



中信國際電訊
CITIC TELECOM INTERNATIONAL

STOCK CODE: 1883



**CONNECT THE WORLD
CONNECT THE FUTURE**
INTERIM REPORT 2019



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 30 June 2019, 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.



VISION


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

MISSION

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

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MILESTONES

Month	Events
January 2019	<ul style="list-style-type: none"> Won the title of the “2018 Most Valuable TMT Stocks Company” at the “2018 Golden Hong Kong Stocks Awards” Launched DataMall 2.0 platform with SoftSIM services CITIC Telecom International CPC Limited (“CPC”) won the award of “Outstanding ICT Solution Provider 2018” at the “Quamnet Outstanding Enterprise Awards 2018” held by Quamnet Acclivis Technologies and Solutions Pte. Ltd. (“Acclivis”) clinched a major win with Australia’s largest property and infrastructure group to implement an IoT project for a new building in Singapore
February 2019	<ul style="list-style-type: none"> Completed the data roaming services feature upgrade of the “Auto Roaming System” of a China operator
March 2019	<ul style="list-style-type: none"> CPC and China Enterprise ICT Solutions Limited (“CEC”) won the “Chinese Champion in Europe Award” in “The European Business in China Awards 2019” by The European Union Chamber of Commerce in China With our Cloud Network Convergence Service, CEC won the “Product of the Year Award 2018” by the “Internet Weekly” of the Chinese Academy of Sciences Companhia de Telecomunicações de Macau, S.A.R.L. (“CTM”) exhibited various equipment and technology applications relating to 5G and Internet of Things, and introduced 5G development process in Macau for the first time, including 5G equipment, network communication equipment that supports SuperFast Wi-Fi technology, high-speed wireless transmission Virtual Reality (VR) equipment, network security solutions, etc. CTM signed the “Memorandum of Guangdong-Hong Kong-Macau Greater Bay Area Information and Communication Strategic Cooperation Agreement” with telecom operators in Mainland China and Hong Kong Acclivis has been conferred the “Business Eminence Awards 2019” by Dun & Bradstreet Singapore in recognition of Acclivis ability to pivot and thrive through the storm of digital transformation – from a system integrator to a full-fledged ICT services organisation
April 2019	<ul style="list-style-type: none"> With many other well-known operators and digital service providers, together with a China operator, kick-started the “5G International Cooperation Alliance” Launched DataMall 2.0 platform with Prepaid Data SIM services CTM and Hong Kong Polytechnic University (“PolyU”) signed a Memorandum of Understanding (MoU), under which both parties will jointly exploit big data assets riding on their respective resource advantages, and identify the smart services trend that customers need and further promote the development of “Digital Macau” through the leading analytical tools of the PolyU’s laboratory for Smart City and Spatial Big Data Analytics CTM launched the new mobile authentication technology “IPification” to provide a more secure authentication method for Macau’s smart applications Pacific Internet (S) Pte. Ltd. (“Pacific Internet”) became an accredited registrar of Singapore Network Information Centre (SGNIC) Pte Ltd. This accreditation enables customers to register their .sg domain names with Pacific Internet directly, thereby expanding Pacific Internet’s suite of services

MILESTONES

Month	Events
May 2019	<ul style="list-style-type: none"> CPC announced the expansion of its TrueCONNECT™ Hybrid Software Defined Wide Area Network (SD-WAN) solution with enhanced features from VMware SD-WAN by VeloCloud CEC received the award of “Good Faith Demonstration Enterprise of Guangdong Province (2012-2018 seven consecutive years)” by the Guangdong Provincial Enterprise Confederation and Guangdong Provincial Association of Entrepreneurs CTM connected the first 5G call in Macau on the “World Telecommunication and Information Society Day” CTM launched new Wi-Fi butler services with MESH Wi-Fi technology support Acclivis was awarded “Top Performing Business Partner for Hardware and Software (2018)” by IBM
June 2019	<ul style="list-style-type: none"> Awarded the “Most Trusted Service Partner Award – Mobile Business Excellence Award” by a China operator and a certificate of “UP Program” in the name of CITIC Telecom and CTM CPC won the “2019 Best SME’s Partner Award” by The Hong Kong General Chamber of Small and Medium Business CPC won “The Distinguished SD-WAN Managed Service Provider” award at “SME Partner Awards of Excellence 2019” by the Hong Kong Economic Journal CPC awarded the “Cloud Partner of the Year” by VMware, Inc. CPC and CEC received “The Distinguished Salesperson Award (DSA)” from the Hong Kong Management Association. It is the 16th consecutive year that CPC has won the award Won “The 17th International Customer Relationship Excellence Awards” from Asia Pacific Customer Service Consortium <ul style="list-style-type: none"> – CPC <ul style="list-style-type: none"> > Customer Service Manager of the Year 2019 (Network Communications – Service Center) > Customer Service Professional of the Year 2019 (Network Communications – Service Center) > Project Manager of the Year 2019 (Network Communications) – CEC <ul style="list-style-type: none"> > CRM Manager of the Year 2019 (Network Communications) > Customer Service Team Leader of the Year 2019 (Network Communications – Contact Center) > Customer Service Analyst of the Year 2019 (Network Communications – Contact Center) CEC won the “Rising Star Award of Automotive Digital Transformation Solution” organised by Shanghai Society of Automotive Engineers CTM took the lead to set up the first 5G experience zone in its Taipa shop in Macau to enable residents to have a first-hand experience on 5G and HD real time video streaming and an extremely high-speed connectivity of 5G networks in Macau

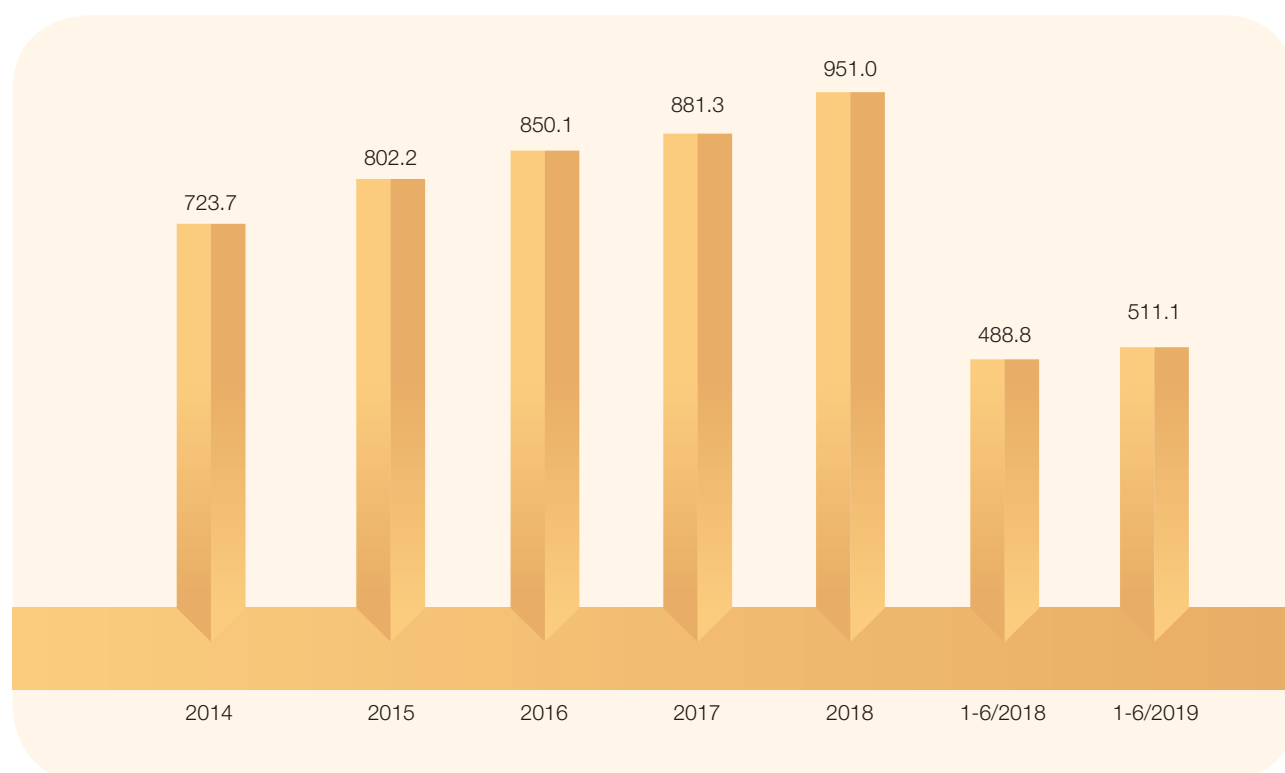
FINANCIAL HIGHLIGHTS

In HK\$ million	Half year ended 30 June		
	2019	2018	
Revenue			
Fees from the provision of telecommunications services	3,615.3	3,520.7	Increase 2.7%
Sale of equipment and mobile handsets	759.9	1,393.1	Decrease 45.5%
	4,375.2	4,913.8	Decrease 11.0%
Profit attributable to equity shareholders of the Company	511.1	488.8	Increase 4.6%
EBITDA*	1,251.1	1,080.6	Increase 15.8%
Earnings per share (HK cents)			
Basic	14.1	13.8	Increase 2.2%
Diluted	14.1	13.8	Increase 2.2%
Dividend per share (HK cents)			
Interim dividend	5.0	4.0	Increase 25.0%

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

Profit Attributable to Equity Shareholders of the Company

HK\$ million



FINANCIAL HIGHLIGHTS

In HK\$ million	30 June 2019	31 December 2018	
Total assets	18,434.3	17,965.2	Increase 2.6%
Total equity attributable to equity shareholders of the Company	9,019.8	8,854.8	Increase 1.9%
Total debt[^]	6,579.4	6,857.5	Decrease 4.1%
Less: Cash and bank deposits	(1,164.7)	(1,049.1)	Increase 11.0%
Net debt	5,414.7	5,808.4	Decrease 6.8%
Net gearing ratio[#]	38%	40%	Decrease 2.0%

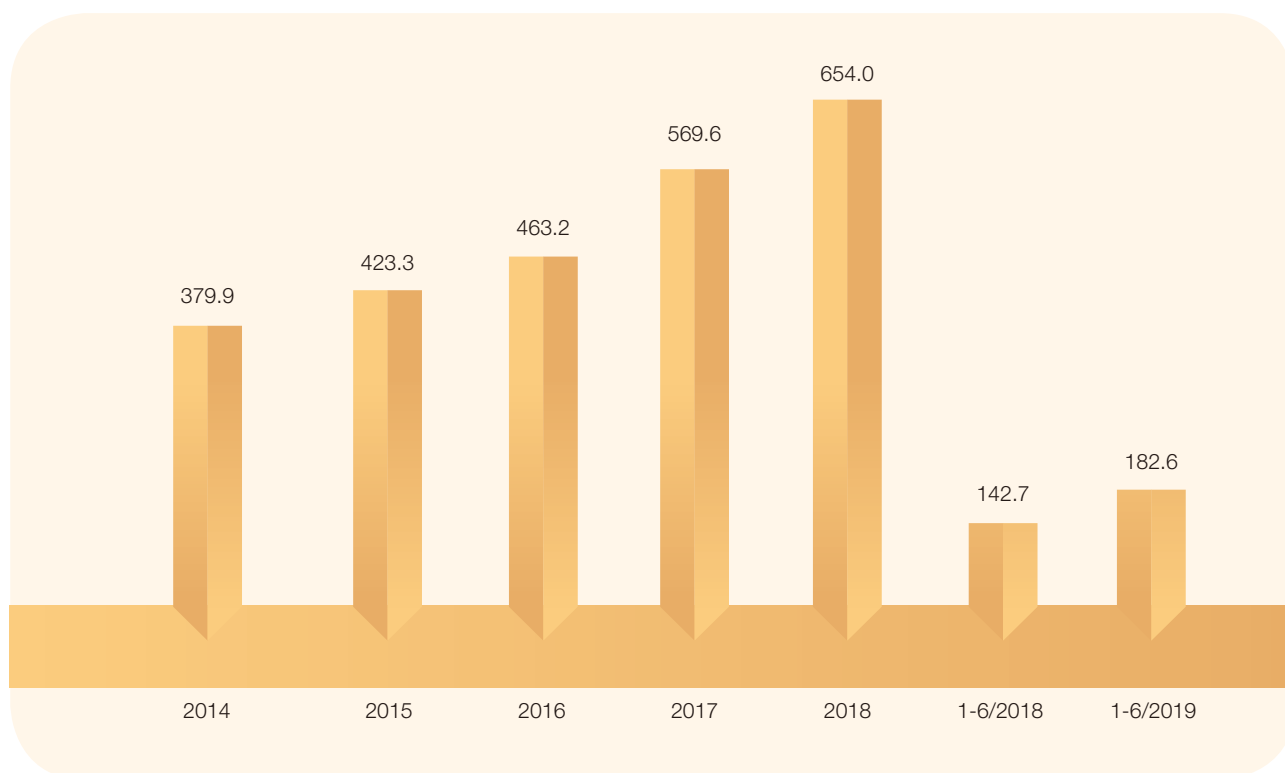
[^] Total debt includes current and non-current bank and other borrowings.

