinary shares.

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

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

*** Capital contribution for ComNet (USA) LLC amounted to US$10,000.

(b) The Group had no subsidiaries which have material non-controlling interests for the years ended 31 December 2018 and 2017.

NOTES TO THE FINANCIAL STATEMENTS

15 INTEREST IN A JOINT VENTURE

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

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

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

The equity interest in Cheer Harvest Holdings Limited is accounted for as a joint venture in the consolidated financial statements under the equity method as the Group and the other shareholder of Cheer Harvest Holdings Limited share joint control over the entity and have rights to the net assets of the entity.

16 INVENTORIES AND OTHER CONTRACT COSTS

	2018 $'000	2017 $'000
Inventories	**94,704**	103,771
Other contract costs	**6,365**	–
	101,069	103,771

(a) Inventories

Inventories in the consolidated statement of financial position mainly comprise equipment related to business solutions projects' parts and mobile handsets.

The amount of inventories recognised as an expense and included in profit or loss for the year ended 31 December 2018 is $2,650,217,000 (2017: $1,469,850,000).

(b) Contract costs

Contract costs capitalised as at 31 December 2018 relate to the incremental sales commissions paid to employees or agents whose selling activities resulted in customers entering into contracts for the provision of telecommunications services which the contract periods are over 12 months and business solution projects which are still in progress at the reporting date. Contract costs are recognised as part of "costs of sales and services" in the consolidated income statement in the period in which revenue from the related contracts is recognised. The amount of capitalised costs recognised in profit or loss during the year was $1,389,000. There was no impairment in relation to the costs capitalised during the year.

In the comparative period, such sales commissions were recognised as "costs of sales and services" when incurred and the Group has concluded that the initial adoption of HKFRS 15 in relation to capitalisation of contract costs had no material impact on opening balance at 1 January 2018 in this regard (see note 1(c)(ii)).

The Group applies the practical expedient in paragraph 94 of HKFRS 15 and recognises the incremental costs of obtaining contracts as an expense when incurred if the amortisation period of the asset that the Group otherwise would have recognised is one year or less from the initial recognition of the asset.

The amount of capitalised contract costs that is expected to be recovered after more than one year is $4,093,000.

NOTES TO THE FINANCIAL STATEMENTS

17 CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	Notes	31 December 2018 $'000	1 January 2018 (i) $'000	31 December 2017 (i) $'000
Arising from international telecommunications services	(ii), (iii)	322,982	375,675	–
Arising from sales of equipment and mobile handsets bundled with services	(ii), (iii)	165,797	127,901	–
Arising from business solution projects	(ii), (iii)	82,919	71,961	–
		571,698	575,537	–
Represented by:				
Non-current portion		41,294	32,710	–
Current portion		530,404	542,827	–
		571,698	575,537	–
Receivables from contracts with customers within the scope of HKFRS 15 which are included in "trade and other receivables and deposits"		1,003,257	953,025	

Notes:

(i) The Group has initially applied HKFRS 9 and HKFRS 15 using the cumulative effect method and adjusted the opening balances as at 1 January 2018.

(ii) Upon the adoption of HKFRS 9, no opening adjustment was made as at 1 January 2018 in respect of recognising additional ECLs on contract assets.

(iii) Upon the adoption of HKFRS 15, amounts previously included under "trade and other receivables and deposits" (note 18) for which the Group's entitlement to the consideration was conditional on transferring certain promised services, achieving certain milestones or satisfactory completion of verification and reconciliation works, were reclassified to contract assets (see note 1(c)(ii)).

NOTES TO THE FINANCIAL STATEMENTS

17 CONTRACT ASSETS AND CONTRACT LIABILITIES (CONTINUED)

(a) Contract assets (continued)

Typical payment terms which impact on the amount of contract assets recognised are as follows:

– International telecommunications services

The Group provides international telecommunications services to telecommunications operators. The Group and certain telecommunications operators enter into contracts with minimum commitments on either transaction amount or unit of traffic to be processed and contract term would usually last for over three months. Such contracts involve large amount of transactions and both parties are required to verify and reconcile the transactions details received from counter party against their own records. Once the verification and reconciliation work have been completed, the Group will issue an invoice to the telecommunications operator. The Group's right to the consideration is generally unconditional upon the completion of verification and reconciliation work from both parties as well as the issuance of invoice.

– Sales of equipment and mobile handsets bundled with services

The Group offers packages to the customer which include the bundle sales of equipment and mobile handsets and provision of services. In this situation, the customer pays to the Group in accordance with the pre-determined payment schedule. If the performance obligations fulfilled by the Group exceed the total payments received to date, a contract asset is recognised. The contract assets are transferred to receivables when the Group's rights to the contract consideration become unconditional.

– Business solution projects

Business solution project is one of the businesses of enterprise solutions. The Group's business solution projects include payment schedules which require stage payments over the project period once milestones are reached. This gives rise to contract assets when the revenue recognised on the project exceeds the amount of the payment made by customer.

All of the current contract assets are expected to be recovered within one year.

17 CONTRACT ASSETS AND CONTRACT LIABILITIES (CONTINUED)

(b) Contract liabilities

	Note	31 December 2018 $'000	1 January 2018 (i) $'000	31 December 2017 (i) $'000
Business solution projects				
– Billings in advance of performance	(ii)	**17,848**	20,598	–
Other telecommunications services				
– Billings in advance of performance	(ii)	**138,627**	149,558	–
		156,475	170,156	–

Note:

(i) The Group has initially applied HKFRS 15 using the cumulative effect method and adjusted the opening balance as at 1 January 2018.

(ii) Upon the adoption of HKFRS 15, amounts previously included under "trade and other payables" (note 20) were reclassified to contract liabilities (see note 1 (c)(ii)).

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

– Business solution projects

The Group's business solution projects include payment schedules which require advance payments from customers for the projects. This gives rise to contract liabilities when the amount of the payment made by customer exceeds the revenue recognised on the project.

– Other telecommunications services

The Group's telecommunication services normally include payment schedules which require advance payments from customers for the services. This gives rises to contract liabilities until revenue recognised on the services are provided.

Movements in contract liabilities	**2018 $'000**
Balance at 1 January	**170,156**
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the period	**(152,196)**
Increase in contract liabilities as a result of billings in advance of business solution projects	**6,515**
Increase in contract liabilities as a result of billings in advance of the provision of other telecommunications services	**132,021**
Exchange adjustments	**(21)**
Balance at 31 December	**156,475**

The amount of billings in advance of the provision of business solution projects and other telecommunications services expected to be recognised as income after more than one year is $1,199,000 (2017: $Nil).

NOTES TO THE FINANCIAL STATEMENTS

18 TRADE AND OTHER RECEIVABLES AND DEPOSITS

	Notes	**31 December 2018 $'000**	1 January 2018 $'000	31 December 2017 $'000
Trade debtors, net of loss allowance	(i), (ii)	**1,003,257**	953,025	1,308,256
Other receivables and deposits		**492,030**	462,098	682,404
		1,495,287	1,415,123	1,990,660
Represented by:				
Non-current portion		**119,937**	174,799	207,509
Current portion		**1,375,350**	1,240,324	1,783,151
		1,495,287	1,415,123	1,990,660

Notes:

(i) Upon the adoption of HKFRS 9, no opening adjustment as at 1 January 2018 was made in respect of recognising additional ECLs on trade debtors (see note 1(c)(i)).

