



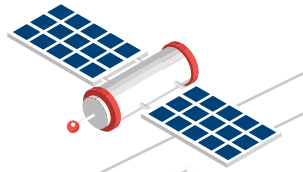
中信國際電訊

CITIC TELECOM INTERNATIONAL

STOCK CODE: 1883

WE CONNECT

ANNUAL REPORT 2019



5G



ABOUT US

CITIC Telecom International Holdings Limited (the “Company”, and together with its subsidiaries the “Group”) was established in 1997 in Hong Kong and was listed on The Stock Exchange of Hong Kong Limited on 3 April 2007. It is an Internet-oriented telecommunications enterprise providing comprehensive services.

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

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

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

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

“Wisdom and Integrity for Fostering Prosperity” is the core value of the Group. As at 31 December 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, a large multinational conglomerate headquartered in China, is the ultimate holding company of the Company.

VISION

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

MISSION

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

CONTENTS

2	Milestones 2019
8	Financial Highlights
12	Chairman's Statement
20	Business Review
29	Financial Review
37	Risk Management
47	Five Year Summary
48	Corporate Governance
70	Directors and Senior Management
76	Directors' Report
101	Forward Looking Statements
102	Sustainability Report
133	Independent Auditor's Report

FINANCIAL STATEMENTS

141	Consolidated Income Statement
142	Consolidated Statement of Comprehensive Income
143	Consolidated Statement of Financial Position
144	Consolidated Statement of Changes in Equity
145	Consolidated Cash Flow Statement
146	Notes to the Financial Statements
249	Property
250	Glossary
252	Corporate Information

MILESTONES 2019

January

- 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

- Completed the data roaming services feature upgrade of the “Auto Roaming System” of a China operator



March

- 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



MILESTONES 2019

April

- 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

May

- 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 honour 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

- 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



MILESTONES 2019

- CPC was 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
 - CPC
 - 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
 - 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

July

- CEC won "The Best Cloud-Network Convergence Data Center Service Provider 2019" by CCIDNET.com and "The Internet Economy" Magazine
- CTM provided a comprehensive 5G network testing environment for the "State Key Laboratory of Internet of Things for Smart City" of University of Macau

August

- Launched "DataMall 自由行" 4G services
- Acclivis partnered with a leading US software automation provider to provide the industry gold standard of automating and securing enterprise infrastructure

September

- CPC was awarded the "2019 Best Practices Award – Asia-Pacific Managed Cloud Services Competitive Strategy Innovation And Leadership Award" by Frost & Sullivan
- CEC was awarded "Beijing Integrity Construction Enterprise" by Beijing Municipal Bureau of Economy and Information Technology, Office of Capital Spiritual Civilization Construction Committee and Beijing Administration for Market Regulation
- Acclivis was awarded the "Top Performing Partner" by Schneider Electric, validating our standing within their tech ecosystem



MILESTONES 2019

October

- CPC won the “Digital Transformation Award: Silver Award” at the “2019 CAHK STAR Award” by Communications Association of Hong Kong
- CPC was identified as a “Major Player” in the “IDC MarketScape: Asia/Pacific (excluding Japan) Managed Cloud Services 2019 Vendor Assessment”
- CPC received the “Supreme ICT Service Brand Award” at the “Supreme Brand Awards 2019” organised by CAPITAL CEO and CAPITAL Entrepreneur
- CTM signed a collaboration agreement to deploy Zhuhai-Macau Cloud and stimulate the development of Greater Bay Area
- CTM was invited to establish “The Greater Bay Area 5G Industry Alliance” with other operators and Guangdong Communication Industry Association, aimed to effectively collaborate and share knowledge and expertise in 5G areas, to lay a solid foundation for the coming digital society and 5G ecosystem construction

November

- 5G roaming signaling service platform is ready, which supporting and providing 5G NSA (Non-stand Alone) networking mode of international roaming services for operators

December

- CEC won the “Innovative Cloud-Network Convergence Service Provider 2019” at “The 14th China IDC Industry Annual Ceremony”
- Acclivis was recognised as a key cloud and managed services in Southeast Asia by Standard & Poor’s research arm, 451 Research
- Acclivis won the “Best Achievement Partner in Southeast Asia” given out by American technology company MNC Raritan, a manufacturer of data centre power distribution hardware and remote servers

10



10



12





**WE CONNECT
THE PEOPLE**

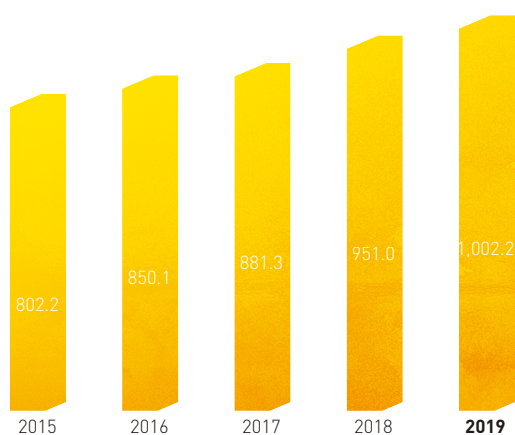


FINANCIAL HIGHLIGHTS

- Profit attributable to equity shareholders of the Company for the year 2019 amounted to HK\$1,002.2 million, a year-on-year increase of 5.4%.
- Dividends per share for the year 2019 totaled HK20.0 cents, a year-on-year increase of 11.1%.
- The Group's net debt as at 31 December 2019 was HK\$4,965.1 million, a decrease of 14.5% when compared to last year.

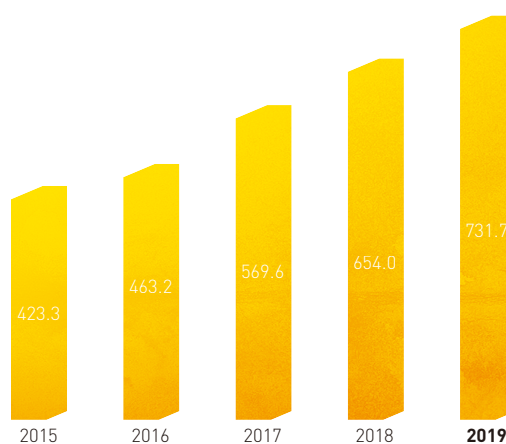
Profit attributable to equity shareholders of the Company

HK\$ million



Dividends payable to equity shareholders of the Company attributable to the year

HK\$ million



Note: The dividends payable to equity shareholders of the Company for the year ended 31 December 2019 includes final dividend payable based on the number of shares in issue as at 31 December 2019 which may differ from the number of shares at the closing date of the register of members.

FINANCIAL HIGHLIGHTS

In HK\$ million	2019	2018	
Revenue			
Revenue from telecommunications services	7,396.4	7,139.1	Increase 3.6%
Sale of mobile handsets and equipment	1,617.6	2,324.9	Decrease 30.4%
	9,014.0	9,464.0	Decrease 4.8%
Profit attributable to equity shareholders of the Company	1,002.2	951.0	Increase 5.4%
EBITDA ¹	2,493.6	2,192.3	Increase 13.7%
Earnings per share (HK cents)			
Basic	27.5	26.7	Increase 3.0%
Diluted	27.4	26.7	Increase 2.6%
Dividends per share (HK cents)			
Interim dividend	5.0	4.0	Increase 25.0%
Final dividend	15.0	14.0	Increase 7.1%
	20.0	18.0	Increase 11.1%
Total assets	18,389.3	17,965.2	Increase 2.4%
Total equity attributable to equity shareholders of the Company	9,376.6	8,854.8	Increase 5.9%
Total debt ²	6,277.9	6,857.5	Decrease 8.5%
Less: Cash and bank deposits	(1,312.8)	(1,049.1)	Increase 25.1%
Net debt	4,965.1	5,808.4	Decrease 14.5%
Net gearing ratio ³	35%	40%	Decrease 5.0%

¹ EBITDA represents earnings before interest, taxes, depreciation and amortisation.

² Total debt includes current and non-current bank and other borrowings.

³ 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

5G WE CONNECT EACH OTHER





CHAIRMAN'S STATEMENT

Dear Shareholders,

The global economic landscape in 2019 was not one that lent much optimism, as market competition became increasingly ferocious while in Hong Kong the economic and business environment was subject to the impact of local social incidents. The Group stood its ground against the pressure and achieved trend-bucking growth, despite a myriad of challenges faced by its businesses. Amidst an adverse external environment, the Group upheld the corporate spirit of doing business with "wisdom and integrity for fostering prosperity" and persisted in innovative development. Focused on the key segments of corporate development, we made emphatic efforts on team building, quality, scientific research and financial management, among others, paying particular attention to the prevention of financial risks, customer risks, risks relating to network quality and safety, as well as legal regulatory risks. By properly handling tasks relating to such key segments, we have provided a strong boost to the healthy development of our Company. With steadfast adherence to the philosophy of development through innovation, the Group has worked diligently to foster new driving force and persisted in innovative development, as it continued to broaden its new thinking and explore new markets. Solid progress was reported on various fronts in accordance with stated objectives, and further breakthroughs were made, as the Group reported steady improvements in profit and charted a historic high in operating results for 2019.