[#] 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

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

HK\$ million



Note: The dividends payable to equity shareholders of the Company for the period ended 30 June 2019 refers to interim dividend payable based on the number of shares in issue as at 30 June 2019 which may differ from the number of shares at the closing date of the register of members.



CHAIRMAN'S STATEMENT



I am pleased to present the operating and financial results of CITIC Telecom International Holdings Limited (the “Group”) for the first half of 2019.

In the first half of 2019, the Group made proactive efforts in practicing a new development concept and further implemented an innovative development strategy, with a view to fostering Internet-based operations as well as the sustainable enhancement in quality and efficiency of development. With mobile and Internet services remaining as its core focus, the Group placed emphasis on Cloud computing, Big Data, IoT and AI, driving business innovations to gather momentum for future developments. In order to react to the global economic upheaval, the Group proactively took the initiative to strengthen risk precaution with sober analysis. As such, the Group maintained growth in its core businesses and achieved an ongoing increase in profitability.

I. FINANCIAL RESULTS

Profit attributable to equity shareholders of the Group for the first half of 2019 was HK\$511.1 million, increasing by 4.6% compared to the corresponding period of the previous year. If valuation gain of investment property for the period in the sum of HK\$21.9 million was excluded, an increase of 5.2% was resulted when comparing to the corresponding period of the previous year.

The Group’s revenue from telecommunications services amounted to HK\$3,615.3 million, increased by 2.7% when comparing to the corresponding period of the previous year. Being affected by the decrease in revenue from the sales of equipment and mobile handsets, the Group’s total revenue amounted to HK\$4,375.2 million, representing a decline of 11.0% compared to the corresponding period of the previous year.

Basic earnings per share for the first half of the year amounted to HK14.1 cents, representing an increase of 2.2% compared to the corresponding period of the previous year.

The Board declared an interim dividend of HK5.0 cents per share for 2019, representing a 25.0% growth over the corresponding period of the previous year.

II. BUSINESS DEVELOPMENT

With regards to mobile sales & services business, the Group continued its leadership in network security and network quality while capturing the opportunities for business growth in the Guangdong-Hong Kong-Macau Greater Bay Area. The services and products launched for the Greater Bay Area received a broad welcome, resulting in a continuous growth in roaming services. The Group's 4G market share in Macau was 44.5%. As for 5G, building on its success in network technology testing last year, the Group fortified its communication with relevant government authorities and completed the plan for 5G network construction, contemplating the launch of 5G services simultaneously with the surrounding areas in 2020. The Group has been well-prepared for providing 5G cross-border communications services to operators in exploring further opportunities in 5G developments.

In connection with its Internet services business and Smart City, the Group continued to increase its investment in infrastructure for fibre network, data centre, Cloud computing and introduced high-profile partnerships to jointly expand the application of Smart City. Leveraging on its full fibre coverage, the Group continued to increase the weighting of fibre network for home and business broadband service customers. Fibrelisation rate of commercial broadband users was near 100%, while that of residential customers rose further to 89%. Phase IIIA project of the CITIC Telecom Tower Data Centre of the Group had been completed and sold out in batches, while phase IIIB project was expected to be launched to the market in the second half of 2020.

For its enterprise solutions services business, the Group further expanded its VPN coverage. TrueCONNECT, our exclusive VPN, covered more than 130 countries and regions around the globe with over 140 network service spots. It has established coverage advantage along the Belt and Road, and enabled access to more public Cloud platforms. As the Group constantly improved its IT capabilities, its services have transformed from network access to comprehensive ICT services including connectivity, Cloud computing, information security and disaster

recovery. Further ICT resources were devoted to the Guangdong-Hong Kong-Macau Greater Bay Area, where services such as co-location, Cloud computing, MPLSVPN and Internet, together with 100Mbps to 10Gbps high-speed Ethernet broadband, disaster recovery, network security, etc. were in place. Enterprise CT and IT services in Southeast Asia were integrated, with the outreach of services extended to Singapore, Thailand, Malaysia, Indonesia and the Philippines. High-end Cloud computing platform business had undergone healthy development in Southeast Asia, as evidenced by the ongoing expansion of coverage of the "Pacific Internet" brand. Southeast Asian market is expected to become another crucial business segment of the Group.

Revenue from the international telecommunications services business maintained a growing trend as compared to the same period of last year. The Group enjoyed a leading position in the market for Internet-based SMS business, and the A2P SMS business maintained a strong growth momentum. "DataMall自由行", the Group's Internet-based mobile roaming data trading platform, was updated to offer 4G services while the deployment of eSIM service was completed, laying a solid foundation for the expansion of business scale and grabbing the advance opportunities for 5G international roaming business. The Group achieved encouraging progress in the development of its Internet-based business system which has commenced to support part of its Internet-based business operations.

The Group attached great importance to product innovations and R&D work. The R&D team continued to expand and made breakthrough in the R&D work, contributing to the continuous enhancement in software capabilities and software standard. The Group's remarkable R&D achievements in many respects such as AI, 5G, Big Data, eSIM, CPaaS and Smart City provided new driving force for high quality development of the Group.

III. OUTLOOK

Looking forward, the Group will continue to promote technological innovations and make greater investment in R&D, so as to realise the transformation from a telecommunications operator to a Smart City operator, and the shift of focus from enterprise ICT services to government and enterprise ICT services in the era of the "Internet of Everything", which is driven by the 5G development. Concentrating on the mobile sales and services business, the Group will procure the comprehensive transformation to Internet-based international telecommunications services, whereas the level of Internet-based operations of the Group will be enhanced based on the R&D orientation on Big Data and AI. Further efforts will be made to pursue the strategy of "product-based project development", so that the Group may take advantage of the successful application of AI, Big Data, AR/VR to create customer-oriented products, energising the government and enterprises and delivering new value to customers.

The era of the "Internet of Everything" originated from 5G development represents not only a challenge, but also an opportunity. By continuing to step up its investment in 5G technological R&D and keeping abreast of market trends, the Group will seek to make a clear and correct deployment in the aspects of network planning, network construction, business preparation, opportunity seizing, future key developments and maintenance of a talent pool, so as to ensure a brighter development prospect for the Group.

The Group will continue to implement the strategy of "scale expansion of data centre business". The "digital upgrade project" of CITIC Telecom Tower will be facilitated in accordance with the established strategy of "centralised planning, stage-by-stage development", so as to heighten the scale and efficiency of the Group's data centre business. The coverage of "DataMall自由行" will be expanded and services will be upgraded on a continuous basis so that it may become a leverage for strengthening the competitive edges of the Group's mobile sales and services business and expediting the transformation of the Group's international telecommunications business.

Priority will be given to the development of Smart City services and greater investment will be made in the platform layer on the basis of global corporate services, regional corporate services and local corporate services under the enterprise solutions services of the Group. We will seek to forge our enterprise solutions services in the Southeast Asian markets to be our next business segment as soon as possible.

The Group will also continue the integration of CPC Europe in a faster pace to generate synergic effect for market expansion and explore successful experience for the Belt and Road Initiative.

As the dominant telecommunications operator in Macau, the Group shoulders vital responsibility in connection with the society, economy, livelihood, security and future developments of Macau. The Group will ensure the proper fulfilment of social responsibilities by CTM in addition to offering excellent telecommunications services, endeavouring to contribute to the stable and thriving development of Macau in the long term.

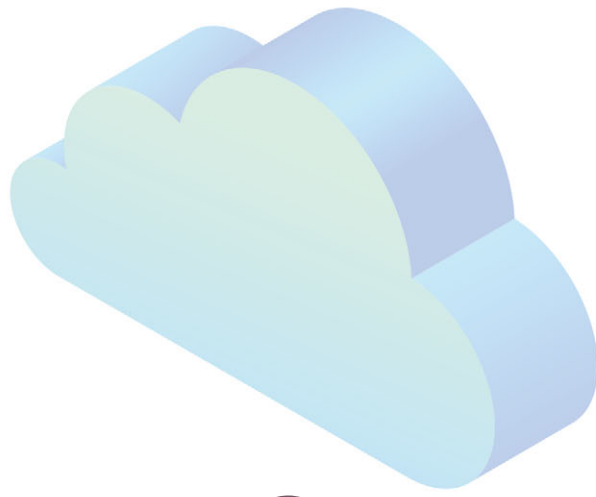
In a bid to sustain sound business development of the Group, high-calibre staff, working teams as well as outstanding corporate culture are of great essence. In this regard, the Group will strengthen staff trainings in terms of virtue, expertise, skills, competence and new technologies, with a view to building a first-rate management team, R&D team and business team, as well as an exceptional corporate culture. Staying sober and maintaining effective risk control are the way to a sustainable and healthy development of the enterprise.

In the first half of the year, the Group rose to challenges proactively and took up favourable opportunities by giving full play to its competitive edges. As it strived to open up new business and new markets, the operating results have been trending up steadily. This would not have been possible without the diligent effort of our staff, as well as the support of our shareholders, investors, 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, 14 August 2019



BUILDING THE FUTURE



FINANCIAL REVIEW

OVERVIEW

The Group achieved solid financial results for the six months ended 30 June 2019 with a net increase in profit of 4.5% to HK\$518.7 million when compared with the corresponding period of 2018. Profit attributable to equity shareholders and basic earnings per share for the six months ended 30 June 2019 amounted to HK\$511.1 million and HK14.1 cents, representing a period-on-period increase of 4.6% and 2.2% respectively.

The Group's revenue dropped 11.0% from HK\$4,913.8 million for the six months ended 30 June 2018 to HK\$4,375.2 million for the six months ended 30 June 2019 mainly due to the significant decrease in equipment and mobile handsets sales for the period. Total revenue for telecommunications services (i.e. excluding equipment and mobile handsets sales) for the current period was up by 2.7% to HK\$3,615.3 million when compared with the first six months of 2018 as the Group achieved growth in nearly all its major businesses.