(ii) Upon the adoption of HKFRS 15, certain amounts from customers for international telecommunications services, sales of equipment and mobile handsets bundled with services and business solution projects were reclassified to contract assets and disclosed in note 17(a) (see note 1(c)(ii)).

All of the current trade and other receivables and deposits are expected to be recovered or recognised as expense within one year, except for utility and rental deposits at 31 December 2018 amounted to $32,603,000 (2017: $32,003,000) which will not be recovered with a year.

At 31 December 2018 and 2017, included in other receivables and deposits were the following:

(i) deferred expenditure of $45,280,000 (2017: $51,851,000) for the prepayment of certain telecommunications services. Such costs are deferred and amortised on a straight-line basis over the underlying service period of 15 years; and

(ii) an advance payment paid to the ultimate holding company for the acquisition of the remaining equity interest in a subsidiary of RMB61,987,000 (equivalent to approximately $70,746,000) (2017: RMB61,987,000 (equivalent to approximately $74,155,000)).

18 TRADE AND OTHER RECEIVABLES AND DEPOSITS (CONTINUED)

Ageing analysis

At the end of the reporting period, the ageing analysis of trade debtors (which are included in trade and other receivables and deposits) based on the invoice date and net of loss allowance is as follows:

	2018 **$'000**	2017 $'000
Within 1 year	**950,613**	1,170,488
Over 1 year	**52,644**	137,768
	1,003,257	1,308,256

Trade debtors are due within 7 to 180 days from the date of billing. Further details on the Group's credit policy and credit risk arising from trade debtors are set out in note 27(a).

19 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	2018 **$'000**	2017 $'000
Cash at bank and in hand	**894,344**	1,134,240
Time deposits with banks	**154,765**	501,395
Cash and bank deposits in the consolidated statement of financial position (note (b))	**1,049,109**	1,635,635
Less: pledged deposits (note (c))	**(11,323)**	(232,079)
Cash and cash equivalents in the consolidated cash flow statement	**1,037,786**	1,403,556

(b) Included in cash and bank deposits were $60,179,000 (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 31 December 2018, bank deposits of $11,323,000 (2017: $6,346,000) were pledged to secure parts of the trading 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 30(a)(v)).

NOTES TO THE FINANCIAL STATEMENTS

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

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

	Note	2018 $'000	2017 $'000
Profit before taxation		**1,141,284**	1,061,233
Adjustments for:			
Depreciation and amortisation	6(c)	**725,440**	695,646
Valuation gain on investment property	11	**(23,683)**	(50,641)
Net loss on disposal of other property, plant and equipment	5	**2,790**	3,373
Share of (profit)/loss of a joint venture		**(3,100)**	2,036
Transaction costs for the acquisition of subsidiaries	6(c)	**–**	1,007
Finance costs	6(a)	**337,067**	323,669
Interest income	4	**(11,498)**	(13,231)
Equity-settled share-based payment expenses	6(b)	**16,780**	31,980
Foreign exchange gain		**(2,373)**	(16,599)
		2,182,707	2,038,473
Changes in working capital:			
Decrease/(increase) in inventories and other contract costs		**2,702**	(33,826)
Increase in trade and other receivables and deposits		**(83,175)**	(83,792)
Decrease in contract assets		**3,839**	–
(Decrease)/increase in trade and other payables		**(65,755)**	120,448
Decrease in contract liabilities		**(13,681)**	–
(Decrease)/increase in net defined benefit retirement obligation		**(13,821)**	2,091
Cash generated from operations		**2,012,816**	2,043,394

NOTES TO THE FINANCIAL STATEMENTS

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

(e) Reconciliation of liabilities arising from financing activities

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

	Bank and other borrowings $'000 (Note)	Finance leases $'000 (Note 23)	Total $'000
At 1 January 2018	7,825,136	3,334	7,828,470
Changes from financing cash flows:			
Proceeds from new bank and other loans	400,316	–	400,316
Repayment of bank and other loans	(1,370,938)	–	(1,370,938)
Payment for transactions costs on bank and other loans	(309)	–	(309)
Capital element of financial lease rentals paid	–	(1,431)	(1,431)
Interest element of finance lease rentals paid	–	(120)	(120)
Other borrowing costs paid	(310,233)	–	(310,233)
Total changes from financing cash flows	(1,281,164)	(1,551)	(1,282,715)
Exchange adjustments	(15,747)	(56)	(15,803)
Other changes:			
Finance charges on obligations under finance leases (note 6(a))	–	120	120
Interest expenses and other finance charges	334,900	–	334,900
Other non-cash items	(5,649)	–	(5,649)
Total other changes	329,251	120	329,371
At 31 December 2018	6,857,476	1,847	6,859,323

NOTES TO THE FINANCIAL STATEMENTS

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

(e) Reconciliation of liabilities arising from financing activities (continued)

	Bank and other borrowings $'000 (Note)	Finance leases $'000 (Note 23)	Total $'000
At 1 January 2017	7,901,419	5,991	7,907,410
Changes from financing cash flows:			
Proceeds from new bank and other loans	361,582	–	361,582
Repayment of bank and other loans	(508,451)	–	(508,451)
Capital element of financial lease rentals paid	–	(3,097)	(3,097)
Interest element of finance lease rentals paid	–	(210)	(210)
Other borrowing costs paid	(306,267)	–	(306,267)
Total changes from financing cash flows	(453,136)	(3,307)	(456,443)
Exchange adjustments	53,370	440	53,810
Other changes:			
Finance charges on obligations under finance leases (note 6(a))	–	210	210
Interest expenses and other finance charges	320,373	–	320,373
Through acquisition of subsidiaries	4,397	–	4,397
Other non-cash items	(1,287)	–	(1,287)
Total other changes	323,483	210	323,693
At 31 December 2017	7,825,136	3,334	7,828,470

Note: Bank and other borrowings consist of bank and other loans and guaranteed bonds as disclosed in notes 21 and 22.

NOTES TO THE FINANCIAL STATEMENTS

20 TRADE AND OTHER PAYABLES

	31 December 2018 $'000	1 January 2018 $'000	31 December 2017 $'000
Trade creditors	**849,349**	894,268	895,489
Other payables and accruals	**691,940**	736,718	905,653
	1,541,289	1,630,986	1,801,142
Represented by:			
Non-current portion	**44,487**	61,808	61,808
Current portion	**1,496,802**	1,569,178	1,739,334
	1,541,289	1,630,986	1,801,142

Note: Upon the adoption of HKFRS 15, certain advance payments related to business solution projects and other telecommunications services were reclassified to contract liabilities and disclosed in note 17(b) (see note 1 (c)(ii)).

At 31 December 2017, purchase consideration payable of SGD1,750,000 (equivalent to approximately $10,224,000) was included in other payables which represented contingent consideration that would be paid if the acquired business achieves certain criteria during the designated period of time. At 31 December 2018, as the acquired business failed to meet these criteria during the designated period of time, the purchase consideration payable was written back.