I am pleased to present the Group's annual results for 2019.

FINANCIAL RESULTS OF 2019

Profit attributable to equity shareholders for 2019 amounted to HK\$1,002.2 million (including the valuation gain on investment property for 2019 of HK\$18.3 million), increasing by 5.4% as compared to HK\$951.0 million (including the valuation gain on investment property for 2018 of HK\$23.7 million) for the corresponding period of the previous year. Excluding the valuation gain on investment property, the Group's profit attributable to equity shareholders would have increased by 6.1% as compared to the corresponding period of the previous year. The Group reported HK\$7,396.4 million in service revenue from its principal operations, representing a 3.6% growth over HK\$7,139.1 million for the corresponding period of the previous year.

Basic earnings per share for 2019 amounted to HK27.5 cents, representing a 3.0% growth as compared to 2018.

The Board recommended a final dividend of HK15.0 cents per share for 2019. Together with the 2019 interim dividend of HK5.0 cents per share, total dividends per share for 2019 amounted to HK20.0 cents, representing a 11.1% growth over the previous year.

REVIEW OF OPERATIONS IN 2019

Enhancing the Group's market competitiveness through persistent efforts in market – and innovation-driven approach to new product development.

Companhia de Telecomunicações de Macau, S.A.R.L. ("CTM") sustained growth in annual results following efforts to improve service quality, expedite the planning for digital city development and enhance cooperation with business corporations. In connection with its international telecommunications business, an all-out effort was made to develop new customers and markets on top of maintaining the stability of its existing operations, while notable growth was reported for its A2P SMS business.

The Group persisted in a market – and innovation-driven approach to new product development to enhance its market competitiveness. Through the technical integration and upgrade of our internally developed product DataMall and our SIMN mobile service platform, coupled with the introduction of the standardised eSIM technology platform and products and services, we upgraded our existing "data traffic mall" to a "communications mall" that provides a one-stop service platform offering "data, voice, SMS and number" service functions for the Greater Bay Area and

CHAIRMAN'S STATEMENT

cross-border roaming market. Meanwhile, we continued to ensure functional upgrades and improvement in business results for the Group's existing mobile businesses, such as the signaling business, mobile value-added services and DataMall, among others. In September 2019, DataMall 3.0, the core platform of the communications mall, went online successfully. Elsewhere, the Group supplied NBA video contents in Macau and cooperated with China Focus Ltd ("China Focus") in the launch of e-book and e-magazine mobile applications, while advanced negotiations were underway with suppliers of contents of various genres. On top of increasing the ARPU of mobile customers, such initiatives would also prepare us for the future development of an OTT platform at CTM.

True to its philosophy of ongoing innovation, the Group continued to drive its total service value chain and smart operations and expedite its continuous transition and upgrade towards digitalisation on the back of innovative technologies. When providing operational and maintenance services, we focused on enhancing our service value at the points of contact with customers, as artificial intelligence (AI) and sophisticated learning skills were incorporated in detailed operations to optimise our business value and strengthen our risk management capabilities. The Group was actively investigating joint efforts with a number of research institutions in the development of a range of innovative projects, such as on-site operational maintenance services based on AR (augmented reality) technologies in collaboration with Hong Kong Applied Science and Technology Research Institute, negotiations with universities in Hong Kong on the joint development of IoT-based sensor and control technologies for improving service quality on the user-end, and cooperation with universities in Macau in the scientific research of 5G applications.

Progress in Internet-based operations contributing to smart city construction in Macau.

The Group achieved initial results in its effort to drive numerous "Digital Macau" development projects, including the applications of 5G technologies, e-education, smart healthcare, smart police and disaster prevention systems, among others. The Group persisted in offering differentiation in its operations with a primary focus on products, channels and marketing, stepping up with its effort in the transition to Internet-based operations to facilitate sustainable development with high quality, enhance the efficiency of user development, reinforce the integration of online and offline operations and procure value enhancement for users. By optimising our regime of Internet-based products, exercising stringent control over user development costs, improving the quality of our development, strengthening our integrated operations and stepping up with the promotion of our new products in "communications + smart hardware + content application", we have enhanced user experience through differentiated products and services, in a strong bid to drive the growth of our Internet business. Leveraging the dominant resources of strategic business partners such as China Focus, we have enriched our stock of premium video contents and applications.

The Group joined forces with Tencent Cloud to create efficient and reliable high-performance public Cloud facilities and services. The brand new CTM Cloud, which became fully operational in November 2019, provided further application scenarios closely associated with life and work to the businesses and residents in Macau, so that they may enjoy more convenient and efficient Cloud application services. In the meantime, the Group entered into a memorandum for comprehensive strategic cooperation to forge a comprehensive strategic partnership with a leading provider of IT solutions and services in the domestic market. Drawing on the formidable IT strengths of such IT solutions and services provider, we expect to make important contributions to Macau's smart city development by offering further premium smart application services to various sectors of the city.

CHAIRMAN'S STATEMENT

Enhancing the coverage and servicing ability of our Cloud + Internet services through broader geographic presence.

The Group was making an all-out effort to develop its international market business and expand the coverage of its global networks. Our VPN network service, TrueCONNECT™, continued to expand and is currently present in more than 130 countries and regions in the world with approximately 140 Points-of-Presence ("PoPs"). In 2019, the Group established 9 new PoPs in Zhongwei, Zhuzhou, Sanya, Tangshan, Langfang, Kunming, Haikou, Taiyuan and Jiangmen in China to meet customers' access requirements with a larger network coverage and higher service standards. In close tandem with changes in the market, the Group completed the connection of its VPN with a number of domestic and international third-party Cloud platforms. Greater security for the Cloud environment aside, this move has also provided the Company with a strong buffer upon which to construct a more flexible ICT infrastructure, while enhancing the competitiveness of its products.

The Group's Cloud Computing services currently offer 8 major Cloud Computing solutions through a cross-regional, nationwide Cloud Computing service operating network comprising 18 Cloud Services Centres located across Greater China, Singapore, Japan, North America, Europe and South Africa. Supported by 2 Security Operations Centres, we provide 24-7 service to assist customers in information security management in response to rapid growth in market demand. Through our operations in London (U.K.), Frankfurt (Germany) and Moscow (Russia), a "Europe-Russia Cloud Ring" has been formed to address the compliance requirements of different regions and support the operations of local enterprises, while connecting "outreaching" corporations to the Cloud services of other regions.

Addressing customers' requirements through provision of premium services of international standard.

In close tandem with the pulse of the market, the Group is committed to providing customers with services of the best quality. In addition to the international professional accreditations and qualifications held by our sales and technical teams, the Group has also obtained a number of ISO certifications in recognition of its strong reliability,

premium performances, compliance with international standards, top standards for information security and effective environmental management information security in various business segments. Such recognitions have not only affirmed the Group's expertise, but have also highlighted the Group's commitment to, and ability to achieve, excellence in customer service.

The numerous prestigious awards won by the Group in 2019, while underlining recognition by the industry, formed an important cornerstone for the Group's future development. While such awards in multitude are the result of the incessant hard work of the Group's team with more than 2,500 staff, the longstanding support of customers is also an essential factor. The ability to provide ICT management services to customers has not only deepened our Group's understanding of the market, but has also helped us further develop management service and Cloud-based solutions with greater excellence.

Consistent quality improvements resulting in better services for customers.

In connection with the Group's customers service at CTM, a continuous track record of excellent service standards has been maintained in the customer satisfaction poll on various customer service areas, with an average rating of over 90% customers rated "Satisfied" or above. Our staff were sincere and polite, and demonstrated professionalism in their performance and had fully earned the recognition of customers towards our efforts. The Group attaches a great deal of importance to the quality of segments such as design, engineering, operational maintenance, customer service and emergency mechanisms, with a special emphasis on enhancing the ability in timely identification of problems and swift problem solving. Meanwhile, in light of the objective of building a "first-rate engineering, technical and R&D team", learning and training has been enhanced to groom young talents and job-specific experts with a platform for improving know-how and skills on the part of our colleagues. The Group has made efforts on all fronts to enhance staff awareness for the importance of quality, with a view to fostering a corporate culture that calls for every staff member to prioritise, care for and appreciate quality. We have also built a first-rate engineering, technical and R&D team and taken practical measures to ensure the quality of our networks and platforms.