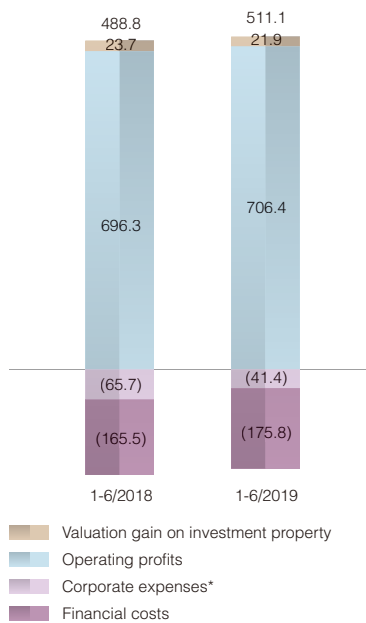
Summary of Financial Results

In HK\$ million	Half year ended 30 June		Increase/(Decrease)	
	2019	2018		
Revenue	4,375.2	4,913.8	(538.6)	(11.0%)
Valuation gain on investment property	21.9	23.7	(1.8)	(7.6%)
Other income and net loss	12.7	13.3	(0.6)	(4.5%)
Cost of sales and services	(2,386.0)	(3,047.9)	(661.9)	(21.7%)
Depreciation and amortisation	(449.0)	(351.9)	97.1	27.6%
Staff costs	(501.0)	(461.0)	40.0	8.7%
Other operating expenses	(265.5)	(356.4)	(90.9)	(25.5%)
Profit from consolidated activities	808.3	733.6	74.7	10.2%
Finance costs	(175.8)	(165.5)	10.3	6.2%
Share of joint venture results	(0.9)	2.0	N/A	N/A
Income tax	(112.9)	(73.7)	39.2	53.2%
Profit for the period	518.7	496.4	22.3	4.5%
Less: Non-controlling interests	(7.6)	(7.6)	–	–
Profit attributable to equity shareholders of the Company	511.1	488.8	22.3	4.6%
EBITDA *	1,251.1	1,080.6	170.5	15.8%

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

Profit attributable to equity shareholders of the Company

HK\$ million



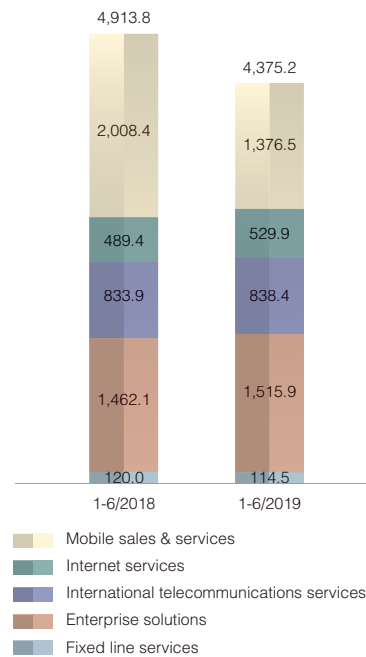
* Corporate expenses included staff costs for corporate functions, equity-settled share-based payment expenses, listing fee, unallocated staff bonus and others.

Profit attributable to equity shareholders of the Company for the six months ended 30 June 2019 amounted to HK\$511.1 million, an increase of HK\$22.3 million when compared with the corresponding period of 2018. Excluding the valuation gain on investment property of HK\$21.9 million (six months ended 30 June 2018: HK\$23.7 million), profit attributable to equity shareholders of the Company for the first six months of 2019 would amount to HK\$489.2 million (six months ended 30 June 2018: HK\$465.1 million) which represented a period-on-period increase of 5.2% as the Group has strengthened its capabilities across nearly all its major businesses.

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.

HK\$ million



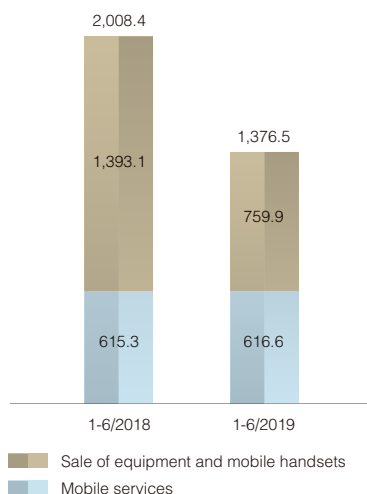
The Group's revenue from telecommunications services for the six months ended 30 June 2019 amounted to HK\$3,615.3 million, which represents a period-on-period increase of 2.7% or HK\$94.6 million. The Group's total revenue amounted to HK\$4,375.2 million for the six months ended 30 June 2019, which represents a period-on-period decrease of 11.0% or HK\$538.6 million.

The Group achieved growth in enterprise solutions revenue by HK\$53.8 million, growth in international telecommunications services revenue by HK\$4.5 million, growth in Internet services revenue by HK\$40.5 million, and growth in mobile services revenue by HK\$1.3 million when compared with the corresponding period of 2018. However, the significant drop in equipment and mobile handsets sales revenue by HK\$633.2 million and slight decrease in fixed line services revenue has offset the growth in other major businesses for the period.

Mobile sales & services

Mobile sales & services revenue includes the revenue from equipment and mobile handsets sales, mobile roaming services, and other mobile value-added services. Total mobile sales & services revenue amounted to HK\$1,376.5 million for the first six months of 2019, a decrease of 31.5% when compared with the corresponding period of 2018. The decrease in mobile sales & services revenue for the period was due to the significant drop in equipment and mobile handsets sales.

HK\$ million



The number of postpaid subscribers increased 4.8% to approximately 348,000 (31 December 2018: approximately 332,000 subscribers), whilst prepaid customers dropped 9.5% to approximately 562,000 (31 December 2018: approximately 621,000 subscribers). The overall number of subscribers as at 30 June 2019 was approximately 910,000, a decrease of around 4.5% when compared with 31 December 2018, of which approximately 98.5% (31 December 2018: 97.7%) were 4G subscribers.

The Group's mobile market share in Macau was around 42.9% as at 30 June 2019 (31 December 2018: 43.7%), while the Group had around 44.5% market share in the 4G subscribers of Macau mobile market as at 30 June 2019 (31 December 2018: 46.3%).

Internet services

Internet services revenue including the Group's data centre revenue amounted to HK\$529.9 million for the current period which represented an increase of HK\$40.5 million or 8.3% when compared with the corresponding period in 2018. 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 2.5% increase in the average number of broadband users to around 188,800 subscribers. The Group's Internet market share in Macau was around 96.8% (31 December 2018: 97.0%) while broadband market penetration rate in Macau was around 88.2% (31 December 2018: 89.0%) as at 30 June 2019.

International telecommunications services

International telecommunications services revenue includes revenue from voice services, SMS and "DataMall 自由行" services.

Voice services revenue decreased by HK\$66.7 million or 10.7% to HK\$554.4 million for the six months ended 30 June 2019 over the same period in 2018 as there were unanticipated increases in traffic to regions with relatively higher tariffs during the first six months of 2018 which led to the surge in voice service revenue.

The Group was able to continue capitalising 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. Total SMS revenue surged 49.3% to HK\$236.2 million when compared with the first six months of 2018.

Revenue from "DataMall 自由行" services dropped slightly by HK\$6.8 million to HK\$47.8 million for the current period due to the fact that certain operators were undertaking system upgrades during the period.

Enterprise solutions

Enterprise solutions revenue increased 3.7% from HK\$1,462.1 million in the first six months of 2018 to HK\$1,515.9 million in the first six months of 2019. The increase was mainly due to higher revenue from casinos and resorts projects as well as growth in leased lines revenue in Macau, and steady growth in enterprise solutions services in Mainland China.

Fixed line services

In line with global trends of declining fixed IDD traffic volumes and the decrease in fixed residential lines, revenue from fixed line services decreased 4.6% to HK\$114.5 million for the period when compared with the same period of 2018.

Profit for the period

The Group achieved HK\$518.7 million in profit for the period, an increase of HK\$22.3 million when compared with the first six months of 2018. The increase was mainly due to the combined impact of the following factors:

Revenue

The Group's revenue from telecommunications services amounted to HK\$3,615.3 million, an increase of 2.7% when compared with the first six months of 2018. The Group's total revenue amounted to HK\$4,375.2 million, representing a decrease of 11.0% when compared with the interim period of 2018. During the period, apart from equipment and mobile handsets sales and fixed line services, the Group experienced growth in all major businesses, especially for Internet services and enterprise solutions when compared with the corresponding period of 2018.

Valuation gain on investment property

Certain floors of the property held by the Group were leased out to third parties and an affiliate of the Group. These floors were revalued as at 30 June 2019 by the Group's independent surveyors with a valuation gain of HK\$21.9 million (six months ended 30 June 2018: HK\$23.7 million).

Cost of sales and services

Cost of sales and services included costs of goods sold, and network, operations and support expenses. Consistent with the decrease in revenue, cost of sales and services amounted to HK\$2,386.0 million, a decrease of HK\$661.9 million or 21.7% when compared with the first six months of 2018. The decrease is mainly due to the significant drop in equipment and mobile handsets sales and the Group's continued efforts in achieving greater cost efficiency during the period.

Depreciation and amortisation

Depreciation and amortisation expenses totalled HK\$449.0 million for the six months ended 30 June 2019, an increase of HK\$97.1 million when compared to the first six months of 2018. Excluding additional depreciation expenses of HK\$85.9 million arising from the adoption of Hong Kong Financial Reporting Standard 16, *Leases* ("HKFRS 16") which was first effective for the Group on 1 January 2019, depreciation and amortisation for the period increased period-on-period by 3.2%.

Staff costs

Staff costs for the period increased period-on-period by 8.7% or HK\$40.0 million to HK\$501.0 million mainly due to average salary increment and the increase in headcount as a result of the Group's continuous business expansion.

Other operating expenses

Other operating expenses for the first six months of 2019 amounted to HK\$265.5 million which represents a period-on-period decrease of 25.5% or HK\$90.9 million. Excluding the impact of adopting HKFRS 16 of approximately HK\$41.6 million and an exceptional item recorded in the first half of 2018, being the write off for other receivables of HK\$26.2 million, other operating expenses decreased 7.0% when compared with the corresponding period of 2018. The decrease was mainly due to the Group's continued success in its cost saving initiatives.

Finance costs

As a result of the increase in the general borrowing rate, the effective variable interest rate for the Group increased from 3.1% p.a. as at 30 June 2018 to 3.3% p.a. as at 30 June 2019. Also with the implementation of the new accounting standard on leases, additional interest expenses in relation to the lease liabilities of HK\$9.2 million was recognised during the period. Excluding the interest expenses arising from the new accounting standard on leases, finance costs increased by only 0.7% when compared with the corresponding period of 2018 due to the Group's effective policies to manage its interest rate risks.

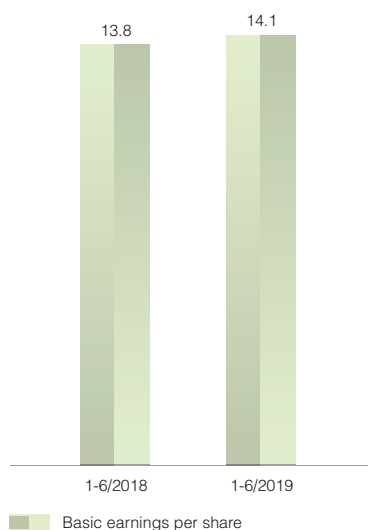
Income tax

Income tax for the period amounted to HK\$112.9 million, an increase of HK\$39.2 million when compared with the first six months of 2018. The increase was mainly due to the net impact from the reversal of the over-provision of tax in the first six months of 2018. Excluding finance costs, additional tax expense from under-provision (six months ended 30 June 2018: reversal of the over-provision of taxes) and the tax effect from the recognition of temporary differences in relation to prior years, the effective tax rate remained stable at around 14% for the six months period ended 30 June 2019 and 30 June 2018 respectively.

Earnings per share ("EPS")

Basic EPS and diluted EPS both amounted to HK14.1 cents which represents an increase of 2.2% respectively when compared with the corresponding period of 2018.