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

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

	2018 $'000	2017 $'000
Within 1 year	**594,552**	690,770
Over 1 year	**254,797**	204,719
	849,349	895,489

NOTES TO THE FINANCIAL STATEMENTS

21 BANK AND OTHER LOANS

At 31 December 2018, bank and other loans were repayable as follows:

	2018 $'000	2017 $'000
Within 1 year or on demand	327,529	284,438
After 1 year but within 2 years	2,302,299	562,415
After 2 years but within 5 years	737,768	3,491,660
	3,367,596	4,338,513
Represented by:		
Unsecured		
– Current	327,529	284,438
– Non-current (note 22(a))	3,040,067	4,054,075
	3,367,596	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. Further details of the Group's management of liquidity risk are set out in note 27(b). At 31 December 2018 and 2017, the Group was in compliance with the relevant requirements.

NOTES TO THE FINANCIAL STATEMENTS

22 NON-CURRENT INTEREST-BEARING BORROWINGS

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

	2018 $'000	2017 $'000
Unsecured bank and other loans (note 21)	3,040,067	4,054,075
Guaranteed bonds at 6.1% due 2025 (note (b))	3,489,880	3,486,623
	6,529,947	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.

23 OBLIGATIONS UNDER FINANCE LEASES

At 31 December 2018, the Group had obligations under finance leases repayable as follows:

	2018		2017	
	Present value of the minimum lease payments $'000	Total minimum lease payments $'000	Present value of the minimum lease payments $'000	Total minimum lease payments $'000
Within 1 year	952	990	1,541	1,662
After 1 year but within 2 years	895	907	959	1,023
After 2 years but within 5 years	–	–	834	852
	895	907	1,793	1,875
	1,847	1,897	3,334	3,537
Less: total future interest expenses		(50)		(203)
Present value of lease obligations		1,847		3,334

NOTES TO THE FINANCIAL STATEMENTS

24 EMPLOYEE RETIREMENT BENEFITS

(a) Defined benefit retirement plan

A subsidiary of the Company, CTM, makes contributions to a defined benefit retirement plan, CTM Staff Provident Fund (the "Fund"). The Fund was established on 1 January 2003 to replace a staff provident fund of a previous constitution. The Fund is registered with Autoridade Monetária de Macau ("AMCM") and is under the management of Macau Life Insurance Company Limited. The members of the Fund are all the employees who were members of the original staff provident fund. No new members joined the Fund after 1 May 2002. The members are required to make contributions to the Fund at 5% of their relevant income. CTM is required to make contributions to the Fund in accordance with an independent actuary's recommendation based on periodic actuarial valuations. CTM is also obliged to make any extraordinary contributions which may be deemed necessary by Macau Life Insurance Company Limited when there are insufficient assets in the Fund to meet the liabilities of the Fund or when such insufficiency is anticipated. Upon retirement or resignation, each member is entitled to receive a lump sum payment calculated on the basis of a multiplying factor ranging from 0.6 to 2 times the final monthly salary and the number of service year that the member has served with CTM.

The latest independent actuarial valuation of the Fund was at 31 December 2018 and was prepared by qualified staff of Willis Towers Watson, who are members of the Society of Actuaries of the United States of America, using the projected unit credit method. The actuarial valuation indicates that CTM's obligation under the Fund is 74% (2017: 81%) covered by the plan assets held by the trustees at 31 December 2018. The Fund exposes the Group to actuarial risks, such as longevity risk, currency risk, interest rate risk, and market (investment) risk.

(i) The amounts recognised in the consolidated statement of financial position are as follows:

	2018 $'000	2017 $'000
Present value of plan obligations	**388,122**	362,208
Fair value of plan assets	**(288,544)**	(293,905)
	99,578	68,303

A portion of the above liability is expected to be settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The Group expects to pay $23,309,000 in contributions to the Fund in 2019.

24 EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

(a) Defined benefit retirement plan (continued)

(ii) Plan assets consist of the following:

	2018 $'000	2017 $'000
Cash and money market	**20,605**	20,944
Bonds		
– Government bonds	**55,516**	61,054
– Corporate bonds	**66,032**	55,600
	121,548	116,654
Equity securities		
– Asia	**20,175**	16,292
– North America	**68,995**	68,540
– Europe	**49,399**	62,054
– Other areas	**7,822**	9,421
	146,391	156,307
	288,544	293,905

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

At the end of each reporting period, a study is performed by the Fund's asset manager in which the consequences of the strategic investment policies are analysed. The strategic investment policy of the Fund can be summarised as follows:

– a strategic assets mix comprising 51% equity securities, 42% bonds and 7% other investments;

– interest rate risk is managed by duration limitation; and

– foreign currency risk is managed by allocation guideline.

NOTES TO THE FINANCIAL STATEMENTS

24 EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

(a) Defined benefit retirement plan (continued)

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

	2018 $'000	2017 $'000
At 1 January	362,208	374,564
Remeasurements:		
– Experience adjustments	2,510	1,545
– Actuarial losses/(gains) arising from changes in financial assumptions	18,299	(21,939)
	20,809	(20,394)
Benefits paid by the Fund	(22,089)	(17,267)
Employees' contributions	4,336	4,360
Current service cost	9,062	10,036
Interest cost	13,642	10,946
Exchange adjustments	154	(37)
At 31 December	388,122	362,208

The weighted average duration of the defined benefit obligation is 6 years (2017: 6 years).

(iv) Movements in plan assets

	2018 $'000	2017 $'000
At 1 January	293,905	261,686
Employer's and employees' contributions paid to the Fund	28,106	13,075
Benefits paid by the Fund	(22,089)	(17,267)
Administrative expenses	(887)	(770)
Interest income	11,595	7,860
Return on plan assets, excluding interest income	(22,206)	29,351
Exchange adjustments	120	(30)
At 31 December	288,544	293,905

24 EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

(a) Defined benefit retirement plan (continued)

(v) Amounts recognised in the consolidated income statement and consolidated statement of comprehensive income are as follows:

	2018 $'000	2017 $'000
Current service cost	9,062	10,036
Net interest on net defined benefit liability	2,047	3,086
Administrative expenses	887	770
Total amounts recognised in profit or loss	11,996	13,892
Actuarial losses/(gains)	20,809	(20,394)
Return on plan assets, excluding interest income	22,206	(29,351)
Total amounts recognised in other comprehensive income	43,015	(49,745)
Net defined benefit loss/(gain)	55,011	(35,853)

The current service cost and the net interest on net defined benefit liability are recognised in the following line items in the consolidated income statement:

	2018 $'000	2017 $'000
Staff costs (note 6(b))	9,062	10,036
Other operating expenses	887	770
Finance costs (note 6(a))	2,047	3,086
	11,996	13,892

NOTES TO THE FINANCIAL STATEMENTS

24 EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

(a) Defined benefit retirement plan (continued)

(vi) Significant actuarial assumptions (expressed as weighted averages) and sensitivity analysis are as follows:

	2018 %	2017 %
Discount rate	3.1	3.9
Future salary growth	3.0	3.0

The below analysis shows how the defined benefit obligation at 31 December 2018 would have increased/(decreased) as a result of a 0.25% (2017: 0.25%) change in the significant actuarial assumptions:

	2018		2017	
	Increase in 0.25% $'000	Decrease in 0.25% $'000	Increase in 0.25% $'000	Decrease in 0.25% $'000
Discount rate	(5,878)	6,027	(5,735)	5,886
Future salary growth	5,543	(5,434)	5,484	(5,370)

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

(b) Defined contribution retirement plans

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $30,000. Contributions to the plan vest immediately.