CHAIRMAN'S STATEMENT

Through ongoing learning and training, staff awareness and work standard regarding product quality, technological quality, research quality, service and management quality, equipment and network quality and quality in technical assurance has been effectively enhanced and the quality of our networks, platforms and services has been improved, resulting in services of higher quality for our customers.

Providing solid foundation for development of the Group's data centre business through Phase III(B) project of the CITIC Telecom Tower Data Centre.

The Group placed strong emphasis on the construction of the CITIC Telecom Tower Data Centre, and had set up a "CITIC Telecom Tower Construction Steering Group" to oversee various tasks relating to the construction of the data centre. Following the successful completion and commissioning of Phase III(A) project of the CITIC Telecom Tower Data Centre in September 2018, construction of Phase III(B) project of the CITIC Telecom Tower Data Centre commenced in March 2019 under the leadership of the Group, with plans for completion and commissioning in the first half of 2021. The ongoing expansion of the Group's data centre business is set to drive the growth of its other telecommunications services (such as virtual private networks (VPN) services, Cloud Computing and disaster recovery, among others).

OUTLOOK FOR 2020

The Company will clearly face new challenges and pressures in 2020, and in particular with respect to the challenges surrounding the operational environment brought by the recent outbreak of the novel coronavirus (COVID-19). Upholding the core value of doing business with "wisdom and integrity for fostering prosperity", the Group will unite with different strata of the society to fight against the epidemic. For instance, CITIC Telecom International CPC Limited and China Enterprise ICT Solutions Limited under our Group will provide free remote network connection services for enterprise customers during the epidemic-control period, while CTM will extend the bill payment due date for its monthly payment customers, and Acclivis Technologies and Solutions Pte. Ltd. will provide office services for the disaster recovery centres for its customers in Singapore. The Group will proactively shoulder its business responsibility and will diligently maintain the stable operation of its businesses with a view to minimising the impact brought by the epidemic to the Group to the greatest extent.

Despite the existence of certain pressure from the external environment, there will also be a lot of new opportunities and scopes for development. Developments in Cloud Computing, Big Data, AI, AR/VR and other technologies will continue, while the trends of Internet-based corporate operation and smart city will also be irreversible. While such developments will present challenges to the telecommunications business, they will also mean opportunities for development to the business sectors such as data centre, Internet-based communications products, corporate services and smart city, among others.

Amidst the complicated and volatile conditions in 2020, the Group will follow the right direction for development in a persistent and judicious manner, insisting upon development through innovation and adopting solid measures to overcome difficulties and create new growth niches. From its foundation of the Mainland China market, through Hong Kong and Macau as bases and bridges, the Group will step up with its expansion to and coverage of the international market. With the objective of "achieving growth in strength, excellence and scale, achievement of higher standards, and delivery of top-rated results", we will reinforce various measures and focus on building a first-rate management team, first-rate engineering, technical and R&D teams and first-rate business teams. We will be consistently adjusting our operating structures and making improvements to our corporate governance regime in response to market requirements, while continuing to enhance internal control and risk management to lower operating risks. In tandem with the national strategies of "Belt and Road" and "Guangdong-Hong Kong-Macao Greater Bay Area", we will develop new products and businesses, explore new markets and reach out to new customers with a new thinking, as we strive to sustain stable business growth.

CHAIRMAN'S STATEMENT

CTM to leverage on 5G construction as it strives to be the prime smart-city operator.

Strategically positioned as a company “enhancing leading position in Macau while expanding to Mainland China and overseas markets”, CTM will procure the building and construction of its 5G network with vigorous efforts in 2020 to ensure the provision of superior experience in mobile communications services for customers. Zhuhai Software Development Centre will continue to play its role in the development of further software and applications for the smart city business, with a view to enhancing its ownership of proprietary intellectual properties and cultivating new niches for business growth. CTM will leverage on 5G construction to actively participate in smart city construction in Macau, striving to become a prime operator of smart city that will make greater contributions to Macau.

We will continue to invest in the development of smart city in Macau. Through 5G networks, we will demonstrate to the government departments and public utilities companies in Macau the possibilities and scope of development presented by IoT, while launching pilot projects in different business sectors. We will consolidate and expand our pool of business partners and draw on Mainland and overseas experience and new products in IoT development as and when appropriate, so as to expedite IoT development in Macau. In order to develop IoT and other application businesses, CTM is required to select specific business scenarios as points of breakthrough, starting from modest efforts while focusing on the larger picture as it seeks rapid growth in business scale through coordinated development of business and information technologies.

To strengthen the Group's data centre business by ensuring the construction of Phase III(B) project of the CITIC Telecom Tower Data Centre.

The Group will continue to organise in a meticulous manner the construction of Phase III(B) project of the CITIC Telecom Tower Data Centre, with a view to strengthening its data centre business. We intend to grow our data centre business in scale, aiming to turn it into an important business unit of the Group in future and a new source for revenue. As the data centre business represents one of key operations in the Group's future strategic development, more emphasis should be placed on development strategies and operational strategies, and a sales regime comprising direct-marketing channels, agency channels, reselling channels and joint development must be built in order to develop the data centre business. We will also endeavour to create a data centre service with special features, in a bid to increase the business profitability of the Group's data centre business. We will scale up its development of data centre products and services and include disaster recovery backup, security management, bandwidth sales, Cloud, systems management and business support in its development efforts in constant enhancement of the market competitiveness of its products. Development planning for data centres will be properly conducted with a special emphasis on generating synergies.

To foster core competitiveness for the 5G business by focusing on the development of 5G applications.

The growth of the 5G data business is primarily dependent on businesses such as IoT, Big Data, Cloud Computing, media contents and videos. IoT applications should be an area of special concern. In the commercial application of 5G, networks provide the foundation, while services form the core component, facilitated by applications as key factors and technical innovation as drivers. CTM intends to complete its 5G network and commence commercial applications in 2020. By driving the development of 5G as a mainstay network for information flow in the society and a new cornerstone for Digital Macau, CTM will become a central force in the 5G development of Macau and foster core competitiveness for the 5G business.

CHAIRMAN'S STATEMENT

To ensure ongoing improvement in the quality of customer service through consistent efforts in quality assurance for network platforms.

We will place a strong emphasis on quality assurance for network platforms, especially the quality of products, technologies, research and development, services and management, equipment and network and technical assurance in our operations. Target-specific efforts will be made to secure new technologies and new markets. Through enhanced learning and training, stronger awareness of responsibility and quality will be fostered. The Group will conduct its operations on the back of a high-quality network platform with a customer-centric focus. With the aim of meeting customer requirements, the user interface of the Group's existing products, services and technologies will be redesigned by CITIC Telecom International CPC Limited according to the requirements of various target customers, while product development and integration will also be conducted according to customer requirements, in order to consistently provide customers with brand new user experiences. Focused on customer requirements, the Group's existing technical ability in software development will further be strengthened in a full enhancement of the quality of the Group's customer service.

Promoting the corporate culture of doing business with "wisdom and integrity for fostering prosperity", continuously strengthening learning and training coupled with the building of three "first-rate" teams.

The key to the healthy development of the Group's business lies in the formation of corporate teams consisting of high-calibre staff members. We will strengthen aptitude training for our staff, including ongoing training in moral character, know-how, technique and work competence. We will make solid efforts in the building of the "three first-rate" teams (the first-rate management team, first-rate engineering, technical and R&D teams, and first-rate business teams). The power and energy of all staff members will be put together, with each business unit working closely with other units in perfect tandem and managed in a scientific, standardised and systematic manner modelled on international practices, generating combined forces that will take the Group's business to a higher level and deliver top-rated results.

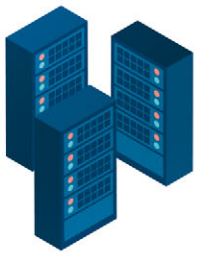
In close adherence to the strategic goal of "building an Internet-based integrated telecommunications enterprise", the Group will persist in penetrating the Hong Kong, Macau and international markets and continue to seek broader opportunities in cooperation, working to explore new markets and embrace new challenges in pursuit of better results.

With the successful completion of various tasks and initiatives, the Group has charted new heights in corporate development in 2019. We owe the accomplishment of such results to the strong support and encouragement of our customers, business partners, shareholders and all strata of the society, as well as to the hard work, painstaking effort, wisdom and unfailing dedication of all colleagues of the Group. To them I express the most sincere gratitude and appreciation.

Xin Yue Jiang

Chairman

Hong Kong, 3 March 2020



**WE CONNECT
THE WORLD**



BUSINESS REVIEW

MOBILE SALES AND SERVICES

CONNECTING
THE FUTURE
連接 • 未來



Global mobile Internet technologies continued to develop in 2019, as the world entered the age of interconnection of all things powered by 5G. While the Group maintained its dominant position in Macau's mobile market, it also seized opportunities afforded by the thriving development of the "Greater Bay Area" and the international roaming market by deploying 5G technologies at an early stage. On the back of synergies generated from its cross-regional, diversified operations, the Group's mobile services revenue remained stable.