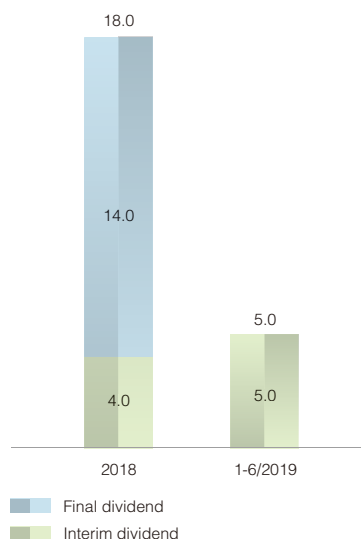
HK cent



Dividends per share

Interim dividend of HK5.0 cents per share is proposed for the first half of 2019.

HK cent



Cash flows

In HK\$ million	Half year ended 30 June			
	2019	2018	Increase/(Decrease)	
<i>Source of cash:</i>				
Cash inflows from business operations	1,288.4	1,079.2	209.2	19.4%
Decrease in pledged deposits	0.1	220.4	(220.3)	(100.0%)
Other cash inflows	169.6	53.4	116.2	>100%
Sub-total	1,458.1	1,353.0	105.1	7.8%
<i>Use of cash:</i>				
Net capital expenditure*	(207.5)	(205.4)	2.1	1.0%
Dividends paid to equity shareholders and non-controlling interests	(520.4)	(471.8)	48.6	10.3%
Net cash outflows from borrowings	(615.8)	(507.4)	108.4	21.4%
Sub-total	(1,343.7)	(1,184.6)	159.1	13.4%
Net increase in cash and cash equivalents	114.4	168.4	(54.0)	(32.1%)

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

The Group maintained a strong cash position, where HK\$1,288.4 million cash inflow was generated from operations. The use of cash mainly comprised of capital expenditure, borrowings and repayments, dividends distribution to equity shareholders and non-controlling interests and various other payments. In total, the Group recorded a net cash inflow of HK\$114.4 million for the six months ended 30 June 2019.

Capital expenditure

The Group's total capital expenditure for the six months ended 30 June 2019 amounted to HK\$153.8 million. As the Group continued its data centres' expansion, HK\$3.6 million of fitting-out costs were incurred during the period and the remainder of the capital expenditure were mainly for network systems upgrade and expansion.

Capital commitments

As at 30 June 2019, the Group had outstanding capital commitments of HK\$460.3 million, mainly for the data centre development, system upgrades and construction costs of networks, and purchase of telecommunications equipment which had yet to be delivered to the Group. Of these commitments, HK\$291.4 million were outstanding contractual capital commitments and HK\$168.9 million were capital commitments authorised but for which contracts had yet to be entered into.

TREASURY POLICY AND FINANCIAL RISK MANAGEMENT

General

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

1. Debt and leverage

As the Group's net debt decreased to HK\$5,414.7 million, the net gearing ratio decreased from 40% as at 31 December 2018 to 38% as at 30 June 2019.

As at 30 June 2019, total debt and net debt of the Group were as follows:

In HK\$ million equivalents	Denomination							Total
	HKD	USD	SGD	EUR	RMB	MOP	Others	
Total debt	2,390.2	3,569.6	462.1	157.5	–	–	–	6,579.4
Less: Cash and bank deposits	(349.4)	(353.7)	(84.2)	(31.5)	(132.6)	(156.2)	(57.1)	(1,164.7)
Net debt/(cash)	2,040.8	3,215.9	377.9	126.0	(132.6)	(156.2)	(57.1)	5,414.7

As at 30 June 2019, the Group's net gearing ratio was as follows:

In HK\$ million	30 June 2019	31 December 2018
Total debt	6,579.4	6,857.5
Less: Cash and bank deposits	(1,164.7)	(1,049.1)
Net debt	5,414.7	5,808.4
Total equity attributable to equity shareholders of the Company	9,019.8	8,854.8
Total capital	14,434.5	14,663.2
Net gearing ratio	38%	40%

Note: The Group has initially applied HKFRS 16, *Leases*, using the modified retrospective method and adjusted the opening balances as at 1 January 2019. For leases previously classified as finance leases, the Group recognised the carrying amount of the lease assets and lease liabilities immediately before transition as the carrying amount of the right-of-use assets and the lease liabilities at the date of initial application. Therefore, comparative figures for net debt were amended to exclude lease liabilities, which were previously presented as "obligations under finance leases".

As at 30 June 2019, the total debt amounted to HK\$6,579.4 million, of which HK\$357.9 million will be matured in the coming twelve months, against cash and bank deposits of HK\$1,164.7 million.

The maturity profile of the Group's total debt as at 30 June 2019 was as follows:

In HK\$ million	Within 1 year	After 1 year but within 2 years	After 2 years but within 3 years	After 3 years but within 4 years	After 4 years but within 5 years	After 5 years	Total
Bank and other borrowings	357.9	397.1	741.8	397.1	1,194.0	–	3,087.9
US\$450 million 6.1% guaranteed bonds	–	–	–	–	–	3,491.5	3,491.5
	357.9	397.1	741.8	397.1	1,194.0	3,491.5	6,579.4

The Group's total debt decreased to HK\$6,579.4 million which was mainly due to the early repayment of bank loans amounted to HK\$300.0 million from its surplus cash during the period. In addition, in order to reduce the cost of funding, the Group entered into new facility agreements in March 2019 to refinance the borrowings under a facility agreement signed in 2015.

Available sources of financing

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

The Group's cash balance as at 30 June 2019 was more than sufficient to cover the repayments of outstanding amount of total debt of HK\$357.9 million in the coming twelve months and contractual capital commitments of HK\$291.4 million as at 30 June 2019.

As at 30 June 2019, the Group had available trading facilities of HK\$298.0 million. The amount of HK\$80.1 million was utilised as guarantees for performance to customers/the Macau Government and costs payable to telecoms operators and others.

Around HK\$13.6 million of the utilised facilities were required to be secured by pledged deposits or right-of-use assets as at 30 June 2019.

As at 30 June 2019, the type of facilities of the Group was summarised as follows:

In HK\$ million	Total available facilities	Amount utilised	Amount unutilised
Bank and other borrowings			
– Committed facilities:			
Term loans	2,753.3	2,753.3	–
– Uncommitted facilities:			
Short-term facilities	879.4	274.9	604.5
	3,632.7	3,028.2	604.5
Lease liabilities – Committed facilities	1.4	1.4	–
Guaranteed bonds – Committed facility			
US\$450 million 6.1% guaranteed bonds	3,510.0	3,510.0	–
Trading facilities – Uncommitted facilities	298.0	80.1	217.9
Total	7,442.1	6,619.7	822.4

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 flows from the Group's operating activities enable the Group to 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 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. As at 30 June 2019 and 31 December 2018, the Group was in compliance with the relevant requirements.

4. Contingent liabilities

As at 30 June 2019 and 31 December 2018, the Group had no significant contingent liabilities.

5. Performance bonds, guarantees and pledged assets

In HK\$ million	30 June 2019	31 December 2018
Performance bonds provided to the Macau Government and other customers	75.4	78.5
Others guarantees	4.7	4.9
Total	80.1	83.4

As at 30 June 2019, bank deposits of HK\$11.2 million (as at 31 December 2018: HK\$11.3 million) and right-of-use assets of HK\$1.9 million (as at 31 December 2018: HK\$2.7 million, which were previously classified as other property, plant and equipment) 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 30 June 2019, the Company issued guarantees of HK\$747.8 million (as at 31 December 2018: 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. are designated for the provision of basic infrastructure of public telecommunications services. They may need to be shared with other licensed telecommunications operators or the Macau Government with fair compensation, or, upon termination of the concession agreement, assigned in favour of the Macau Government.

6. Interest rate risk

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 30 June 2019, approximately 54.3% (as at 31 December 2018: approximately 51.4%) of the Group's borrowings (including bank and other borrowings and US\$450 million 6.1% guaranteed bonds) were linked to fixed interest rates. During the period, the Group did not enter into any interest rate swap arrangement.

Average borrowing costs

As at 30 June 2019, the average borrowing costs, after the inclusion of amortisation of transaction costs, was approximately 4.8% (as at 31 December 2018: 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 35.1% and 32.9% of the Group's total trade debtors and contract assets as at 30 June 2019 and 31 December 2018 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.

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 30 June 2019, the Group has maintained a cash balance of HK\$1,146.7 million (as at 31 December 2018: HK\$1,025.5 million) in the above-mentioned financial institutions, representing approximately 98.5% (as at 31 December 2018: 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.

FORWARD LOOKING STATEMENTS

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

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

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

HUMAN RESOURCES

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

As at 30 June 2019, the Group employed a total of 2,568 employees for its headquarters in Hong Kong and its subsidiaries. Number of employees in Hong Kong was 531. Employees in Mainland China and Macau totalled 1,699. Employees in overseas countries totalled 338.

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

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

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

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

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

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

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

INTERIM FINANCIAL REPORT



CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2019 (Expressed in Hong Kong dollars)

		Six months ended 30 June 2019 (Unaudited) \$'000	2018 (Unaudited) \$'000
	Note		
Revenue	3(a)	4,375,196	4,913,779
Valuation gain on investment property	9(c)	21,902	23,683
Other income	4	18,024	18,361
Other net loss	5	(5,329)	(5,069)
		4,409,793	4,950,754
Cost of sales and services		(2,386,052)	(3,047,919)
Depreciation and amortisation	6(c)	(448,992)	(351,884)
Staff costs	6(b)	(500,968)	(461,002)
Other operating expenses		(265,473)	(356,398)
		808,308	733,551
Finance costs	6(a)	(175,795)	(165,467)
Share of (loss)/profit of a joint venture		(850)	2,024
Profit before taxation	6	631,663	570,108
Income tax	7	(112,909)	(73,729)
Profit for the period		518,754	496,379
Attributable to:			
Equity shareholders of the Company		511,129	488,754
Non-controlling interests		7,625	7,625
Profit for the period		518,754	496,379
Earnings per share (HK cents)	8		
Basic		14.1	13.8
Diluted		14.1	13.8

The notes on pages 32 to 57 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 14(a).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019 (Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	\$'000	\$'000
Profit for the period	518,754	496,379
Other comprehensive income for the period (after reclassification adjustments)		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of financial statements of operations outside Hong Kong, net of \$Nil tax	(4,977)	(10,804)
Other comprehensive income for the period	(4,977)	(10,804)
Total comprehensive income for the period	513,777	485,575
Attributable to:		
Equity shareholders of the Company	506,352	478,144
Non-controlling interests	7,425	7,431
Total comprehensive income for the period	513,777	485,575

The notes on pages 32 to 57 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019 (Expressed in Hong Kong dollars)

	Note	30 June 2019 (Unaudited) \$'000	31 December 2018 (Audited) \$'000
Non-current assets			
Investment property	9	651,254	629,352
Other property, plant and equipment	9	2,432,257	2,767,198
		3,083,511	3,396,550
Right-of-use assets	2	752,650	–
Intangible assets		1,469,265	1,553,522
Goodwill		9,715,939	9,717,906
Interest in a joint venture		7,924	8,924
Non-current contract assets		31,351	41,294
Non-current other receivables and deposits	10	115,800	119,937
Deferred tax assets		66,780	67,957
		15,243,220	14,906,090
Current assets			
Inventories and other contract costs		106,256	101,069
Contract assets		473,214	530,404
Trade and other receivables and deposits	10	1,439,035	1,375,350
Current tax recoverable		7,860	3,200
Cash and bank deposits	11(a)	1,164,744	1,049,109
		3,191,109	3,059,132
Current liabilities			
Trade and other payables	12	1,432,067	1,496,802
Contract liabilities		161,367	156,475
Bank and other borrowings	13	357,904	327,529
Lease liabilities	2	138,334	952
Current tax payable		270,998	165,122
		2,360,670	2,146,880
Net current assets		830,439	912,252
Total assets less current liabilities		16,073,659	15,818,342