CTM also operates the Defined Contribution Fund which was set up under the terms of Decree Law 6/99/M and registered with AMCM. The Defined Contribution Fund is for all full time Macau employees who joined CTM after 1 May 2002. The Defined Contribution Fund is under the management of Macau Life Insurance Company Limited. The employees and CTM are each required to make contributions to the Defined Contribution Fund at 5% of the employee's relevant income. Contributions to the Defined Contribution Fund vest immediately.

Employees employed by the Group outside Hong Kong and Macau are covered by the appropriate local defined contribution schemes pursuant to the local labour rules and regulations.

25 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

(a) Share option plan of an intermediate holding company

CITIC Limited, an intermediate holding company of the Company, adopted the CITIC Pacific Share Incentive Plan 2000 (the "Plan 2000") on 31 May 2000 under which the board of directors of CITIC Limited may invite any director, executive or employee of CITIC Limited or any of its subsidiaries to subscribe for options over CITIC Limited's shares. The Plan 2000 ended on 30 May 2010 and a new plan, CITIC Pacific Share Incentive Plan 2011, was adopted by CITIC Limited on 12 May 2011. The options granted under these plans are exercisable till the end of exercise period. No option was granted to directors or employees of the Group for their services to the Group under these plans. None of the directors or employees of the Group had options subsisting at 31 December 2018 under these plans.

(b) Share option plan of the Company

The Company has a share option plan ("CITIC Telecom International Plan") which was adopted on 17 May 2007 whereby the directors of the Company are authorised, at their discretion, to offer any person employed by the Company or any of its subsidiaries and any person who is an officer or director (whether executive or non-executive) of the Company or any of its subsidiaries options to subscribe for shares in the Company to recognise their contributions to the growth of the Company. The CITIC Telecom International Plan was valid and effective for a period of ten years till 16 May 2017.

Since the adoption of the CITIC Telecom International Plan, the Company has granted the following share options to directors, officers and employees of the Company and its subsidiaries. Each option gives the holder the right to subscribe for one ordinary share of the Company.

Date of grant	Number of share options granted	Exercise price per share	Exercise period
23 May 2007	18,720,000	$3.26 (Note (i))	From 23 May 2007 to 22 May 2012
17 September 2009	17,912,500	$2.10 (Note (i))	From 17 September 2010 to 16 September 2015
17 September 2009	17,912,500	$2.10 (Note (i))	From 17 September 2011 to 16 September 2016
19 August 2011	24,227,500	$1.54 (Note (ii))	From 19 August 2012 to 18 August 2017
19 August 2011	24,227,500	$1.54 (Note (ii))	From 19 August 2013 to 18 August 2018
26 June 2013	81,347,000	$2.25 (Note (i))	From 26 June 2013 to 25 June 2018
24 March 2015	43,756,250	$2.612 (Note (iii))	From 24 March 2016 to 23 March 2021
24 March 2015	43,756,250	$2.612 (Note (iii))	From 24 March 2017 to 23 March 2022
24 March 2017	45,339,500	$2.45 (Note (iv))	From 24 March 2018 to 23 March 2023
24 March 2017	45,339,500	$2.45 (Note (iv))	From 24 March 2019 to 23 March 2024

NOTES TO THE FINANCIAL STATEMENTS

25 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

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

Notes:

(i) The closing price of the Company's ordinary shares on the date of grant.

(ii) The closing price of the Company's ordinary shares on the date of grant was $1.48 per share.

(iii) The closing price of the Company's ordinary shares on the date of grant was $2.61 per share.

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

The share options granted on 23 May 2007, 17 September 2009, 19 August 2011 and 26 June 2013 have expired.

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

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

25 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

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

(i) *The terms and conditions of the options granted under the CITIC Telecom International Plan are as follows, whereby all options are settled by physical delivery of shares:*

	Exercise price per share	Number of options	Vesting condition	Expiry date	Number of share options outstanding at 31 December 2018$^{\Delta}$	2017$^{\Delta}$
Options granted to directors$^{\Delta}$:						
– on 23 May 2007	$3.26	10,290,000	Fully vested on the date of grant	Expired at the close of business on 22 May 2012	–	–
– on 17 September 2009	$2.10*	3,150,000	Fully vested on 17 September 2010	Expired at the close of business on 16 September 2015	–	–
– on 17 September 2009	$2.10*	3,150,000	Fully vested on 17 September 2011	Expired at the close of business on 16 September 2016	–	–
– on 19 August 2011	$1.54#	3,750,000	Fully vested on 19 August 2012	Expired at the close of business on 18 August 2017	–	–
– on 19 August 2011	$1.54#	3,750,000	Fully vested on 19 August 2013	Expired at the close of business on 18 August 2018	–	2,424,754
– on 26 June 2013	$2.25	11,038,000	Fully vested on the date of grant	Expired at the close of business on 25 June 2018	–	9,938,000
– on 24 March 2015	$2.612	6,819,000	Fully vested on 24 March 2016	Expire at the close of business on 23 March 2021	**5,419,000**	6,419,000
– on 24 March 2015	$2.612	6,819,000	Fully vested on 24 March 2017	Expire at the close of business on 23 March 2022	**6,819,000**	6,819,000
– on 24 March 2017	$2.45	7,319,000	Fully vested on 24 March 2018	Expire at the close of business on 23 March 2023	**5,819,000**	6,819,000
– on 24 March 2017	$2.45	7,319,000	Vesting from 24 March 2019	Expire at the close of business on 23 March 2024	**6,819,000**	6,819,000

NOTES TO THE FINANCIAL STATEMENTS

25 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

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

(i) The terms and conditions of the options granted under the CITIC Telecom International Plan are as follows, whereby all options are settled by physical delivery of shares: (continued)

	Exercise price per share	Number of options	Vesting condition	Expiry date	Number of share options outstanding at 31 December 2018ΔΔ	2017ΔΔ
Options granted to officers and employeesΔΔ:						
– on 23 May 2007	$3.26	8,430,000	Fully vested on the date of grant	Expired at the close of business on 22 May 2012	–	–
– on 17 September 2009	$2.10*	14,762,500	Fully vested on 17 September 2010	Expired at the close of business on 16 September 2015	–	–
– on 17 September 2009	$2.10*	14,762,500	Fully vested on 17 September 2011	Expired at the close of business on 16 September 2016	–	–
– on 19 August 2011	$1.54#	20,477,500	Fully vested on 19 August 2012	Expired at the close of business on 18 August 2017	–	–
– on 19 August 2011	$1.54#	20,477,500	Fully vested on 19 August 2013	Expired at the close of business on 18 August 2018	–	3,897,421
– on 26 June 2013	$2.25	70,309,000	Fully vested on the date of grant	Expired at the close of business on 25 June 2018	–	32,732,817
– on 24 March 2015	$2.612	36,937,250	Fully vested on 24 March 2016	Expire at the close of business on 23 March 2021	**25,040,567**	32,391,817
– on 24 March 2015	$2.612	36,937,250	Fully vested on 24 March 2017	Expire at the close of business on 23 March 2022	**28,361,250**	33,552,000
– on 24 March 2017	$2.45	38,020,500	Fully vested on 24 March 2018	Expire at the close of business on 23 March 2023	**26,962,500**	36,609,000
– on 24 March 2017	$2.45	38,020,500	Vesting from 24 March 2019	Expire at the close of business on 23 March 2024	**33,251,000**	36,609,000
Total number of share options		362,538,500			**138,491,317**	215,030,809

NOTES TO THE FINANCIAL STATEMENTS

25 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

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

(i) The terms and conditions of the options granted under the CITIC Telecom International Plan are as follows, whereby all options are settled by physical delivery of shares: (continued)

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

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

△ Number of options granted to directors and number of options outstanding include those options granted to former director(s) of the Company who had retired.