Sustained leading position in Macau's mobile market

With a 41% market share at the end of December 2019, the Group remained the undisputed leader in Macau's mobile market. We continued to dominate the market with a 99% penetration rate for 4G+ customers as at the end of the year, providing a solid foundation for Companhia de Telecomunicações de Macau, S.A.R.L. ("CTM")'s "Digital Macau" initiative and future 5G development.

BUSINESS REVIEW

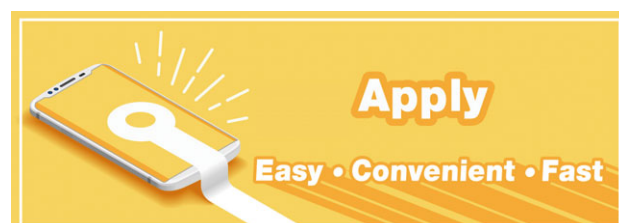
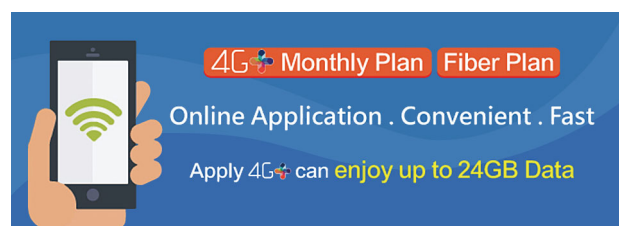
Seizing opportunities arising from thriving developments of the Greater Bay Area and the international roaming market

Ongoing improvements have been made to the "Greater Bay Area mobile service plan" of CTM since its launch in late 2017. With its extension to cover the data sharing plan during the first quarter of 2019, its penetration rate increased to 35% as at the end of 2019, facilitating Macau citizens' further engagement with the Greater Bay Area.

Meanwhile, the Group has continued to seek expansion in the international roaming market. With the CTM currently providing 4G roaming services in 204 countries and regions and signed up with more than 344 operators for roaming data discounted Inter-Operator-Tariff agreements, we are maintaining a leading position.

At the forefront of 5G underpinned by technical superiority

The Group has always been leading market developments in Macau. CTM completed its 5G network development plan in 2019 including the frequency spectrum planning. CTM also arranged 5G presentations at numerous large exhibitions and put through the first 5G video call in Macau in May 2019 to enhance public recognition of 5G. Meanwhile, CTM joined forces with its peers to form the "Greater Bay Area 5G Industry Alliance" and the "Greater Bay Area Information and Communication Alliance", providing solid foundation for the coming digital society and 5G ecosystem. CTM will implement 5G network construction in 2020 with commercial services launched for the same year, in an ongoing effort to lead the development of the telecommunications and related industries in Macau.



Testing times for the mobile international roaming and value-added services

The Group is a leader in the operation of platforms such as SIMN, roaming signaling and prepaid roaming by virtue of solid technologies and experience in operations. During the year, the Group maintained its overall service standard and further consolidated its strength as a connecting hub for international signaling services on the back of its extensive coverage in Asia Pacific, despite the significant drop in the number of visitors to Hong Kong due to social unrest.



BUSINESS REVIEW

INTERNET SERVICES



Lion's share of market for fibre broadband services

The Group has continued to fortify the strengths afforded by its world-class fibre network in Macau. We continued to stay atop of our peers and maintained our position as a global leader with a dominant 97% market share in the city's broadband services and the residential fibre broadband penetration rate exceeding 91% as at the end of 2019.

Hugely popular Internet video contents

The TVB Anywhere video content service for mobile and Internet customers, launched by CTM in association with TVB in late 2017, proved to be massively popular with customers with a total subscribership exceeding 100,000 as at the end of 2019. Moreover, CTM launched a mobile application supplying the contents of Greater China newspapers and magazines in cooperation with China Focus Ltd, a subsidiary of China National Publication Import and Export (Group) Corporation. Elsewhere, CTM worked with NBA's authorized company to feed spectacular sports video contents. Furthermore, a brand-new Asian movie channel was introduced in joint venture with TVB to provide patrons with further film and TV contents.

BUSINESS REVIEW

Ongoing upgrade of our data centre services

The Group has identified data centre services as one of its segments for strategic development, given expected further potential demand for data centres as an essential infrastructure for the employment of frontier technologies such as Cloud Computing, Big Data and AI, especially in view of the imminent application of 5G with greater bandwidths and faster download speeds.



In Hong Kong, construction of the Group's Phase IIIA project of the CITIC Telecom Tower Data Centre was completed and fully leased during the year. In response to growing market demand, construction of Phase IIIB with an even larger scale has commenced and is scheduled for completion during the first half of 2021. In addition, our Business Continuity Centre ("BCC") reported remarkable sales growth for the year. As more and more corporations are seeking data backup capabilities in fulfillment of the requirements of various regulatory authorities, our BCC will enhance the competitive edge of our data centre business, as the BCC continues to expand in fulfillment of market demands.

During the year, the Group's data centre in Macau successfully received the certification of ISO 22301:2012 Business Continuous Management, which will ensure effective response to any incidents and normal operation of critical functions during crisis, as well as the minimising of downtime and recovery times during incidents, the Group's CITIC Telecom Tower Data Centre in Hong Kong has also received the certification of ISO/IEC 27001:2013 Information Security Management Systems, in a further bolstering of the strengths afforded by the Group's multiple ISO accreditations.

Globally, the Group has developed 8 Cloud computing solutions through CITIC Telecom International CPC Limited ("CPC"), while the number of Cloud computing platforms has increased to 18, located variously in Greater China, Singapore, Japan, North America, Europe and South Africa to form a cross-regional Cloud computing service network, couple with two security operation centers to provide one-stop ICT services, comprising Cloud computing, information security, network and data centre, accredited with 5 ICT-related ISO certifications, to address rapidly growing market demands.



BUSINESS REVIEW

INTERNATIONAL TELECOMMUNICATIONS SERVICES



BUSINESS REVIEW

**A2P SMS business sustaining strong growth**

In line with the faster pace of global expansion of Internet companies and the growing demand for authentication SMS from financial institutions, the Group's A2P (app to person) SMS service enjoyed growing popularity among corporate clients. As a regional leader in A2P SMS, the Group's A2P SMS service has sustained strong growth for consecutive years and generated sound financial contributions to the Group.

Ongoing upgrades of "DataMall自由行" for the future

"DataMall自由行" is an Internet-based international mobile data trading platform provided by the Group to carriers and consumers. The Group's "DataMall自由行" reported decline in service revenue for the first time in 2019, reflecting primarily the impact of 4G technology upgrades for the platform and a notable decrease in the number of visitors to Hong Kong in the second half

of the year. The Group was expediting the upgrade of the technical and business models of DataMall 3.0 to support new technologies such as eSIM, thereby capturing more opportunities and creating greater scopes for development. Meanwhile, the Group brought the synergies between CTM and the "DataMall自由行" platform into full play by promoting the advantages of CTM roaming through the Internet-based "DataMall自由行" platform, so as to explore a greater market for both businesses.

Marginal correction for international voice business following previous strong growth

Following substantial revenue growth in 2018 attributable to the increase in voice traffic for regions commanding higher service rates, the Group's international voice business reported a marginal correction in overall revenue in 2019 compared to 2018, while still being significantly stronger compared to 2017, as the Group actively maintained the scale of its international voice business.

BUSINESS REVIEW



ENTERPRISE SOLUTIONS

The Group leverages on its subsidiaries and provides a series of professional ICT services to corporate customers, from global MNCs sectors to regional and local enterprises, as well as government bodies with smart city solutions. Meanwhile, the ICT service scope and scale in the Group has been continuously expanded, from “CT” (Communication Technology) to the “IT+CT” (Information Technology + Communication Technology), as total ICT solutions to grasp market opportunities arising from needs of corporate customers to digitalise their operations.

Consolidating and expanding global presence with enhanced coverage and capacity for “Cloud + Internet” services

In 2019, the Group’s subsidiary CPC was engaged in a full effort to develop its business in the international market, as it consolidated the strengths afforded by its global network coverage to seize business opportunities. TrueCONNECT™, our MPLS leased network service, is now covering more than 130 countries globally with approximately 140 PoPs. During the year, the Group established 9 new domestic network PoPs in Zhongwei,

Zhuzhou, Sanya, Tangshan, Langfang, Kunming, Haikou, Taiyuan and Jiangmen to meet customers’ access requirements. In addition, CPC has formed a “Europe-Russia Cloud Ring” – connected SmartCLOUD™ Cloud Service Centers in London (U.K.), Frankfurt (Germany) and Moscow (Russia), to address the compliance requirements of different regions and support the operations of local enterprises, while connecting “outreaching” corporations to the cloud services of other regions.