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2019	31 December 2018
	Note	(Unaudited)	(Audited)
		\$'000	\$'000
Non-current liabilities			
Non-current bank and other borrowings	13	6,221,472	6,529,947
Non-current lease liabilities	2	413,496	895
Non-current other payables	12	40,927	44,487
Net defined benefit retirement obligation		101,895	99,578
Deferred tax liabilities		236,802	247,719
		7,014,592	6,922,626
NET ASSETS		9,059,067	8,895,716
CAPITAL AND RESERVES			
Share capital	14(b)	4,606,541	4,402,388
Reserves		4,413,263	4,452,364
Total equity attributable to equity shareholders of the Company		9,019,804	8,854,752
Non-controlling interests		39,263	40,964
TOTAL EQUITY		9,059,067	8,895,716

The notes on pages 32 to 57 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019 (Expressed in Hong Kong dollars)

Attributable to equity shareholders of the Company								
Note	Share capital (Unaudited) \$'000	Capital reserve (Unaudited) \$'000	Property revaluation reserve (Unaudited) \$'000	Exchange reserve (Unaudited) \$'000	Retained profits (Unaudited) \$'000	Total (Unaudited) \$'000	Non-controlling interests (Unaudited) \$'000	Total equity (Unaudited) \$'000
Balance as at 1 January 2018	4,280,542	104,594	–	(10,605)	4,021,876	8,396,407	33,791	8,430,198
Changes in equity for the six months ended 30 June 2018:								
Profit for the period	–	–	–	–	488,754	488,754	7,625	496,379
Other comprehensive income for the period	–	–	–	(10,610)	–	(10,610)	(194)	(10,804)
Total comprehensive income for the period	–	–	–	(10,610)	488,754	478,144	7,431	485,575
Dividend paid to non-controlling interests	–	–	–	–	–	–	(8,545)	(8,545)
Shares issued under share option plan	14(b)(ii)	56,759	(11,761)	–	–	44,998	–	44,998
Equity-settled share-based transactions	6(b)	–	9,649	–	–	9,649	–	9,649
Dividends approved in respect of the previous financial year	14(a)(ii)	–	–	–	(463,252)	(463,252)	–	(463,252)
Release upon lapse of share options	15(a)	–	(14,655)	–	14,655	–	–	–
	56,759	(16,767)	–	–	(448,597)	(408,605)	(8,545)	(417,150)
Balance as at 30 June 2018	4,337,301	87,827	–	(21,215)	4,062,033	8,465,946	32,677	8,498,623
Balance as at 1 July 2018	4,337,301	87,827	–	(21,215)	4,062,033	8,465,946	32,677	8,498,623
Changes in equity for the six months ended 31 December 2018:								
Profit for the period	–	–	–	–	462,285	462,285	9,228	471,513
Other comprehensive income for the period	–	–	52,578	(5,437)	(37,368)	9,773	(941)	8,832
Total comprehensive income for the period	–	–	52,578	(5,437)	424,917	472,058	8,287	480,345
Shares issued under share option plan	14(b)(ii)	65,087	(12,740)	–	–	52,347	–	52,347
Equity-settled share-based transactions	–	7,131	–	–	–	7,131	–	7,131
Release upon lapse of share options	15(a)	–	(2,472)	–	2,472	–	–	–
Dividends declared in respect of the current financial year	14(a)(i)	–	–	–	(142,730)	(142,730)	–	(142,730)
	65,087	(8,081)	–	–	(140,258)	(83,252)	–	(83,252)
Balance as at 31 December 2018 (Audited)	4,402,388	79,746	52,578	(26,652)	4,346,692	8,854,752	40,964	8,895,716

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to equity shareholders of the Company								
Note	Share capital (Unaudited) \$'000	Capital reserve (Unaudited) \$'000	Property revaluation reserve (Unaudited) \$'000	Exchange reserve (Unaudited) \$'000	Retained profits (Unaudited) \$'000	Total (Unaudited) \$'000	Non-controlling interests (Unaudited) \$'000	Total equity (Unaudited) \$'000
Balance as at 1 January 2019	4,402,388	79,746	52,578	(26,652)	4,346,692	8,854,752	40,964	8,895,716
Changes in equity for the six months ended 30 June 2019:								
Profit for the period	-	-	-	-	511,129	511,129	7,625	518,754
Other comprehensive income for the period	-	-	-	(4,777)	-	(4,777)	(200)	(4,977)
Total comprehensive income for the period	-	-	-	(4,777)	511,129	506,352	7,425	513,777
Dividend paid to non-controlling interests	-	-	-	-	-	-	(9,126)	(9,126)
Shares issued under share option plan	14(b)(ii)	204,153	(39,685)	-	-	164,468	-	164,468
Equity-settled share-based transactions	6(b)	-	5,538	-	-	5,538	-	5,538
Dividends approved in respect of the previous financial year	14(a)(ii)	-	-	-	(511,306)	(511,306)	-	(511,306)
Release upon lapse of share options	15(a)	-	(155)	-	155	-	-	-
		204,153	(34,302)	-	(511,151)	(341,300)	(9,126)	(350,426)
Balance as at 30 June 2019	4,606,541	45,444	52,578	(31,429)	4,346,670	9,019,804	39,263	9,059,067

The notes on pages 32 to 57 form part of this interim financial report.

CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2019 (Expressed in Hong Kong dollars)

		Six months ended 30 June 2019 (Unaudited) \$'000	2018 (Unaudited) \$'000
	Note		
Operating activities			
Cash generated from operations	11(d)	1,310,294	1,074,782
Tax paid:			
– Hong Kong Profits Tax paid		(14,510)	(4,140)
– Tax paid for jurisdictions outside Hong Kong		(9,664)	(8,275)
Tax refunded:			
– Hong Kong Profits Tax refunded		2,192	16,795
– Tax refunded for jurisdictions outside Hong Kong		83	4
Net cash generated from operating activities		1,288,395	1,079,166
Investing activities			
Payment for the purchase of other property, plant and equipment		(208,999)	(205,884)
Proceeds from sale of other property, plant and equipment		1,536	489
Decrease in pledged deposits		110	220,413
Interest received		5,110	8,396
Net cash (used in)/generated from investing activities		(202,243)	23,414
Financing activities			
Proceeds from new bank and other borrowings		2,325,134	143,600
Proceeds from new shares issued under share option plan		164,468	44,998
Payment for transaction costs on bank borrowings		(12,704)	–
Capital element of lease rentals paid		(81,269)	(716)
Repayment of bank and other loans		(2,679,726)	(494,594)
Interest element of lease rentals paid		(9,208)	(65)
Other borrowing costs paid		(158,030)	(155,576)
Dividends paid to equity shareholders of the Company		(511,306)	(463,252)
Dividend paid to non-controlling interests		(9,126)	(8,545)
Net cash used in financing activities		(971,767)	(934,150)
Net increase in cash and cash equivalents		114,385	168,430
Cash and cash equivalents as at 1 January	11(a)	1,037,786	1,403,556
Effect of foreign exchange rate changes		1,337	(3,832)
Cash and cash equivalents as at 30 June	11(a)	1,153,508	1,568,154

The notes on pages 32 to 57 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issue on 14 August 2019.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of any changes in accounting policies are set out in note 2.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2018 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The interim financial report is unaudited, but has been reviewed by the Audit Committee of the Company and the independent auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. PricewaterhouseCoopers’s independent review report to the Board of Directors is included on page 58.

The financial information relating to the financial year ended 31 December 2018 that is included in the interim financial report as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

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

2 CHANGES IN ACCOUNTING POLICIES

(a) Overview

A number of new or amended standards became applicable for the current accounting period of the Group.

The impact of the adoption of the leasing standard are disclosed in sub-section (b) of this note. The other standards did not have any material impact on the Group's accounting policies and did not require retrospective adjustments. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(b) HKFRS 16, *Leases*

The Group has adopted HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance in the consolidated statement of financial position on 1 January 2019.

(i) Adjustments recognised on adoption of HKFRS 16

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17, *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.1%.

For leases previously classified as finance leases, the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. In addition, leasehold land previously included in other property, plant and equipment is now grouped as part of the right-of-use assets in the consolidated statement of financial position with effect from 1 January 2019. The measurement principles of HKFRS 16 are only applied after that date. The remeasurements to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application.

	2019 \$'000
Operating lease commitments disclosed as at 31 December 2018	806,981
Discounted using the lessee's incremental borrowing rate at the date of initial application	628,168
Add: finance lease liabilities recognised as at 31 December 2018	1,847
Add: adjustments for reassessment of termination options of lease contracts	27,056
Less: short-term leases recognised on a straight-line basis as expense	(57,698)
Lease liabilities recognised as at 1 January 2019	599,373
Represented by:	
Current lease liabilities	154,575
Non-current lease liabilities	444,798
	599,373

The right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

2 CHANGES IN ACCOUNTING POLICIES (Continued)**(b) HKFRS 16, Leases (Continued)****(i) Adjustments recognised on adoption of HKFRS 16 (Continued)**

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount as at 31 December 2018 (A) \$'000	Capitalisation of operating lease contracts (B) \$'000	Carrying amount as at 1 January 2019 (C = A+B) \$'000
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Other property, plant and equipment	2,767,198	(212,093)	2,555,105
Right-of-use assets	–	809,619	809,619
Total non-current assets	14,906,090	597,526	15,503,616
Lease liabilities	952	153,623	154,575
Total current liabilities	2,146,880	153,623	2,300,503
Net current assets	912,252	(153,623)	758,629
Total assets less current liabilities	15,818,342	443,903	16,262,245
Non-current lease liabilities	895	443,903	444,798
Total non-current liabilities	6,922,626	443,903	7,366,529
NET ASSETS	8,895,716	–	8,895,716

2 CHANGES IN ACCOUNTING POLICIES (Continued)**(b) HKFRS 16, Leases (Continued)****(i) Adjustments recognised on adoption of HKFRS 16 (Continued)***Right-of-use assets*

The analysis of the net book value of the Group's right-of-use assets by class of underlying asset at the end of the reporting period and at the date of transition to HKFRS 16 is as follows:

	30 June 2019 \$'000	1 January 2019 \$'000
Land and buildings	721,100	778,969
Leased circuits	29,625	27,984
Other assets	1,925	2,666
Total right-of-use assets	752,650	809,619

Lease liabilities

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period and at the date of transition to HKFRS 16 are as follows:

	30 June 2019		1 January 2019	
	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	138,334	152,193	154,575	164,934
After 1 year but within 2 years	92,329	103,806	103,936	116,186
After 2 years but within 5 years	112,161	136,082	122,502	147,901
After 5 years	209,006	233,264	218,360	249,722
	413,496	473,152	444,798	513,809
	551,830	625,345	599,373	678,743
Less: total future interest expenses		(73,515)		(79,370)
Present value of lease liabilities		551,830		599,373

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) HKFRS 16, Leases (Continued)

(i) Adjustments recognised on adoption of HKFRS 16 (Continued)

Impact on the financial result and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liabilities, and the depreciation of the right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a negative impact on the reported profit before taxation in the Group's consolidated income statement, as compared to the results if HKAS 17 had been applied during the period.

In the consolidated cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the consolidated cash flow statement.