△△ Number of options granted to officers and employees and number of options outstanding include those granted to former employees of the Company who had resigned/retired/passed away.

(ii) The number and weighted average exercise prices of share options are as follows:

	2018 Weighted average exercise price	**2018** Number of options	2017 Weighted average exercise price	2017 Number of options
Outstanding at the beginning of the year	**$2.44**	**215,030,809**	$2.37	140,533,659
Granted during the year	**–**	**–**	$2.45	90,679,000
Exercised during the year (note 26(c))	**$2.26**	**(43,096,802)**	$1.44	(9,582,531)
Cancelled during the year	**–**	**–**	$2.45	(1,513,000)
Lapsed during the year	**$2.31**	**(33,442,690)**	$2.50	(5,086,319)
Outstanding at the end of the year	**$2.53**	**138,491,317**	$2.44	215,030,809
Exercisable at the end of the year	**$2.56**	**98,421,317**	$2.43	128,174,809

During the year ended 31 December 2018, options for 43,096,802 (2017: 9,582,531) shares were exercised, options for 33,442,690 (2017: 5,086,319) shares have lapsed but no option (2017: 1,513,000 shares) has been cancelled. The value of vested options lapsed during the year ended 31 December 2018 was $17,127,000 (2017: $1,653,000) and was released directly to retained profits.

The weighted average closing price at the date of exercise of share options exercised during the year was $2.56 (2017: $2.35). The options outstanding at 31 December 2018 had a weighted average exercise price of $2.53 (2017: $2.44) and a weighted average remaining contractual life of 3.76 years (2017: 3.51 years).

NOTES TO THE FINANCIAL STATEMENTS

25 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

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

(iii) Fair value of share options and assumptions

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

– Taking into account the probability of early exercise behaviour, the average expected term of the grant for directors and employees was determined to be 6.0 years and 4.2 years respectively;

– Expected volatility of the Company's share price at 38% per annum (based on historical movements of the Company's share prices);

– Expected annual dividend yield of 4.2%;

– Expected post-vesting exit rate of 0% per annum for directors and 15.0% per annum for employees;

– Early exercise assumption for directors and employees to exercise their options when the share price is at least 250% and 161% of the exercise price respectively; and

– Risk-free interest rate of 1.47% and 1.53% for the first 50% and the remaining 50% of the options respectively (based on linearly interpolated yields of the Hong Kong Exchange Fund Notes at the grant date).

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

(iv) The total expense recognised in the consolidated income statement for the year ended 31 December 2018 in respect of the above grant of options was $16,780,000 (2017: $31,980,000).

26 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Note	Share capital $'000	Capital reserve $'000	Retained profits $'000	Total $'000
Balance at 1 January 2017		4,262,457	134,417	1,893,044	6,289,918
Changes in equity for 2017:					
Total comprehensive income for the year		–	–	880,217	880,217
Shares issued under share option plan	25(b)(ii)	18,085	(4,253)	–	13,832
Equity-settled share-based transactions	6(b)	–	31,980	–	31,980
Dividends approved in respect of the previous financial year	26(b)(ii)	–	–	(366,503)	(366,503)
Release upon lapse of share options	25(b)(ii)	–	(1,653)	1,653	–
Dividends declared in respect of the current financial year	26(b)(i)	–	–	(106,303)	(106,303)
Balance at 31 December 2017 and 1 January 2018		**4,280,542**	**160,491**	**2,302,108**	**6,743,141**
Changes in equity for 2018:					
Total comprehensive income for the year		**–**	**–**	**800,036**	**800,036**
Shares issued under share option plan	25(b)(ii)	**121,846**	**(24,501)**	**–**	**97,345**
Equity-settled share-based transactions	6(b)	**–**	**16,780**	**–**	**16,780**
Dividends approved in respect of the previous financial year	26(b)(ii)	**–**	**–**	**(463,252)**	**(463,252)**
Release upon lapse of share options	25(b)(ii)	**–**	**(17,127)**	**17,127**	**–**
Dividends declared in respect of the current financial year	26(b)(i)	**–**	**–**	**(142,730)**	**(142,730)**
Balance at 31 December 2018		**4,402,388**	**135,643**	**2,513,289**	**7,051,320**

NOTES TO THE FINANCIAL STATEMENTS

26 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(b) Dividends

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

	2018 $'000	2017 $'000
Interim dividend declared and paid of HK4.00 cents (2017: HK3.00 cents) per share	**142,730**	106,303
Final dividend proposed after the end of the reporting period of HK14.00 cents (2017: HK13.00 cents) per share	**502,216**	460,741
	644,946	567,044

For the interim dividend in respect of the period ended 30 June 2018, there was a difference of $117,000 between the interim dividend disclosed in 2018 interim report and the amount paid during the year ended 31 December 2018, which represented dividends attributable to shares issued upon exercise of share options before the closing date of register of members.

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

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

	2018 $'000	2017 $'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK13.00 cents (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 2017 annual report and the amount paid during the year ended 31 December 2018, which represented dividends attributable to shares issued upon exercise of share options before the closing date of register of members.

NOTES TO THE FINANCIAL STATEMENTS

26 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Share capital

	Note	2018 No. of shares	2018 Amount $'000	2017 No. of shares	2017 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)	**43,096,802**	**121,846**	9,582,531	18,085
At 31 December	(i)	**3,587,260,382**	**4,402,388**	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 year ended 31 December 2018, 43,096,802 (2017: 9,582,531) ordinary shares were issued at a weighted average exercise price of $2.26 (2017: $1.44) per ordinary share to share option holders who had exercised their options. These new shares issued rank pari passu with the then existing ordinary shares in issue.

(d) Nature and purpose of reserves

(i) Capital reserve

The capital reserve represents the portion of the grant date fair value of unexercised share options granted to directors or employees of the Group under the Company's share option plan that has been recognised in accordance with the accounting policies adopted for share-based payments set out in note 1(r)(iii).

(ii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong. The reserve is dealt with in accordance with the accounting policies set out in note 1(v).

(iii) Property revaluation reserve

The property revaluation reserve represents the surplus on revaluation of land and buildings held for own use upon change of use to investment property and is dealt with in accordance with the accounting policies adopted for land and buildings held for own use in note 1(h).

NOTES TO THE FINANCIAL STATEMENTS

26 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(e) Distributability of reserves

At 31 December 2018, the aggregate amount of reserves available for distribution to equity shareholders of the Company, as calculated under the provisions of Part 6 of the Hong Kong Companies Ordinance, was $2,513,289,000 (2017: $2,302,108,000). After the end of the reporting period, the directors proposed a final dividend of HK14.00 cents (2017: HK13.00 cents) per share, amounting to $502,216,000 (2017: $460,741,000). This dividend has not been recognised as a liability at the end of the reporting period.

(f) Capital management

The Group's primary objective on capital management is to safeguard the Group's ability to continue as a going concern, while at the same time continues to provide returns for shareholders.

The Group regularly reviews its capital structure to maintain a balance between the enhancement of shareholders' returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. Adjustments are made to the capital structure as necessary in response to changes in economic conditions.