In connection with products, CPC has been seeking diversification from network connection services to Cloud computing, information security, managed services, industry solutions and other one-stop ICT services through initiatives such as: introduced multiple industry-leading technology partners to strengthen its SD-WAN solutions service; liaised and collaborated with cloud service leaders for enhancing multi-cloud solution via TrueCONNECT™ Premium x CloudCONNECT service; and the launch of the Baltic Sea Submarine Cable connectivity services. With the completion of resources integration and service level agreement (SLA) realignment, data centre in Tallinn, Estonia can seamlessly connect with others 30+ data centres worldwide. Technology-wise, CPC announced collaboration with Hong Kong Applied Science and Technology Research Institute (ASTRI) in June 2019 to provide on-site maintenance services based on AR (Augmented Reality) technologies which are scheduled for commissioning in 2020 initially in regions including Mainland China and Hong Kong, in a further drive to the building of the Group’s end-to-end

BUSINESS REVIEW

service digitalisation regime. Furthermore, we have been engaged in negotiations with universities in Hong Kong on the joint development of IoT-based sensor and control technologies.



Regional corporate service business in Southeast Asia emerging in scale with active efforts to expand into neighboring markets

The Group provides one-stop cross-regional solutions, comprising mobile, voice, Internet access, systems integration and Cloud services, in Southeast Asia to corporate clients in the region. The Group's ICT services in Southeast Asia are conducted in accordance with the "R-R-L" strategy, namely, we pursue "Recurring", "Regional" and "Large" projects there. In 2019, the Group's intensive efforts in Southeast Asia continued to pay off as it won bids for major projects in the region and accolades awarded by numerous top-tier international IT manufacturers, in a further testimony to its strengths in ICT technologies. Complemented by management and maintenance service projects, our ICT projects in the region experienced consistent growth in monthly recurring revenue (MRR). The Group has also been actively exploring the expansion of its core businesses to neighboring markets from the hub of Singapore, with a view to generating further synergies.

Expediting the construction of smart city in Macau

As a principal operator in the construction of Smart City in Macau, CTM has made progress in numerous sectors such as smart transportation, smart healthcare and smart education based on the development blueprint of "Digital Macau", capitalising on its powerful infrastructure telecommunications network and corporate servicing ability. In 2019, CTM has actively participated in the government's tourist flow management system, typhoon audio broadcast and alert system, Macau coastal surveillance system and Macau Light Rapid Transit operation system. Meanwhile, CTM officially introduced the Tencent Private Cloud technology into Macau, as the "CTM Cloud Launching Ceremony" and "Digital Macau 2.0" application seminar was held on 19 November 2019 to mark the official launch of a brand-new CTM Cloud Service, dedicated to the provision of further application scenarios closely associated with life and work to the businesses and residents in Macau, so that they could enjoy more convenient and efficient Cloud application services.



BUSINESS REVIEW



FIXED LINE SERVICES

Slowdown in the decline of the fixed line telephone services

As at the end of 2019, the fixed line services revenue in Macau had shown a 7.6% reduction as a result of the decreasing number of residential fixed telephone lines in tandem with the global business trend.

FINANCIAL REVIEW

OVERVIEW

The Group achieved good financial results for the year ended 31 December 2019 with a net increase in profit of 5.4% to HK\$1,019.9 million when compared to the previous year. Profit attributable to equity shareholders for the year ended 31 December 2019 increased by 5.4% year-on-year to HK\$1,002.2 million, whilst basic earnings per share for the year ended 31 December 2019 was up 3.0% year-on-year to HK27.5 cents per share.

The Group's total revenue amounted to HK\$9,014.0 million for 2019. Revenue from telecommunications services increased by 3.6% year-on-year from HK\$7,139.1 million in the previous year to HK\$7,396.4 million.

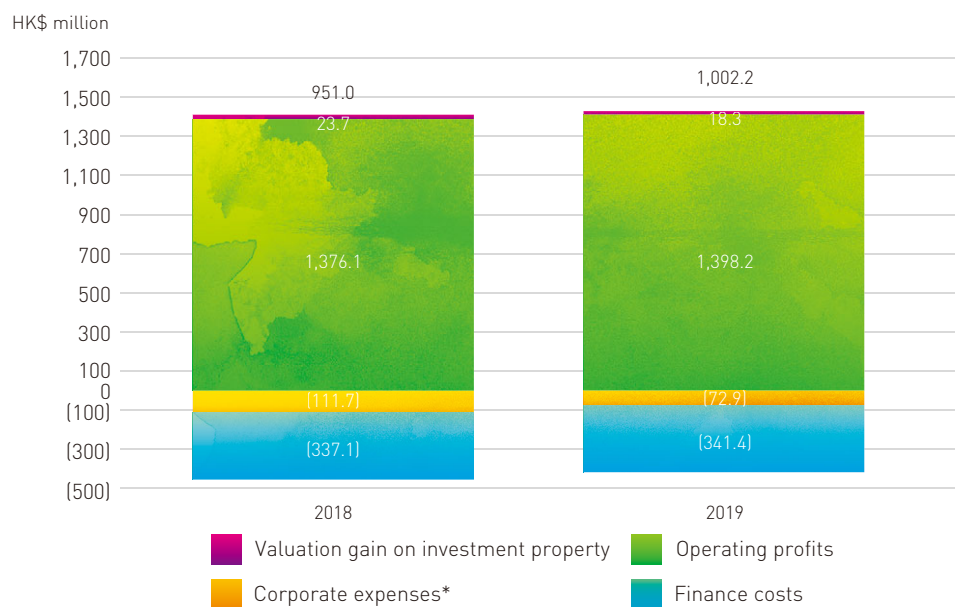
Summary of Financial Results

In HK\$ million	Year ended 31 December		Increase/(Decrease)	
	2019	2018		
Revenue from telecommunications services	7,396.4	7,139.1	257.3	3.6%
Sale of mobile handsets and equipment	1,617.6	2,324.9	(707.3)	(30.4%)
Revenue	9,014.0	9,464.0	(450.0)	(4.8%)
Valuation gain on investment property	18.3	23.7	(5.4)	(22.8%)
Other income and net loss	19.5	19.3	0.2	1.0%
Cost of sales and services	(4,961.1)	(5,583.8)	(622.7)	(11.2%)
Depreciation and amortisation	(913.5)	(725.4)	188.1	25.9%
Staff costs	(1,048.3)	(1,034.9)	13.4	1.3%
Other operating expenses	(538.2)	(687.6)	(149.4)	(21.7%)
Profit from consolidated activities	1,590.7	1,475.3	115.4	7.8%
Finance costs	(341.4)	(337.1)	4.3	1.3%
Share of joint venture results	(0.1)	3.1	N/A	N/A
Income tax	(229.3)	(173.4)	55.9	32.2%
Profit for the year	1,019.9	967.9	52.0	5.4%
Less: Non-controlling interests	(17.7)	(16.9)	0.8	4.7%
Profit attributable to equity shareholders of the Company	1,002.2	951.0	51.2	5.4%
EBITDA*	2,493.6	2,192.3	301.3	13.7%

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

FINANCIAL REVIEW

Profit attributable to equity shareholders of the Company



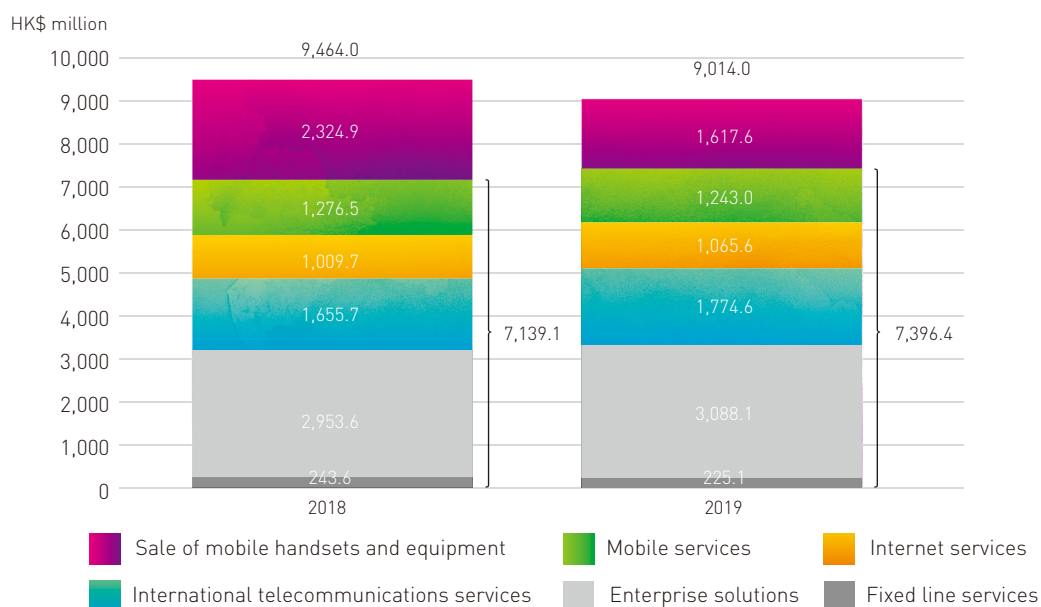
* Corporate expenses included staff costs for corporate functions, equity-settled share-based payment expenses, listing fee and others.