The following tables may give an indication of the estimated impact of adoption of HKFRS 16 on the Group's financial result and cash flows for the six months ended 30 June 2019, by adjusting the amounts reported under HKFRS 16 in these interim financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply to 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

2 CHANGES IN ACCOUNTING POLICIES (Continued)**(b) HKFRS 16, Leases (Continued)****(i) Adjustments recognised on adoption of HKFRS 16 (Continued)***Impact on the financial result and cash flows of the Group (Continued)*

	2019			2018	
	Amounts reported under HKFRS 16 (A) \$'000	Add back: HKFRS 16 depreciation and interest expense (B) \$'000	Deduct: Estimated amounts related to operating lease as if under HKAS 17 (note 1) (C) \$'000	Hypothetical amounts for 2019 as if under HKAS 17 (D = A+B+C) \$'000	Compared to amounts reported for 2018 under HKAS 17 \$'000
Line items in the consolidated income statement for the six months ended 30 June 2019 impacted by the adoption of HKFRS 16:					
Cost of sales and services	(2,386,052)	–	(48,332)	(2,434,384)	(3,047,919)
Depreciation and amortisation	(448,992)	85,936	–	(363,056)	(351,884)
Other operating expenses	(265,473)	–	(41,644)	(307,117)	(356,398)
Finance costs	(175,795)	9,184	–	(166,611)	(165,467)
Profit before taxation	631,663	95,120	(89,976)	636,807	570,108
Profit for the period	518,754	95,120	(89,976)	523,898	496,379
Attributable to:					
Equity shareholders of the Company	511,129	82,331	(79,436)	514,024	488,754
Non-controlling interests	7,625	12,789	(10,540)	9,874	7,625
Earnings per share (HK cents)					
Basic	14.1	2.3	(2.2)	14.2	13.8
Diluted	14.1	2.3	(2.2)	14.2	13.8
Line items in the consolidated statement of comprehensive income for the six months ended 30 June 2019 impacted by the adoption of HKFRS 16:					
Total comprehensive income for the period	513,777	95,120	(89,976)	518,921	485,575
Attributable to:					
Equity shareholders of the Company	506,352	82,331	(79,436)	509,247	478,144
Non-controlling interests	7,425	12,789	(10,540)	9,674	7,431

2 CHANGES IN ACCOUNTING POLICIES (Continued)**(b) HKFRS 16, Leases (Continued)****(i) Adjustments recognised on adoption of HKFRS 16 (Continued)***Impact on the financial result and cash flows of the Group (Continued)*

	2019			2018
	Amounts reported under HKFRS 16 (A) \$'000	Estimated amounts related to operating leases as if under HKAS 17 (notes 1 & 2) (B) \$'000	Hypothetical amounts for 2019 as if under HKAS 17 (C = A+B) \$'000	Compared to amounts reported for 2018 under HKAS 17 \$'000
Line items in the consolidated cash flow statement for the six months ended 30 June 2019 impacted by the adoption of HKFRS 16:				
Cash generated from operations	1,310,294	(89,976)	1,220,318	1,074,782
Net cash generated from operating activities	1,288,395	(89,976)	1,198,419	1,079,166
Capital element of lease rentals paid	(81,269)	80,792	(477)	(716)
Interest element of lease rentals paid	(9,208)	9,184	(24)	(65)
Net cash used in financing activities	(971,767)	89,976	(881,791)	(934,150)

Note 1: The “estimated amounts related to operating leases” is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there were no difference between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table, these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if HKAS 17 still applied.

Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying HKAS 17 and HK(IFRIC)-Int 4, *Determining whether an Arrangement contains a Lease*.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) HKFRS 16, Leases (Continued)

(ii) The Group's leasing activities and how these are accounted for

The Group has entered into a number of lease arrangements for land and buildings, leased circuits and other assets. Rental contracts are typically made for fixed periods of 1 to 5 years but may have extension options as described as below, with the exception of three rental contracts which have been entered into for the period of 15 years. In respect of such rental contracts with longer terms, there are price adjustments mechanism to reflect the market rentals. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Except for lease covenants mainly related to the maintenance and use of the leased assets that are commonly found in lease arrangements, there are no other covenants or restrictions imposed by the lease agreements. The leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of other property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) HKFRS 16, Leases (Continued)

(ii) The Group's leasing activities and how these are accounted for (Continued)

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office equipment.

Extension and termination options

Extension and termination options are included in a number of leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Accounting judgements and sources of estimation uncertainty in determining the lease term and discount rate under HKFRS 16

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not to be terminated). Potential future cash outflows have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not be terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

In determining the discount rate, the Group is required to exercise considerable judgement taking into account the nature of the underlying assets and the terms and conditions of the leases, at both the commencement date and the effective date of the modification.

3 REVENUE AND SEGMENT REPORTING

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.

(a) Disaggregation of revenue

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

	Six months ended 30 June	
	2019 (Unaudited) \$'000	2018 (Unaudited) \$'000
Disaggregated by major products or service lines:		
Mobile services	616,619	615,281
Internet services	529,915	489,401
International telecommunications services	838,342	833,926
Enterprise solutions	1,515,947	1,462,093
Fixed line services	114,490	120,018
Fees from the provision of telecommunications services	3,615,313	3,520,719
Sale of equipment and mobile handsets	759,883	1,393,060
	4,375,196	4,913,779
Disaggregated by geographical location of the Group's revenue from external customers:		
– Hong Kong (place of domicile)	1,618,179	1,618,583
– The People's Republic of China (the "PRC")	412,597	315,350
– Macau	1,956,507	2,546,461
– Singapore	229,820	255,113
– Others	158,093	178,272
	2,757,017	3,295,196
	4,375,196	4,913,779

3 REVENUE AND SEGMENT REPORTING (Continued)**(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.

Reconciliation of reportable segment profit

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	\$'000	\$'000
Reportable segment profit	1,264,142	1,115,421
Net (loss)/gain on disposal of other property, plant and equipment	(910)	3
Net foreign exchange loss	(4,419)	(5,072)
Depreciation and amortisation	(448,992)	(351,884)
Finance costs	(175,795)	(165,467)
Share of (loss)/profit of a joint venture	(850)	2,024
Interest income	5,303	6,870
Rentals receivable from investment property less direct outgoings	12,687	10,229
Valuation gain on investment property	21,902	23,683
Unallocated head office and corporate expenses	(41,405)	(65,699)
Consolidated profit before taxation	631,663	570,108

(c) Seasonality of operation

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

4 OTHER INCOME

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	\$'000	\$'000
Interest income from bank deposits	4,172	4,947
Other interest income	1,131	1,923
	5,303	6,870
Gross rental income from investment property	12,721	11,491
	18,024	18,361

5 OTHER NET LOSS

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	\$'000	\$'000
Net (loss)/gain on disposal of other property, plant and equipment (note 9(a))	(910)	3
Net foreign exchange loss	(4,419)	(5,072)
	(5,329)	(5,069)

6 PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	\$'000	\$'000
(a) Finance costs		
Interest on bank and other borrowings	152,921	156,050
Interest on lease liabilities	9,208	65
Other finance charges	12,268	8,329
Other interest expense	1,398	1,023
Total interest expense on financial liabilities not at fair value through profit or loss	175,795	165,467
(b) Staff costs (including directors' emoluments)		
Contributions to defined contribution retirement plans	36,097	33,973
Expenses recognised in respect of defined benefit retirement plan	4,794	4,530
Total retirement costs	40,891	38,503
Equity-settled share-based payment expenses (note 15(c))	5,538	9,649
Salaries, wages and other benefits	454,539	412,850
	500,968	461,002
(c) Other items		
Depreciation charge		
– other property, plant and equipment	274,469	267,926
– right-of-use assets	90,708	–
Amortisation	83,815	83,958
	448,992	351,884
Impairment losses for trade debtors and contract assets	8,231	6,241
Write off for other receivables	–	26,207
Rentals receivable from investment property less direct outgoings of \$34,000 (six months ended 30 June 2018: \$1,262,000)	(12,687)	(10,229)

7 INCOME TAX

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	\$'000	\$'000
Current tax	123,216	53,600
Deferred tax	(10,307)	20,129
	112,909	73,729

The provision for Hong Kong Profits Tax for the six months ended 30 June 2019 is calculated at 16.5% (six months ended 30 June 2018: 16.5%) of the estimated assessable profits for the period.

The provision for Macau Complementary Tax for the six months ended 30 June 2019 is calculated at 12% (six months ended 30 June 2018: 12%) of the estimated assessable profits for the period. Assessable profits of the first Macau Patacas ("MOP") 600,000 (equivalent to approximately \$582,000) (six months ended 30 June 2018: MOP600,000 (equivalent to approximately \$582,000)) are exempted from Macau Complementary Tax.

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

8 EARNINGS PER SHARE

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	\$'000	\$'000
Profit attributable to equity shareholders of the Company	511,129	488,754

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

	Number of shares	
	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	'000	'000
Issued ordinary shares as at 1 January	3,587,260	3,544,164
Effect of share options exercised	32,612	6,487
Weighted average number of ordinary shares (basic) as at 30 June	3,619,872	3,550,651
Effect of deemed issue of shares under the Company's share option plan	13,565	2,063
Weighted average number of ordinary shares (diluted) as at 30 June	3,633,437	3,552,714
Basic earnings per share (HK cents)	14.1	13.8
Diluted earnings per share (HK cents)	14.1	13.8

9 INVESTMENT PROPERTY AND OTHER PROPERTY, PLANT AND EQUIPMENT

(a) Acquisitions and disposals

During the six months ended 30 June 2019, the Group acquired items of other property, plant and equipment with a total cost of \$153,775,000 (six months ended 30 June 2018: \$125,245,000).

Items of other property, plant and equipment with a net book value of \$2,446,000 were disposed of during the six months ended 30 June 2019 (six months ended 30 June 2018: \$486,000), resulting in a net loss on disposal of \$910,000 (six months ended 30 June 2018: a net gain on disposal of \$3,000).

As discussed in note 2, the Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances as at 1 January 2019. The depreciated carrying amount of the lease assets with a net book value of \$212,093,000 as at 1 January 2019 which were previously included in other property, plant and equipment is identified as right-of-use assets.

(b) Transfers

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

(c) Valuation

The valuation of investment property carried at fair value was updated as at 30 June 2019 by an independent firm of surveyors using the same valuation techniques as were used by the same surveyors when carrying out the December 2018 valuation. As a result of the update, a gain of \$21,902,000 (six months ended 30 June 2018: \$23,683,000) has been recognised in profit or loss for the period.

(d)

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

10 TRADE AND OTHER RECEIVABLES AND DEPOSITS

	30 June 2019 (Unaudited) \$'000	31 December 2018 (Audited) \$'000
Trade debtors, net of loss allowance	1,042,874	1,003,257
Other receivables and deposits	511,961	492,030
	1,554,835	1,495,287
Represented by:		
Non-current portion	115,800	119,937
Current portion	1,439,035	1,375,350
	1,554,835	1,495,287

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:

	30 June 2019 (Unaudited) \$'000	31 December 2018 (Audited) \$'000
Within 1 year	995,337	950,613
Over 1 year	47,537	52,644
	1,042,874	1,003,257

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

11 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION**(a) Cash and cash equivalents comprise:**

	30 June 2019 (Unaudited) \$'000	31 December 2018 (Audited) \$'000
Cash at bank and in hand	934,256	894,344
Time deposits with banks	230,488	154,765
Cash and bank deposits in the consolidated statement of financial position (note (b))	1,164,744	1,049,109
Less: pledged deposits (note (c))	(11,236)	(11,323)
Cash and cash equivalents in the consolidated cash flow statement	1,153,508	1,037,786

- (b) Included in cash and bank deposits were \$42,899,000 (31 December 2018: \$60,179,000) 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) As at 30 June 2019, bank deposits of \$11,236,000 (31 December 2018: \$11,323,000) were pledged to secure parts of the banking facilities of the Group.
- (d) Reconciliation of profit before taxation to cash generated from operations:

		Six months ended 30 June 2019 (Unaudited) \$'000	2018 (Unaudited) \$'000
	Note		
Profit before taxation		631,663	570,108
Adjustments for:			
Depreciation and amortisation	6(c)	448,992	351,884
Valuation gain on investment property	9(c)	(21,902)	(23,683)
Net loss/(gain) on disposal of other property, plant and equipment	5	910	(3)
Share of loss/(profit) of a joint venture		850	(2,024)
Finance costs	6(a)	175,795	165,467
Interest income	4	(5,303)	(6,870)
Equity-settled share-based payment expenses	6(b)	5,538	9,649
Foreign exchange loss/(gain)		315	(4,370)
		1,236,858	1,060,158
Changes in working capital:			
Increase in inventories and other contract costs		(5,187)	(66,005)
Increase in trade and other receivables and deposits		(59,707)	(166,773)
Decrease/(increase) in contract assets		67,133	(39,519)
Increase in trade and other payables		65,386	294,845
Increase in contract liabilities		4,892	744
Increase/(decrease) in net defined benefit retirement obligation		919	(8,668)
Cash generated from operations		1,310,294	1,074,782

12 TRADE AND OTHER PAYABLES

	30 June 2019 (Unaudited) \$'000	31 December 2018 (Audited) \$'000
Trade creditors	930,213	849,349
Other payables and accruals	542,781	691,940
	1,472,994	1,541,289
Represented by:		
Non-current portion	40,927	44,487
Current portion	1,432,067	1,496,802
	1,472,994	1,541,289

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

	30 June 2019 (Unaudited) \$'000	31 December 2018 (Audited) \$'000
Within 1 year	647,030	594,552
Over 1 year	283,183	254,797
	930,213	849,349

13 BANK AND OTHER BORROWINGS

	30 June 2019 (Unaudited) \$'000	31 December 2018 (Audited) \$'000
Bank loans	3,004,854	3,351,049
Guaranteed bonds at 6.1% due 2025 (note (b))	3,491,496	3,489,880
Other borrowings	83,026	16,547
	6,579,376	6,857,476

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

	30 June 2019 (Unaudited) \$'000	31 December 2018 (Audited) \$'000
Within 1 year or on demand	357,904	327,529
After 1 year but within 2 years	397,134	2,302,299
After 2 years but within 5 years	2,332,842	737,768
After 5 years	3,491,496	3,489,880
	6,221,472	6,529,947
	6,579,376	6,857,476

All of the non-current bank and other borrowings are carried at amortised cost. None of the non-current bank and other borrowings is expected to be settled within one year.

- (a) 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. As at 30 June 2019 and 31 December 2018, the Group was in compliance with the relevant requirements.
- (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 United States dollars 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.

14 CAPITAL, RESERVES AND DIVIDENDS**(a) Dividends****(i) Dividends payable to equity shareholders of the Company attributable to the interim period**

	Six months ended 30 June 2019 (Unaudited) \$'000	2018 (Unaudited) \$'000
Interim dividend declared/declared and paid after the interim period of HK5.0 cents (six months ended 30 June 2018: HK4.0 cents) per share	182,613	142,730

The interim dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

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

	Six months ended 30 June 2019 (Unaudited) \$'000	2018 (Unaudited) \$'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of HK14.0 cents (six months ended 30 June 2018: HK13.0 cents) per share	511,306	463,252

For the final dividend in respect of the year ended 31 December 2018, there was a difference of \$9,090,000 between the final dividend disclosed in 2018 annual report and the amount paid during the six months ended 30 June 2019, which represented dividends attributable to shares issued upon exercise of share options before the closing date of the register of members.

14 CAPITAL, RESERVES AND DIVIDENDS (Continued)**(b) Share capital**

		30 June 2019 (Unaudited)		31 December 2018 (Audited)	
	Note	Number of shares	Amount \$'000	Number of shares	Amount \$'000
Ordinary shares, issued and fully paid:					
As at 1 January	(i)	3,587,260,382	4,402,388	3,544,163,580	4,280,542
Shares issued under share option plan	(ii)	65,001,000	204,153	43,096,802	121,846
As at 30 June/31 December	(i)	3,652,261,382	4,606,541	3,587,260,382	4,402,388

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Company do not have a par value.

Notes:

- (i) The holders of ordinary shares are entitled to receive dividends as declared from time to time and every member shall have one vote per share on a poll at general meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.
- (ii) During the six months ended 30 June 2019, 65,001,000 ordinary shares (six months ended 30 June 2018: 21,158,046 ordinary shares) were issued at a weighted average exercise price of \$2.53 (six months ended 30 June 2018: \$2.13) per ordinary share to share option holders who had exercised their options. During the six months ended 31 December 2018, 21,938,756 ordinary shares were issued at a weighted average exercise price of \$2.39 per ordinary share to share option holders who had exercised their options. These shares so issued rank pari passu with the then existing ordinary shares in issue.

15 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

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

Details of the fair value of the Options and assumptions are set out in note 15(b).

During the six months ended 30 June 2019, 31 December 2018 and 30 June 2018, options for 65,001,000 ordinary shares, 21,938,756 ordinary shares and 21,158,046 ordinary shares were exercised respectively. The weighted average closing prices at the date of exercise of share options exercised during the six months ended 30 June 2019, 31 December 2018 and 30 June 2018 were \$3.33, \$2.78 and \$2.32 respectively.

Save as disclosed above, no options were cancelled during the six months ended 30 June 2019, 31 December 2018 and 30 June 2018.

During the six months ended 30 June 2019, options for 438,500 ordinary shares (six months ended 30 June 2018: 27,648,246 ordinary shares; six months ended 31 December 2018: 5,794,444 ordinary shares) have lapsed. The value of vested options lapsed during the six months ended 30 June 2019 was \$155,000 (six months ended 30 June 2018: \$14,655,000, six months ended 31 December 2018: \$2,472,000) and was released directly to retained profits.

(b) Fair value of share options and assumptions

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

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

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

- (c) The total expense recognised in the consolidated income statement for the six months ended 30 June 2019 in respect of the above grant of options was \$5,538,000 (six months ended 30 June 2018: \$9,649,000).

16 CAPITAL COMMITMENTS

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

	30 June 2019 (Unaudited) \$'000	31 December 2018 (Audited) \$'000
Contracted for	291,448	54,436
Authorised but not contracted for	168,856	88,349

17 PERFORMANCE BONDS AND GUARANTEES

As at 30 June 2019, performance bonds provided to the Macau Government and other customers for which no provision has been made in the interim financial report amounted to \$75,432,000 (31 December 2018: \$78,463,000). As at 30 June 2019, the directors do not consider it probable that a claim will be made against the Group under any of the performance bonds. The maximum liability of the Group at the end of reporting period is the total amount guaranteed by the performance bonds of \$75,432,000 (31 December 2018: \$78,463,000).

18 MATERIAL RELATED PARTY TRANSACTIONS**(a) Transactions with affiliates of the Group and its holding companies****(i) Recurring transactions**

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	\$'000	\$'000
Internet data centre services fee received/receivable from fellow subsidiaries	4,970	4,352
Virtual private network services fee received/receivable from fellow subsidiaries	7,725	8,628
Internet access services fee received/receivable from fellow subsidiaries	5,329	3,680
Telecommunications services and related expenses paid/payable to		
– a fellow subsidiary	16,655	17,120
– associates of the ultimate holding company	5,215	4,589
Professional fees paid/payable to a controlling shareholder for the provision of internal audit and company secretarial services	2,710	2,600
Operating lease charges paid/payable to fellow subsidiaries	–	8,423
Building management fees, water and electricity fees, air conditioning charges and car parking spaces rental paid/payable to fellow subsidiaries	7,165	7,035
Rental income and building management charges received/receivable from a fellow subsidiary	8,217	9,113

18 MATERIAL RELATED PARTY TRANSACTIONS (Continued)**(a) Transactions with affiliates of the Group and its holding companies (Continued)****(ii) Trade and other receivables and deposits, trade and other payables and lease liabilities**

	30 June 2019 (Unaudited) \$'000	31 December 2018 (Audited) \$'000
Advance payment paid to the ultimate holding company for the acquisition of the remaining equity interest in a subsidiary included in:		
– Trade and other receivables and deposits	70,467	70,746
Amount due from/(to) a fellow subsidiary included in:		
– Trade and other receivables and deposits	31,734	31,859
– Trade and other payables	(9,903)	(8,002)
Lease liabilities due to fellow subsidiaries (note)	(28,839)	–

Note: The capital element and interest element of lease rentals payable to fellow subsidiaries for the six months ended 30 June 2019 was \$8,609,000 (six months ended 30 June 2018: Nil).

(b) Transactions with other government-related entities

The Group is a government-related enterprise and has transactions with entities directly or indirectly controlled by the PRC Government through government authorities, agencies, affiliates and other organisations (collectively referred to as “government-related entities”).

Apart from transactions with the affiliates of the Group as disclosed above, the Group has collectively, but not individually, significant transactions with other government-related entities which include but not limited to the following:

- rendering and receiving services; and
- financial services arrangements.

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not government-related. The Group has established its buying, pricing strategy and approval process for purchases and sales of products and services. Such buying, pricing strategy and approval processes do not depend on whether the counterparties are government-related entities or not.

18 MATERIAL RELATED PARTY TRANSACTIONS (Continued)**(b) Transactions with other government-related entities (Continued)**

Having considered the potential for transactions to be impacted by related party relationships, the Group's buying, pricing strategy and approval processes, and what information would be necessary for an understanding of the potential effect of the relationship on the interim financial report, the directors are of the opinion that the following transactions with other government-related entities require disclosure:

(i) Transactions with other government-related entities including state-controlled banks in the PRC

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	\$'000	\$'000
Interest income from bank deposits	2,658	1,730
Finance costs on bank and other borrowings	(12,216)	(10,183)
Fees received/receivable from the provision of telecommunications services	653,838	523,283
Fees paid/payable for network, operations and support services	(532,783)	(427,174)

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

	30 June	31 December
	2019	2018
	(Unaudited)	(Audited)
	\$'000	\$'000
Bank deposits	380,246	281,429
Trade debtors	226,078	266,267
Contract assets	271,468	315,602
Trade payables	(288,458)	(259,399)
Lease liabilities	(24,081)	—
Bank and other borrowings	(633,429)	(732,286)

The bank and other borrowings from state-controlled banks as at 30 June 2019 bore interest at the prevailing market rates.

18 MATERIAL RELATED PARTY TRANSACTIONS (Continued)**(c) Key management personnel emoluments**

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

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	\$'000	\$'000
Short-term employee benefits	12,256	12,720
Share-based payments	666	2,987
Post-employment benefits	370	369
	13,292	16,076

19 NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

After the end of the reporting period, the directors proposed an interim dividend. Further details are disclosed in note 14(a)(i).

20 COMPARATIVE FIGURES

The Group has initially applied HKFRS 16 as at 1 January 2019 using the modified retrospective method. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2.

21 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE SIX MONTHS ENDED 30 JUNE 2019

A number of amendments and a new standard are effective for annual periods beginning after 1 January 2019 and earlier application is permitted. The Group has not early adopted any new or amended standards in preparing this interim financial report.

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

REPORT ON REVIEW OF INTERIM FINANCIAL REPORT



羅兵咸永道

To the board of directors of CITIC Telecom International Holdings Limited
(Incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the condensed interim financial report set out on pages 25 to 57, which comprises the consolidated statement of financial position of CITIC Telecom International Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2019 and 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 six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial report in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*. Our responsibility is to express a conclusion on this interim financial report based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 14 August 2019

STATUTORY DISCLOSURE

DIVIDEND AND CLOSURE OF REGISTER

The board of directors of the Company has declared an interim dividend of HK5.0 cents (2018: HK4.0 cents) per share for the year ending 31 December 2019 payable on Friday, 20 September 2019 to shareholders whose names appear on the Register of Members of the Company on Tuesday, 10 September 2019. The Register of Members of the Company will be closed from Wednesday, 4 September 2019 to Tuesday, 10 September 2019, both days inclusive, during which period no share transfer will be effected. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 3 September 2019.