The capital structure of the Group consists of its total equity attributable to equity shareholders of the Company, comprising share capital and reserves as disclosed in the consolidated financial statements. The Group's gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as total debt (which includes bank and other loans, interest-bearing borrowings, and obligations under finance leases), less cash and bank deposits. Total capital is total equity attributable to equity shareholders of the Company, as shown in the consolidated statement of financial position, plus net debt.

26 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(f) Capital management (continued)

The Group's net gearing ratio at 31 December 2018 and 2017 is as follows:

	2018 $'000	2017 $'000
Bank and other loans	327,529	284,438
Interest-bearing borrowings	6,529,947	7,540,698
Obligations under finance leases	1,847	3,334
Total debt	6,859,323	7,828,470
Less: Cash and bank deposits	(1,049,109)	(1,635,635)
Net debt	5,810,214	6,192,835
Total equity attributable to equity shareholders of the Company	8,854,752	8,396,407
Total capital	14,664,966	14,589,242
Net gearing ratio	40%	42%

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

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade debtors and contract assets. The Group's exposure to credit risk arising from cash and bank deposits is limited because 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 its group companies, and the Group has a pre-defined policy and regular review on the rest of the cash portfolio. It is considered that the Group is exposed to a low credit risk in this respect.

Other than those disclosed in note 29, the Group does not provide any other guarantees which would expose the Group to credit risk. The maximum exposure to credit risk in respect of those financial guarantees at the end of the reporting period is disclosed in the note 29.

NOTES TO THE FINANCIAL STATEMENTS

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

(a) Credit risk (continued)

Trade debtors and contract assets

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 7.8% (2017: 29.7%) and 32.9% (2017: 39.8%) of the total trade debtors and contract assets was due from the Group's largest customer and the five largest customers respectively.

Individual 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. The Group does not obtain collateral from customers.

The Group measures loss allowances for trade debtors and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade debtors and contract assets as at 31 December 2018:

	Expected loss rate %	Gross carrying amount $'000	Loss allowance $'000
Within 1 year	0.5%	1,458,175	(7,869)
Over 1 year	13.4%	143,991	(19,342)
		1,602,166	(27,211)

Expected loss rates are based on actual loss experience over the past 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

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

(a) Credit risk (continued)

Comparative information under HKAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 1(k)(i) – policy applicable prior to 1 January 2018). At 31 December 2017, trade debtors of $79,779,000 was determined to be impaired. The aging analysis of trade debtors that were not considered to be impaired was as follows:

	2017 $'000
Within 1 year	1,113,666
Over 1 year	137,291
	1,250,957

Receivables that were not impaired related to a wide range of customers for whom there was no recent history of default and had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

Movement in the loss allowance account in respect of trade debtors and contract assets during the year is as follows:

	2018 **$'000**	2017 $'000
Balance at 31 December under HKAS 39 and at 1 January upon the initial application of HKFRS 9 (note)	**22,480**	38,759
Through acquisition of subsidiaries	**–**	539
Amounts written off	**(6,127)**	(20,731)
Impairment losses recognised	**12,429**	2,728
Exchange adjustments	**(1,571)**	1,185
Balance at 31 December	**27,211**	22,480

Note: Upon the adoption of HKFRS 9, no opening adjustment as at 1 January 2018 was made in respect of recognising additional ECLs on trade debtors and contract assets (see note 1(c)(i)).

NOTES TO THE FINANCIAL STATEMENTS

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

(b) Liquidity risk

Individual business units within the Group are responsible for their own cash management, including the short term investment of cash surpluses. The raising of loans to cover their expected cash demands must be approved by the finance committee or the board of directors of the Company. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table shows the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which is based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	2018						2017					
	Contractual undiscounted cash outflow						Contractual undiscounted cash outflow					
	Within 1 year or on demand $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	More than 5 years $'000	Total contractual undiscounted cash flow $'000	Carrying amount at 31 December $'000	Within 1 year or on demand $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	More than 5 years $'000	Total contractual undiscounted cash flow $'000	Carrying amount at 31 December $'000
Trade and other payables	1,490,401	–	–	–	1,490,401	1,490,401	1,742,870	–	–	–	1,742,870	1,742,870
Contract liabilities	156,475	–	–	–	156,475	156,475	–	–	–	–	–	–
Bank and other loans	327,723	–	–	–	327,723	327,529	286,626	–	–	–	286,626	284,438
Finance lease liabilities	990	907	–	–	1,897	1,847	1,662	1,023	852	–	3,537	3,334
Non-current interest-bearing borrowings	225,543	2,617,658	1,404,257	3,831,165	8,078,623	6,529,947	242,985	876,212	4,259,654	4,045,275	9,424,126	7,540,698
	2,201,132	2,618,565	1,404,257	3,831,165	10,055,119	8,506,199	2,274,143	877,235	4,260,506	4,045,275	11,457,159	9,571,340

NOTES TO THE FINANCIAL STATEMENTS

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

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from long-term borrowings. Borrowings issued at variable rates and 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. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period:

	2018		2017	
	Effective interest rate %	**$'000**	Effective interest rate %	$'000
Fixed rate borrowings:				
Guaranteed bonds	**6.1**	**3,489,880**	6.1	3,486,623
Finance lease liabilities	**–**	**–**	4.7	3,334
Bank and other loans	**2.8**	**36,666**	3.1	39,514
		3,526,546		3,529,471
Variable rate borrowings:				
Bank and other loans	**3.1**	**3,330,930**	2.6	4,298,999
Finance lease liabilities	**2.7**	**1,847**	–	–
		3,332,777		4,298,999
Total borrowings		**6,859,323**		7,828,470
Fixed rate borrowings as a percentage of total borrowings		**51.4%**		45.1%

NOTES TO THE FINANCIAL STATEMENTS

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

(c) Interest rate risk (continued)

(ii) Sensitivity analysis

At 31 December 2018, it is estimated that interest rates will not decrease and a general increase of 50 (2017: 50) basis points in interest rates, with all other variables held constant, would have decreased the Group's profit for the year and retained profits by approximately $16,558,000 (2017: $21,436,000). Other components of consolidated equity would not be affected (2017: $Nil) by the changes in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit for the year and retained profits that would arise assuming that the change in interest rates had occurred at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit for the year and retained profits is estimated as an annualised impact on interest expenses of such a change in interest rates. The analysis is performed on the same basis for 2017.

(d) Currency risk

(i) The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The major places of operating companies within the Group are located in Hong Kong and Macau, whose functional currency is either HKD or MOP.

A substantial portion of the Group's revenue and cost of sales and services are denominated in USD, MOP, HKD, RMB and SGD. The majority of the Group's current assets, current liabilities and transactions are denominated in USD, MOP, HKD, RMB and SGD. As the HKD is linked to the USD and the MOP is pegged to the HKD, it will not pose significant foreign currency risk between HKD, MOP and USD to the Group. The Group will monitor closely all possible exchange rate risks and implement the necessary hedging arrangement to mitigate risk from any significant fluctuation in foreign exchange rates.

(ii) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in HKD, translated using the spot rate at the end of the reporting period. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

	Exposure to foreign currencies (expressed in HKD)			
	2018		2017	
	RMB $'000	**SGD $'000**	RMB $'000	SGD $'000
Trade and other receivables and deposits	**77,013**	**188**	86,596	197
Cash and bank deposits	**81,950**	**18**	165,954	190
Trade and other payables	**(9,004)**	**(338)**	(18,763)	(220)
	149,959	**(132)**	233,787	167

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

(d) Currency risk (continued)

(iii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit for the year and retained profits that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. Other components of consolidated equity would not be affected (2017: $Nil) by the changes in the foreign exchange rates.