Profit attributable to equity shareholders of the Company for the year ended 31 December 2019 amounted to HK\$1,002.2 million, an increase of HK\$51.2 million or 5.4% when compared to the previous year. Excluding the valuation gain on investment property, profit attributable to equity shareholders of the Company for the year would increase by 6.1% when compared to the previous year as the Group continued to strengthen its capabilities across nearly all its major businesses.

FINANCIAL REVIEW

Revenue by Services

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



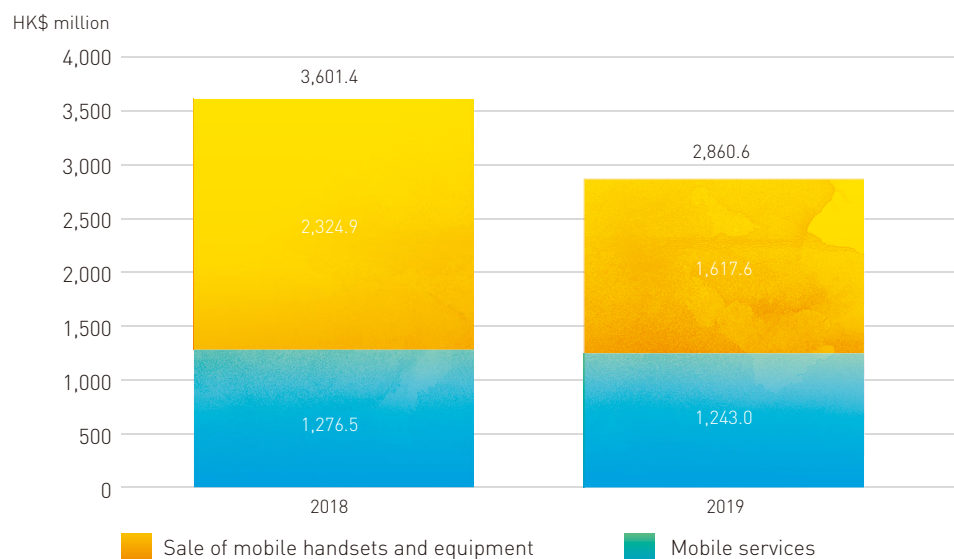
The Group's revenue from telecommunications services for the year ended 31 December 2019 amounted to HK\$7,396.4 million, representing a year-on-year increase of 3.6% or HK\$257.3 million. The increase was mainly contributed by the growth in enterprise solutions revenue of HK\$134.5 million, growth in international telecommunications services revenue of HK\$118.9 million, growth in Internet services revenue of HK\$55.9 million, offset partly by the decrease in mobile services revenue and fixed line services revenue of HK\$33.5 million and HK\$18.5 million respectively.

The Group's total revenue, including revenue from telecommunications services and sale of mobile handsets and equipment, amounted to HK\$9,014.0 million.

FINANCIAL REVIEW

Mobile sales & services

Mobile sales & services revenue includes the revenue from sale of mobile handsets and equipment and mobile services revenue. Sale of mobile handsets and equipment mainly consists of the sale of mobile handsets in Macau. Mobile services revenue mainly included the revenue from mobile local and roaming services and other mobile value-added services.



Revenue from mobile services decreased by 2.6% to HK\$1,243.0 million when compared to the previous year due to the slight drop in other mobile value-added services.

The number of postpaid subscribers increased around 5.4% to approximately 350,000 (31 December 2018: approximately 332,000 subscribers), whilst prepaid customers increased around 28.2% to approximately 796,000 (31 December 2018: approximately 621,000 subscribers).

The overall number of subscribers as at 31 December 2019 was approximately 1,146,000, an increase of around 20.2% when compared to 31 December 2018, of which approximately 99.3% (31 December 2018: 97.7%) were 4G subscribers.

The Group's mobile market share in Macau was around 41.0% as at 31 December 2019 (31 December 2018: 43.7%), while the Group had around 41.9% market share in the 4G subscribers of Macau mobile market as at 31 December 2019 (31 December 2018: 46.3%).

Internet services

Internet services revenue amounted to HK\$1,065.6 million for the year, representing a year-on-year increase of 5.5% or HK\$55.9 million. The increase was mainly due to the increase in revenue from fibre broadband service as a result of the approximately 3.0% increase in the number of broadband users to over 193,000 subscribers and the increase in data centre activities as the Group continues to expand its data centre operation.

FINANCIAL REVIEW

The Group's Internet market share and broadband market penetration rate in Macau as at 31 December 2019 was almost the same as previous year at around 96.9% (31 December 2018: 97.0%) and 88.8% (31 December 2018: 89.0%) respectively.

International telecommunications services

International telecommunications services revenue includes revenue from voice services, SMS and "DataMall自由行" services, and increased by 7.2% or HK\$118.9 million during the year.

Voice services revenue decreased by 12.8% or HK\$148.5 million year-on-year to HK\$1,007.3 million which was in line with the global trend in decreasing tariffs and traffic volume for wholesale voice market partly as a result of the substitution effect of mobile Internet.

The Group proactively seized new business opportunities brought about by the increasing demand for SMS based services like authentication services, confirmation of transactions, etc., SMS revenue surged 74.3% or HK\$287.4 million to HK\$674.1 million when compared to the previous year.

As certain operators were undertaking system upgrades during the year, coupled with a drastic drop in tourism caused by months of civil unrest, revenue from "DataMall自由行" services dropped by HK\$20.0 million to HK\$93.2 million when compared to the previous year.

Enterprise solutions

Enterprise solutions revenue increased by 4.6% from HK\$2,953.6 million in the previous year to HK\$3,088.1 million for the year ended 31 December 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, fixed line services revenue was down by 7.6% year-on-year to HK\$225.1 million for the year ended 31 December 2019.

Results for the year

Profit attributable to equity shareholders increased by HK\$51.2 million or 5.4% to HK\$1,002.2 million year-on-year as a result of the increase in the Group's profit for the year of HK\$52.0 million when compared to the previous year. The increase was mainly due to the combined effect of the following factors:

Revenue

The Group's revenue from telecommunications services amounted to HK\$7,396.4 million, an increase of 3.6% when compared to the previous year. This is contributed by the growth in the majority of the Group's businesses for the year. Total revenue including mobile handsets and equipment sales amounted to HK\$9,014.0 million for the year, representing a year-on-year decrease of 4.8% mainly as a result of the drop in mobile handsets and equipment sales.

Valuation gain on investment property

Certain floors of the property held by the Group were leased out to third parties and an affiliate of the Group. These floors were revalued as at 31 December 2019 by the Group's independent surveyors with a valuation gain of HK\$18.3 million (2018: HK\$23.7 million).

FINANCIAL REVIEW

Cost of sales and services

Cost of sales and services includes costs of provision of telecommunications services and cost of sales of mobile handsets and equipment. Cost of sales and services amounted to HK\$4,961.1 million, a year-on-year decrease of 11.2% or HK\$622.7 million. Excluding the impact of adopting Hong Kong Financial Reporting Standard 16, *Leases* ("HKFRS 16") which was first effective for the Group on 1 January 2019 of approximately HK\$93.5 million, cost of sales and services decreased by 9.5% year-on-year mainly due to the drop in mobile handsets and equipment sales.

Depreciation and amortisation

Depreciation and amortisation expenses totalled HK\$913.5 million for the year ended 31 December 2019, an increase of HK\$188.1 million when compared to the previous year. Excluding the additional depreciation expenses of HK\$175.5 million arising from the adoption of HKFRS 16, depreciation and amortisation for the year increased by 1.7% or HK\$12.6 million when compared to the previous year.

Staff costs

Staff costs for the year increased year-on-year by 1.3% or HK\$13.4 million mainly due to average salary increment for the year and the increase in headcount as a result of the Group's continuous business expansion, partly offset by the decrease in equity-settled share-based payment expenses.

Other operating expenses

Other operating expenses amounted to HK\$538.2 million which represents a year-on-year decrease of 21.7% or HK\$149.4 million. Excluding the impact of adopting HKFRS 16 of approximately HK\$86.0 million and an exceptional item recorded in 2018, being the write-off for other receivables of HK\$26.2 million, other operating expenses decreased 5.6% when compared to the previous year. The decrease was mainly due to the Group's continuing efforts and success in achieving its cost saving initiatives.