SHARE OPTION PLAN

The share option plan of the Company (the "Plan") was adopted on 17 May 2007 and was valid and effective till 16 May 2017. The Company has no other share option scheme currently in force. Under the Plan, the board may offer to grant an option over the Company's shares to any person employed by the Company or any of its subsidiaries and any person who is an officer or director (whether executive or non-executive) of the Company or any of its subsidiaries as the board may, in its absolute discretion, select. HK\$1.00 is payable by the grantee to the Company on acceptance of the offer of the option. The subscription price determined by the board will not be less than the higher of (i) the closing price of the Company's shares as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant; and (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant.

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

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

Date of grant	Number of share options	Exercise period	Exercise price per share HK\$
23 May 2007	18,720,000	23 May 2007 to 22 May 2012	3.26
17 September 2009	17,912,500	17 September 2010 to 16 September 2015	2.10
17 September 2009	17,912,500	17 September 2011 to 16 September 2016	2.10
19 August 2011	24,227,500	19 August 2012 to 18 August 2017	1.54
19 August 2011	24,227,500	19 August 2013 to 18 August 2018	1.54
26 June 2013	81,347,000	26 June 2013 to 25 June 2018	2.25
24 March 2015	43,756,250	24 March 2016 to 23 March 2021	2.612
24 March 2015	43,756,250	24 March 2017 to 23 March 2022	2.612
24 March 2017	45,339,500	24 March 2018 to 23 March 2023	2.45
24 March 2017	45,339,500	24 March 2019 to 23 March 2024	2.45

SHARE OPTION PLAN (Continued)

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

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

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 six months ended 30 June 2019.

A summary of the movements of the share options during the six months ended 30 June 2019 is as follows:

A. Directors of the Company

Name of director	Date of grant	Exercise period	Number of share options			Balance as at 30.6.2019	Percentage to the number of issued shares %
			Balance as at 1.1.2019	Exercised during the six months ended 30.6.2019	Lapsed during the six months ended 30.6.2019		
Xin Yue Jiang	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	0.196

SHARE OPTION PLAN (Continued)

A. Directors of the Company (Continued)

Name of director	Date of grant	Exercise period	Number of share options			Balance as at 30.6.2019	Percentage to the number of issued shares %
			Balance as at 1.1.2019	Exercised during the six months ended 30.6.2019	Lapsed during the six months ended 30.6.2019		
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	0.172
Luo Ning (Note 1)	24.3.2015	24.3.2016 – 23.3.2021	500,000	–	–	N/A	
	24.3.2015	24.3.2017 – 23.3.2022	500,000	–	–	N/A	
						N/A	N/A
David Chan Tin Wai	24.3.2015	24.3.2016 – 23.3.2021	1,358,500	1,358,500 (Note 2)	–	–	
	24.3.2015	24.3.2017 – 23.3.2022	1,358,500	1,358,500 (Note 2)	–	–	
	24.3.2017	24.3.2018 – 23.3.2023	1,358,500	1,358,500 (Note 2)	–	–	
	24.3.2017	24.3.2019 – 23.3.2024	1,358,500	1,358,500 (Note 2)	–	–	
						–	–

SHARE OPTION PLAN (Continued)

A. Directors of the Company (Continued)

Name of director	Date of grant	Exercise period	Number of share options				Percentage to the number of issued shares %
			Balance as at 1.1.2019	Exercised during the six months ended 30.6.2019	Lapsed during the six months ended 30.6.2019	Balance as at 30.6.2019	
Liu Jifu	24.3.2015	24.3.2017 – 23.3.2022	1,000,000	–	–	1,000,000	
	24.3.2017	24.3.2019 – 23.3.2024	1,000,000	–	–	1,000,000	
						2,000,000	0.055
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	0.027
Liu Li Qing	24.3.2015	24.3.2017 – 23.3.2022	200,000	200,000 (Note 3)	–	–	
	24.3.2017	24.3.2018 – 23.3.2023	200,000	200,000 (Note 3)	–	–	
	24.3.2017	24.3.2019 – 23.3.2024	200,000	200,000 (Note 3)	–	–	
						–	–
Zuo Xunsheng	24.3.2015	24.3.2017 – 23.3.2022	200,000	200,000 (Note 4)	–	–	
	24.3.2017	24.3.2018 – 23.3.2023	200,000	200,000 (Note 4)	–	–	
	24.3.2017	24.3.2019 – 23.3.2024	200,000	200,000 (Note 4)	–	–	
						–	–

SHARE OPTION PLAN (Continued)**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 1.1.2019	Exercised during the six months ended 30.6.2019 (Note 5)	Lapsed during the six months ended 30.6.2019 (Note 6)	Balance as at 30.6.2019
24.3.2015	24.3.2016 – 23.3.2021	24,006,067 (Note 7)	14,491,500	4,500	9,510,067
24.3.2015	24.3.2017 – 23.3.2022	27,202,250 (Note 7)	13,512,500	6,500	13,683,250
24.3.2017	24.3.2018 – 23.3.2023	26,151,500 (Note 7)	14,039,500	58,500	12,053,500
24.3.2017	24.3.2019 – 23.3.2024	32,398,500 (Note 7)	14,570,500	175,000	17,653,000

C. Others (Note 8)

Date of grant	Exercise period	Number of share options			
		Balance as at 1.1.2019	Exercised during the six months ended 30.6.2019 (Note 9)	Lapsed during the six months ended 30.6.2019 (Note 6)	Balance as at 30.6.2019 (Note 1)
24.3.2015	24.3.2016 – 23.3.2021	1,234,500 (Note 7)	541,000	40,500	1,153,000
24.3.2015	24.3.2017 – 23.3.2022	1,359,000 (Note 7)	529,500	52,500	1,277,000
24.3.2017	24.3.2018 – 23.3.2023	1,011,000 (Note 7)	277,500	101,000	632,500
24.3.2017	24.3.2019 – 23.3.2024	1,052,500 (Note 7)	405,000	–	647,500

SHARE OPTION PLAN (Continued)

Notes:

1. Mr. Luo Ning ceased to be an executive director of the Company with effect from 27 May 2019, his remaining share options (i.e. 1,000,000 share options granted on 24 March 2015) were reclassified and added to the closing balance as at 30 June 2019 under the above section of “Others”.
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\$3.28.
3. The weighted average closing price of the shares immediately before the date on which Mr. Liu Li Qing exercised the options was HK\$3.38.
4. The weighted average closing price of the shares immediately before the date on which Mr. Zuo Xunsheng exercised the options was HK\$3.32.
5. The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK\$3.30.
6. These are in respect of options granted to some employees under continuous contracts who have subsequently resigned. Such options have lapsed during the six months ended 30 June 2019.
7. 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 2018.
8. These are in respect of options granted to i) some employees under continuous contracts who subsequently resigned/retired/passed away before 1 January 2019; ii) former director(s) of the Company; and iii) an officer who is not an employee under continuous contract of the Company.
9. The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK\$3.24.

DIRECTORS' INTERESTS IN SECURITIES

The interests of the directors of the Company in shares of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as at 30 June 2019 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	Percentage to the number of issued shares %
	Personal interests (unless otherwise stated)	
CITIC Telecom International Holdings Limited		
David Chan Tin Wai	4,327,880	0.12
CITIC Limited, an associated corporation		
David Chan Tin Wai	40,000	0.0001
Liu Jifu	840,000	0.0029
Dah Chong Hong Holdings Limited, an associated corporation		
David Chan Tin Wai	5,279	0.0003
China CITIC Bank Corporation Limited (H shares), an associated corporation		
David Chan Tin Wai	3,000 (Note)	0.00002

Note:

These 3,000 shares are in respect of family interests.

2. Share options in the Company

The interests of the directors of the Company in the share options (being regarded as unlisted physically settled equity derivatives) of the Company are stated in detail in the preceding section of "Share Option Plan".

Save as disclosed above, as at 30 June 2019, none of the directors of the Company had nor were they taken to or deemed to have, under Part XV of the SFO, any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations or any interests which are required to be entered into the register kept by the Company pursuant to section 352 of the SFO or any interests which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2019, the interests of the substantial shareholders, other than the directors of the Company or their respective associates, in the shares of the Company as recorded in the register of interests in shares and short positions required to be kept under section 336 of the SFO were as follows:

Name	Number of shares of the Company	Percentage to the number of issued shares %
CITIC Group Corporation	2,129,345,175	58.30
CITIC Polaris Limited	2,129,345,175	58.30
CITIC Glory Limited	2,129,345,175	58.30
CITIC Limited	2,129,345,175	58.30
CITIC Corporation Limited	2,129,345,175	58.30
CITIC Investment (HK) Limited	2,129,345,175	58.30
Silver Log Holdings Ltd.	2,129,345,175	58.30
CITIC Pacific Limited ("CITIC Pacific")	2,129,345,175	58.30
Crown Base International Limited	2,129,345,175	58.30
Effectual Holdings Corp.	2,129,345,175	58.30
CITIC Pacific Communications Limited	2,129,345,175	58.30
Douro Holdings Inc.	2,129,345,175	58.30
Ferretti Holdings Corp.	2,129,345,175	58.30
Ease Action Investments Corp.	2,129,345,175	58.30
Peganin Corp.	2,129,345,175	58.30
Richtone Enterprises Inc.	2,129,345,175	58.30

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

SUBSTANTIAL SHAREHOLDERS (Continued)

On 18 December 2012, CITIC Investment (HK) Limited entered into an agreement (the “Sale and Purchase Agreement”) with CITIC Limited and Onway Assets Holdings Ltd. (previously a wholly-owned subsidiary of CITIC Limited and has been dissolved on 30 May 2019) 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.

SHARE CAPITAL

Neither the Company nor any of its subsidiaries has purchased or sold any of the Company’s shares during the six months ended 30 June 2019 and the Company has not redeemed any of its shares during the period ended 30 June 2019.

During the six months ended 30 June 2019, a total of 65,001,000 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”.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance. The board of directors of the Company believes that good corporate governance practices are important to promote investor confidence and protect the interest of our shareholders. Looking ahead, we will keep our corporate governance practices under continual review to ensure their consistent application and will continue to improve our practices having regard to the latest developments. Details of our corporate governance practices can be found on page 46 of the 2018 annual report and the Company’s website www.citictel.com.

Save as disclosed below, the Company has fully complied with the applicable code provisions in the Corporate Governance Code (the “Code”) set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2019. In respect of the code provision A.6.7 of the Code, Mr. Luo Ning was unable to attend the annual general meeting of the Company held on 15 May 2019 as he had other engagements.

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

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

The Company has adopted the Model Code contained in Appendix 10 of the Listing Rules. Having made specific enquiry, all directors of the Company have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2019.

CORPORATE INFORMATION

HEADQUARTERS AND REGISTERED OFFICE

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

Tel: 2377 8888
Fax: 2376 2063

WEBSITE

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

STOCK CODES

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

SHARE REGISTRAR

Shareholders should contact our Registrar, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong at 2980 1333, or by fax: 2810 8185, on matters such as transfer of shares, change of name or address, or loss of share certificates.

ANNUAL AND INTERIM REPORTS

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

FINANCIAL CALENDAR

Closure of Register:	4 September 2019 to 10 September 2019
Interim Dividend Payable:	20 September 2019

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

Shareholders having difficulty in receiving or gaining access to the Interim Report will, promptly upon request to the Company's Share Registrar, be sent a printed copy free of charge.

Non-shareholders who wish to receive a copy of the Interim Report are requested to write to the Company Secretary, CITIC Telecom International Holdings Limited, 25th Floor, CITIC Telecom Tower, 93 Kwai Fuk Road, Kwai Chung, New Territories, Hong Kong, or by fax: 2376 2063 or by email: contact@citictel.com.