	2018		2017	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit for the year and retained profits $'000**	Increase/ (decrease) in foreign exchange rates	Effect on profit for the year and retained profits $'000
RMB	**10%**	**13,874**	5%	11,130
SGD	**5%**	**(5)**	5%	9

Results of the analysis as presented in the above table represented an aggregation of the instantaneous effects on each of the Group's entities' profit for the year and equity measured in the respective functional currencies, translated into HKD at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2017.

NOTES TO THE FINANCIAL STATEMENTS

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

(e) Fair value measurement

Financial liabilities measured at fair value

As at 31 December 2017, the fair value of the contingent consideration included in note 20 was measured at the end of the reporting period on a recurring basis and was categorised into Level 3 of the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

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

The contingent consideration was determined using discounted cash flows and the significant unobservable input used in the fair value measurement was expected future payment determined by considering the probability of the scenario that the acquired business would have achieved certain criteria during the designated period of time (2017:100%). At 31 December 2017, it was estimated that with all other variables held constant, the Group's profit would have increased by SGD1,750,000 (equivalent to approximately $10,224,000) if the acquired business failed to meet certain criteria during the designated period of time. At 31 December 2018, as the acquired business failed to meet certain criteria during the designated period of time, all of the contingent consideration was remeasured. As a result, a gain of SGD1,750,000 (equivalent to approximately $10,116,000) was recognised as other income for the year.

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

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

(e) Fair value measurement (continued)

During the years ended 31 December 2018 and 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

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

	2018 $'000	2017 $'000
Contingent consideration:		
At 1 January	10,224	18,781
Change in fair value	(10,116)	(9,931)
Exchange adjustments	(108)	1,374
At 31 December	–	10,224
Total gain for the year included in profit or loss for liabilities held at the end of the reporting period	10,116	9,931

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

28 COMMITMENTS

(a) Capital commitments

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

	2018 $'000	2017 $'000
Contracted for	54,436	18,480
Authorised but not contracted for	88,349	73,690

NOTES TO THE FINANCIAL STATEMENTS

28 COMMITMENTS (CONTINUED)

(b) Commitments under operating leases

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 $'000	2017 $'000
Land and buildings		
Within 1 year	**144,815**	112,808
After 1 year but within 5 years	**226,123**	194,282
Over 5 years	**234,479**	276,211
	605,417	583,301
Leased circuits		
Within 1 year	**141,748**	156,764
After 1 year but within 5 years	**51,499**	28,409
Over 5 years	**8,317**	94
	201,564	185,267

The leases typically run for an initial period of 1 to 5 years, with an option to renew the lease when all terms are renegotiated. None of these leases includes contingent rentals.

29 PERFORMANCE BONDS AND GUARANTEES

At 31 December 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 $78,463,000 (2017: $85,222,000). At 31 December 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 the reporting period is the total amount guaranteed by the performance bonds of $78,463,000 (2017: $85,222,000).

30 MATERIAL RELATED PARTY TRANSACTIONS

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

(i) Recurring transactions

	2018 $'000	2017 $'000
Management consultancy and technical services fee received/receivable from a fellow subsidiary	–	11,500
Internet data centre services fee received/receivable from fellow subsidiaries	8,904	8,799
Virtual private network services fee received/receivable from fellow subsidiaries	17,391	6,896
Internet access services fee received/receivable from fellow subsidiaries	8,064	4,075
Telecommunications services and related expenses paid/payable to		
– a fellow subsidiary	34,550	27,065
– an associate of the ultimate holding company	9,493	8,043
Professional fees paid/payable to a controlling shareholder for the provision of internal audit and company secretarial services	5,420	5,200
Operating lease charges, building management fees, water and electricity fees, air conditioning charges and car parking spaces rental paid/payable to fellow subsidiaries	31,004	29,860
Rental income and building management charges received/receivable from a fellow subsidiary	17,154	18,021

The directors are of the opinion that the above transactions with related parties were conducted on normal commercial terms in the ordinary course of business and the terms are fair and reasonable so far as the shareholders of the Company are concerned. The professional fees paid by the Group were reimbursement of costs incurred by the related party, the prices which the Group paid for the relevant services were fair and reasonable with reference to market price.

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

	2018 $'000	2017 $'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	70,746	74,155
Amount due from/(to) a fellow subsidiary included in:		
– Trade and other receivables and deposits	31,859	33,392
– Trade and other payables	(8,002)	(8,106)

NOTES TO THE FINANCIAL STATEMENTS

30 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

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

(iii) Commitments under operating leases payable to fellow subsidiaries

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

	2018 $'000	2017 $'000
Within 1 year	**16,428**	11,635
After 1 year but within 5 years	**21,229**	–
	37,657	11,635

The leases related to the fellow subsidiaries typically run for an initial period of 2 to 3 years and the related commitments are included in note 28(b).

(iv) Assets leased out under operating leases to a fellow subsidiary

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

	2018 $'000	2017 $'000
Within 1 year	**14,149**	6,485
After 1 year but within 5 years	**20,026**	–
	34,175	6,485

The leases related to a fellow subsidiary typically runs for an initial period of 3 years and the related commitments are included in note 11(f).

(v) Arrangements under funding and loan support agreement

On 25 April 2014, the Company and a fellow subsidiary of the Group entered into a funding and loan support agreement (as amended and supplemented by a first supplemental agreement dated 22 April 2015 and a second supplemental agreement dated 1 September 2016) pursuant to which the Company agreed to provide financial support of not more than RMB340,000,000 (equivalent to approximately $388,042,000) 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 19(c)). During the year ended 31 December 2018, the fellow subsidiary of the Group has fully repaid the outstanding amount of loans from commercial banks. Accordingly, the obligations of the Group under the offshore-security-onshore-loan arrangements have been discharged at the end of 31 December 2018.

30 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

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

(v) Arrangements under funding and loan support agreement (continued)

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:

	2018 $'000	2017 $'000
Guarantees issued to a fellow subsidiary	–	111,974
Deposits pledged to a fellow subsidiary	–	124,439

(b) Transactions with other government-related entities

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

Apart from transactions with the affiliates of the Group as disclosed above, the Group has collectively, but not individually, significant transactions with other government-related entities which include but not limited to the following:

– rendering and receiving services; and

– financial services arrangements.

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not government-related. The Group has established its buying, pricing strategy and approval process for purchases and sales of products and services. Such buying, pricing strategy and approval processes do not depend on whether the counterparties are government-related entities or not.

Having considered the potential for transactions to be impacted by related party relationships, the Group's buying, pricing strategy and approval processes, and what information would be necessary for an understanding of the potential effect of the relationship on the financial statements, the directors are of the opinion that the following transactions with other government-related entities require disclosure:

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

	2018 $'000	2017 $'000
Interest income from bank deposits	3,104	3,561
Finance costs on interest-bearing borrowings	(21,990)	(21,589)
Fees received/receivable from the provision of telecommunications services	1,125,968	1,031,327
Fees paid/payable for network, operations and support services	(898,141)	(801,466)
Purchase of other property, plant and equipment	(10,505)	(16,170)

NOTES TO THE FINANCIAL STATEMENTS

30 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Transactions with other government-related entities (continued)

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

	2018 $'000	2017 $'000
Bank deposits	**281,429**	292,085
Trade debtors	**266,267**	593,463
Contract assets	**315,602**	–
Trade and other payables	**(259,399)**	(259,974)
Interest-bearing borrowings	**(732,286)**	(1,013,594)

The interest-bearing borrowings from state-controlled banks at 31 December 2018 bore interest at the prevailing market rates.