Finance costs

With the implementation of the new accounting standard on leases, additional interest expenses in relation to the lease liabilities of HK\$16.0 million was recognised during the year. Excluding the interest expenses arising from the new accounting standard on leases, finance costs decreased by 3.5% when compared to the previous year due to the Group's effective policies to manage its interest rate risks. The effective variable interest rate for the Group was approximately 3.0% p.a. and 3.1% p.a. as at 31 December 2019 and 2018 respectively.

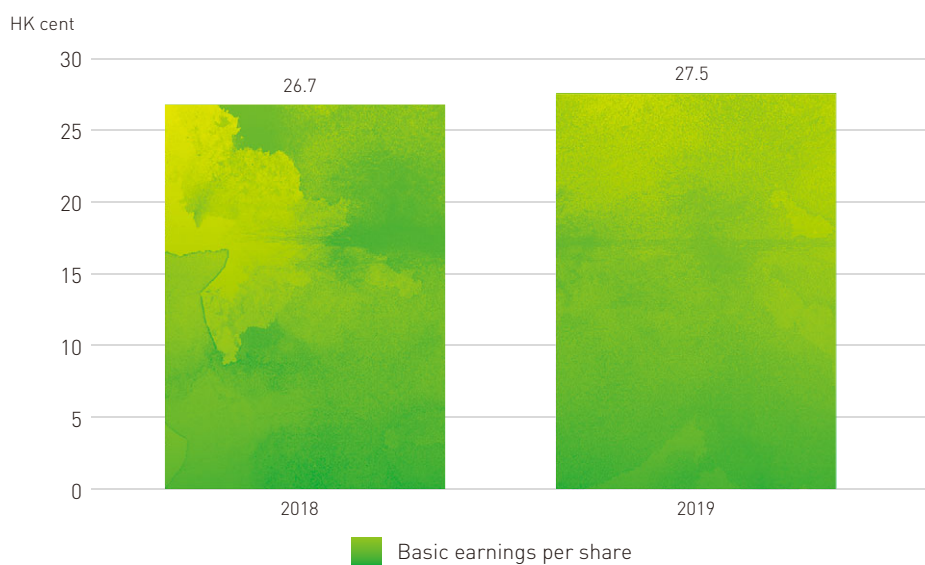
Income tax

Income tax for the year amounted to HK\$229.3 million, an increase of HK\$55.9 million when compared to the previous year. The increase was mainly due to the net impact from the reversal of the over-provision of tax for the year ended 31 December 2018. Excluding finance costs, additional tax expense from under-provision (year ended 31 December 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 was relatively stable at around 14.1% and 14.5% for the year ended 31 December 2019 and 2018 respectively.

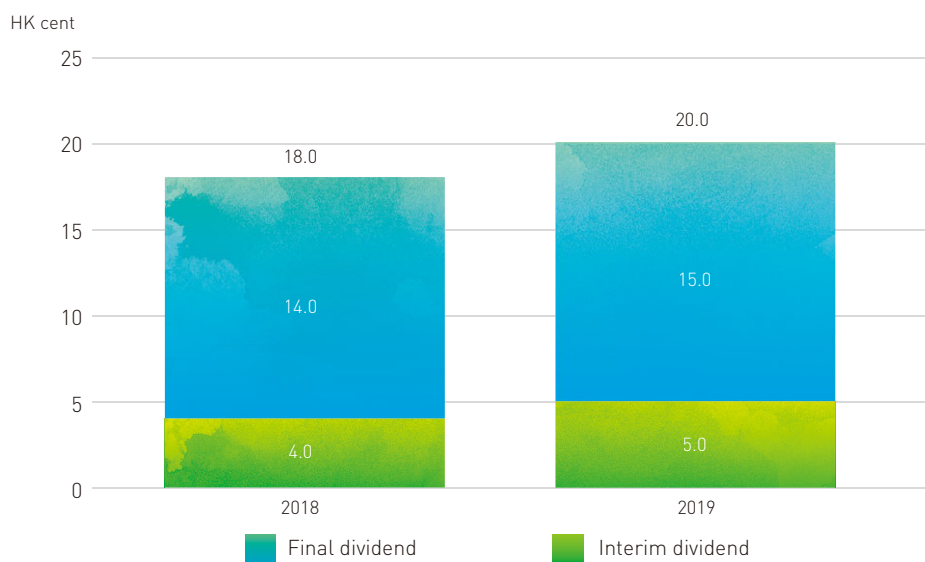
FINANCIAL REVIEW

Earnings per share ("EPS")

Basic EPS and diluted EPS amounted to approximately HK27.5 cents and HK27.4 cents which represents an increase of 3.0% and 2.6% respectively when compared to the previous year.

**Dividends per share**

Final dividend of HK15.0 cents per share is proposed for the year ended 31 December 2019.



FINANCIAL REVIEW

Cash flows

In HK\$ million	Year ended 31 December		Increase/(Decrease)	
	2019	2018		
<i>Source of cash:</i>				
Cash inflows from business operations	2,416.8	1,815.6	601.2	33.1%
Decrease in pledged deposits	3.1	219.6	(216.5)	(98.6%)
Other cash inflows	192.6	111.0	81.6	73.5%
Sub-total	2,612.5	2,146.2	466.3	21.7%
<i>Use of cash:</i>				
Net capital expenditure*	(479.6)	(603.2)	(123.6)	(20.5%)
Dividends paid to equity shareholders and non-controlling interests	(703.3)	(614.5)	88.8	14.5%
Net cash outflows from borrowings	(1,161.4)	(1,282.7)	(121.3)	(9.5%)
Sub-total	(2,344.3)	(2,500.4)	(156.1)	(6.2%)
Net increase/(decrease) in cash	268.2	(354.2)	N/A	N/A

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

The Group generated HK\$2,416.8 million cash inflow from its operations, with the use of cash mainly comprised of capital expenditure, borrowings and repayments, and dividends paid to equity shareholders and non-controlling interests. The Group maintained a strong cash flow position with a net cash inflow of HK\$268.2 million for the year ended 31 December 2019.

Capital expenditure

The Group's total capital expenditure decreased from HK\$575.8 million for the year ended 31 December 2018 to HK\$446.5 million for the year ended 31 December 2019. However, as the Group continued to expand its data centres, fitting-out costs increased by 22.7% year-on-year to HK\$56.2 million with the remainder of the capital expenditure mainly for network development and upgrade projects.

Capital commitments

As at 31 December 2019, the Group had outstanding capital commitments of HK\$296.7 million, mainly for data centre development, system upgrades, construction costs of networks and purchase of telecommunications equipment which had yet to be delivered to the Group. Of these commitments, HK\$239.1 million were outstanding contractual capital commitments and HK\$57.6 million were capital commitments authorised but for which contracts had yet to be entered into.

RISK MANAGEMENT

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

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

Financial Risk

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

1. Debt and leverage

As the Group's net debt decreased to HK\$4,965.1 million, the net gearing ratio decreased from 40% as at 31 December 2018 to 35% as at 31 December 2019.

As at 31 December 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	2,109.6	3,561.6	452.1	154.6	–	–	–	6,277.9
Less: Cash and bank deposits	(346.5)	(455.4)	(80.0)	(24.3)	(174.5)	(164.6)	(67.5)	(1,312.8)
Net debt/(cash)	1,763.1	3,106.2	372.1	130.3	(174.5)	(164.6)	(67.5)	4,965.1

As at 31 December 2019 and 2018, the Group's net gearing ratio was as follows:

In HK\$ million	31 December 2019	31 December 2018
Total debt	6,277.9	6,857.5
Less: Cash and bank deposits	(1,312.8)	(1,049.1)
Net debt	4,965.1	5,808.4
Total equity attributable to equity shareholders of the Company	9,376.6	8,854.8
Total capital	14,341.7	14,663.2
Net gearing ratio	35%	40%

Note: The Group has initially applied Hong Kong Financial Reporting Standards 16, *Leases*, using the modified retrospective approach 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".

RISK MANAGEMENT

As at 31 December 2019, the total debt amounted to HK\$6,277.9 million, of which HK\$289.0 million will be matured in the coming year, against cash and bank deposits of HK\$1,312.8 million.

The maturity profile of the Group's total debt as at 31 December 2019 was as follows:

In HK\$ million	2020	2021	2022	2023	2024	2025 & beyond	Total
Bank and other borrowings	289.0	968.6	422.7	-	1,104.5	-	2,784.8
US\$450 million 6.1% guaranteed bonds	-	-	-	-	-	3,493.1	3,493.1
	289.0	968.6	422.7	-	1,104.5	3,493.1	6,277.9

The Group's total debt decreased to HK\$6,277.9 million which was mainly due to the early repayment of bank loans amounted to HK\$600.0 million from its surplus cash during the year. 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 year.