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

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

	2018 $'000	2017 $'000
Within 1 year	**52,049**	68,346
After 1 year but within 5 years	**10,800**	8,751
	62,849	77,097

The leases related to the other government-related entities typically run for an initial period of 1 to 5 years and the related commitments are included in note 28(b).

(c) Key management personnel emoluments

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

	2018 $'000	2017 $'000
Short-term employee benefits	**52,602**	49,885
Share-based payments	**4,631**	7,565
Post-employment benefits	**740**	716
	57,973	58,166

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

31 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2018

	Note	2018 $'000	2017 $'000
Non-current assets			
Property, plant and equipment		2,411	85
Investments in subsidiaries		11,155,844	11,155,844
Deferred tax assets		3,597	3,037
		11,161,852	11,158,966
Current assets			
Trade and other receivables and deposits		2,049,348	2,368,700
Cash and bank deposits		273,411	784,893
		2,322,759	3,153,593
Current liabilities			
Trade and other payables		229,735	387,804
Current tax payable		4,237	4,330
		233,972	392,134
Net current assets		2,088,787	2,761,459
Total assets less current liabilities		13,250,639	13,920,425
Non-current liabilities			
Amount due to a subsidiary		3,500,276	3,494,353
Interest-bearing borrowings		2,699,043	3,682,931
		6,199,319	7,177,284
NET ASSETS		7,051,320	6,743,141
CAPITAL AND RESERVES	26(a)		
Share capital		4,402,388	4,280,542
Reserves		2,648,932	2,462,599
TOTAL EQUITY		7,051,320	6,743,141

Approved and authorised for issue by the board of directors on 28 February 2019.

Xin Yue Jiang
Director

Lin Zhenhui
Director

NOTES TO THE FINANCIAL STATEMENTS

32 NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

After the end of the reporting period, the directors proposed a final dividend. Further details are disclosed in note 26(b)(i).

33 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 1(c).

34 IMMEDIATE PARENT AND ULTIMATE CONTROLLING PARTY

At 31 December 2018, the directors consider the immediate parent and the ultimate controlling party of the Group to be Ease Action Investments Corp., which is incorporated in the British Virgin Islands, and CITIC Group Corporation, which is a wholly state-owned company in the PRC, respectively. The intermediate holding company, CITIC Limited, which is incorporated and listed in Hong Kong, produces financial statements available for public use.

35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019
Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019
Amendments to HKAS 28, *Long-term interest in associates and joint ventures*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the HKFRS 16 which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ending 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

HKFRS 16, *Leases*

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

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

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for other property, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the consolidated income statement over the period of the lease.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by HKFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in note 28(b), at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to $605 million and $202 million for land and buildings and leased circuits respectively. Upon the initial adoption of HKFRS 16, the opening balances of lease liabilities and the corresponding right-of-use assets will be adjusted to $598 million and $598 million respectively, after taking account the effects of discounting, as at 1 January 2019.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial statement from 2019 onwards.

PROPERTY

PROPERTY HELD FOR INVESTMENT

Location	Existing use	Term of lease
4 Lorry Parking Spaces on 1st Floor, 2 Lorry Parking Spaces on 2nd Floor, 1 Lorry Parking Space on 3rd Floor, 19th Floor, Units 2101 to 2104, 2107 and 2108 on 21st Floor and 22nd Floor, CITIC Telecom Tower, 93 Kwai Fuk Road, Kwai Chung, New Territories, Hong Kong	Lorry Parking Space and Ancillary Office	Medium
5th to 11th Floors, CITIC Telecom Tower, 93 Kwai Fuk Road, Kwai Chung, New Territories, Hong Kong	Industrial	Medium

GLOSSARY

5G	5th generation mobile networks
AI	Artificial Intelligence
Big Data	Big data refer to the use of predictive analytics, user behavior analytics, or certain other advanced data analytics methods that extract value from data
Cloud/Cloud computing	Cloud/Cloud computing is a model for enabling ubiquitous, convenient, on-demand network access to a shared pool of configurable computing resources (e.g. networks, servers, storage, applications and services etc.) that can be rapidly provisioned and released with minimal management effort or service provider interaction
DDoS	Distributed Denial-of-Service
eSIM	Embedded-SIM
ICT	Information and Communications Technology (ICT), an umbrella term that includes any communication device or application, encompassing: radio, television, cellular phones, computer and network hardware and software, satellite systems etc., as well as the various services and applications associated with them
IDC	Internet Data Centre
Internet of Things	The Internet of Things (IoT) is the network of physical devices, vehicles, home appliances and other items embedded with electronics, software, sensors, actuators, and connectivity which enables these objects to connect and exchange data
IPX	IP Packet Exchange (IPX), a network architecture connecting carriers and operators to provide a private interconnection that can support both bilateral and multilateral types of connections
IPoE	Internet Protocol over Ethernet
mobile App	Mobile Application
MVNO	A mobile virtual network operator (MVNO) is a wireless communications services provider that does not own the radio spectrum or wireless network infrastructure over which the MVNO provides services to its customers
OTT	Over-the-top (OTT) refers to the delivery of content and/or services over an infrastructure that is not under the same administrative control as the content or service provider
POP(s)	Point(s)-of-Presence, connection facilities co-located in the data centres of other telecoms operators that consist primarily of transmission equipment with which calls and data are routed to and from the Group's hub
SIMN	Single IMSI Multiple Number (SIMN) service, a Mobile VAS which allows mobile operators' subscribers to hold multiple overseas mobile phone numbers on their existing SIM cards, providing frequent travelers and mobile roamers the choice of saving roaming charges in SIMN-enabled regions
SMS	Short Message Service (SMS), a service available on most digital mobile phones that permits the sending of short messages between mobile phones, other handheld devices and even landline telephones
WiFi/Wi-Fi	WiFi/Wi-Fi is a popular technology that allows an electronic device to exchange data wirelessly (using radio waves) over a computer network, including high-speed Internet connections. The Wi-Fi Alliance defines Wi-Fi as any "wireless local area network (WLAN) products that are based on the Institute of Electrical and Electronics Engineers' (IEEE) 802.11 standards"

CORPORATE INFORMATION

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WEBSITE

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

STOCK CODES

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

SHARE REGISTRAR

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

FINANCIAL CALENDAR

Closure of Register:	9 May 2019 to 15 May 2019 and 21 May 2019 to 23 May 2019
Annual General Meeting:	15 May 2019, 10:30 a.m. JW Marriott Ballroom, Level 3 JW Marriott Hotel Hong Kong Pacific Place, 88 Queensway, Hong Kong
Final Dividend Payable:	4 June 2019

ANNUAL REPORT 2018

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

Shareholders having difficulty in receiving or gaining access to the Annual Report will, promptly upon request to the Company's Share Registrar, be sent a printed copy free of charge.

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

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CITIC TELECOM INTERNATIONAL

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