The Group's cash balance as at 31 December 2019 was more than sufficient to cover the repayments of outstanding amount of total debt of HK\$289.0 million in the coming year and contractual capital commitments of HK\$239.1 million as at 31 December 2019.

As at 31 December 2019, the Group had available trading facilities of HK\$498.1 million. The amount of HK\$97.7 million was utilised as guarantees for performance to customers/the Macau Government and costs payable to telecoms operators and others.

The utilised facilities of approximately HK\$13.4 million of were required to be secured by pledged deposits or right-of-use assets as at 31 December 2019.

RISK MANAGEMENT

As at 31 December 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	2,534.4	2,534.4	–
– Uncommitted facilities:			
Short-term facilities	864.3	181.2	683.1
	3,398.7	2,715.6	683.1
Lease liabilities – Committed facilities	0.9	0.9	–
Guaranteed bonds – Committed facility			
US\$450 million 6.1% guaranteed bonds	3,510.0	3,510.0	–
Trading facilities – Uncommitted facilities	498.1	97.7	400.4
Total	7,407.7	6,324.2	1,083.5

2. Liquidity risk management

Each business unit within the Group is responsible for its own cash management, including predetermined short term investment of its cash surpluses. The raising of loans to cover its expected cash demand must be approved by the finance committee or the board of the Company. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

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

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

RISK MANAGEMENT

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 31 December 2019 and 2018, the Group was in compliance with the relevant requirements.

4. Contingent liabilities

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

5. Performance bonds, guarantees and pledged assets

As at 31 December 2019 and 2018, performance bonds and other guarantees of the Group were as follows:

In HK\$ million	31 December 2019	31 December 2018
Performance bonds provided to the Macau Government and other customers	92.8	78.5
Other guarantees	4.9	4.9
Total	97.7	83.4

As at 31 December 2019, bank deposits of HK\$8.4 million (2018: HK\$11.3 million) and right-of-use assets of HK\$1.2 million (2018: HK\$2.7 million, which were previously classified as 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 (the "Guaranteed Bonds") and the Guaranteed Bonds bore interest at 6.1% per annum. The Guaranteed Bonds were unconditionally and irrevocably guaranteed by the Company.

As at 31 December 2019, the Company issued guarantees of HK\$810.5 million (2018: HK\$880.3 million) for its subsidiaries in respect of the various forms of facility lines from financial institutions.

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

RISK MANAGEMENT

6. Interest rate risk

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

Interest rate risk is managed by fixed rate borrowing or through use of interest rate swap, if necessary. As at 31 December 2019, approximately 58.0% (2018: approximately 51.4%) of the Group's borrowings were linked to fixed interest rates. During the year, the Group did not enter into any interest rate swap arrangement.

Average borrowing rate

As at 31 December 2019, the average borrowing rate, after the inclusion of amortisation of transaction costs, was approximately 4.7% (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 hedging arrangement to mitigate risk from any significant fluctuation in foreign exchange rates if necessary.

RISK MANAGEMENT

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 35.3% and 32.9% of the Group's total trade debtors and contract assets as at 31 December 2019 and 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 31 December 2019, the Group has maintained a cash balance of HK\$1,285.1 million (2018: HK\$1,025.5 million) in the above-mentioned financial institutions, representing approximately 97.9% (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.

Economic Environment

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

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

RISK MANAGEMENT

Operational risk

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

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

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

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

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

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

RISK MANAGEMENT

Security or privacy breaches

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

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

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

Competitive Markets

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

- Increasing liberalisation of the telecoms industry in Hong Kong and China may continue to attract new local and foreign entrants and broaden the variety of telecoms services available in the market, thereby increasing the overall level of competition in the industry.
- The telecoms market in Macau is in the process of liberalisation. Moreover, the Macau Government will issue 5G network operating licence, but the 5G network operating licences may also be granted to other territory's mobile network operators. It is expected that competition may increase from both existing and new market players. Increased competition may have an adverse effect on the operating performance of CTM and hence affect the value of the business.

RISK MANAGEMENT

- Rapid changes in technology and business models to cope with the technology development from other telecommunications services providers may increase competition and render the Group's current technologies, products or services obsolete or cause the Group to lose market share.
- Rapid development of new technologies, new services and products, and new business models, including Over-the-top products such as instant voice and messaging services, may have a material adverse effect on our business, financial condition and results of operations.

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

Other External Risks and Uncertainties

1. Impact of laws and regulations

The Group faces local business risks in different countries and regions. Such risks might have significant impacts on the financial condition, operations and business prospects of the Group in the relevant markets. The investments of the Group in countries and regions across the world might at present or in future be affected by changes in local, national or international political, social, legal, tax, regulatory and environmental requirements from time to time.

In addition, new government policies or measures, if introducing changes in fiscal, tax, regulatory, environmental or other aspects that may affect competitiveness, could result in an additional or unforeseen increase in operating expenses and capital expenditures, produce risks to the overall return on investments of the Group, and delay or impede its business operations and hence adversely affect revenues and profits.

2. Impact of new accounting standards

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

RISK MANAGEMENT

3. Natural disasters or events and terrorism

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

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

In recent times, the novel coronavirus (COVID-19) outbreak challenges the public health and economy significantly. It will increase the risk of continued economic contraction. Without doubt, the current spread will present challenges to the Group's business or operations in the Asia Pacific region. It may result in reducing the use of the Group's services by customers.

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

FIVE YEAR SUMMARY

	As at 31 December				
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000
Assets and liabilities					
Investment property	–	635,328	685,969	629,352	647,648
Property, plant and equipment	2,404,952	2,553,923	2,625,731	2,767,198	2,435,216
Right-of-use assets	–	–	–	–	695,365
Intangible assets	2,005,221	1,878,846	1,722,074	1,553,522	1,385,195
Goodwill	9,276,511	9,596,599	9,729,268	9,717,906	9,712,967
Interest in a joint venture	5,541	7,367	5,972	8,924	8,911
Non-current contract assets	–	–	–	41,294	36,429
Non-current other receivables and deposits	163,862	198,920	207,509	119,937	112,372
Deferred tax assets	33,227	85,764	81,428	67,957	65,595
Net current assets	983,496	1,243,178	1,289,492	912,252	1,026,525
Net defined benefit retirement obligation	(117,307)	(112,878)	(68,303)	(99,578)	(59,828)
Deferred tax liabilities	(260,297)	(249,024)	(244,643)	(247,719)	(233,099)
Other non-current liabilities	(7,438,148)	(7,938,337)	(7,604,299)	(6,575,329)	(6,407,917)
NET ASSETS	7,057,058	7,899,686	8,430,198	8,895,716	9,425,379
Capital and reserves					
Share capital	3,848,565	4,262,457	4,280,542	4,402,388	4,628,534
Reserves	3,180,822	3,608,047	4,115,865	4,452,364	4,748,075
Total equity attributable to equity shareholders of the Company	7,029,387	7,870,504	8,396,407	8,854,752	9,376,609
Non-controlling interests	27,671	29,182	33,791	40,964	48,770
TOTAL EQUITY	7,057,058	7,899,686	8,430,198	8,895,716	9,425,379
	For the year ended 31 December				
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000
Results					
Revenue	8,349,811	7,699,147	7,450,760	9,464,013	9,013,980
Profit before taxation	1,010,443	1,028,089	1,061,233	1,141,284	1,249,226
Income tax	(195,611)	(165,368)	(165,477)	(173,392)	(229,326)
Profit for the year	814,832	862,721	895,756	967,892	1,019,900
Attributable to:					
Equity shareholders of the Company	802,213	850,088	881,338	951,039	1,002,228
Non-controlling interests	12,619	12,633	14,418	16,853	17,672
Profit for the year	814,832	862,721	895,756	967,892	1,019,900
Basic earnings per share (HK cents)	23.8	24.9	24.9	26.7	27.5
Diluted earnings per share (HK cents)	23.6	24.7	24.8	26.7	27.4
Dividends per share					
Interim dividend (HK cents)	2.80	2.85	3.00	4.00	5.00
Final dividend (HK cents)	9.70	10.35	13.00	14.00	15.00
Total dividends per share	12.50	13.20	16.00	18.00	20.00

CORPORATE GOVERNANCE

Key Corporate Governance Performance Overview

BOARD

- **The Board**
Effective Board control for the best interest of the shareholders of the Company
- **Composition**
Sufficient independent Board members to exercise independent objective judgements
- **Chairman & Chief Executive Officer ("CEO")**
Clear segregation between the responsibilities of Chairman and CEO

EFFECTIVENESS

- **Board Performance**
Active participation in Board matters and invaluable contribution to key issues of the Company
- **Remuneration Policy**
Competitive reward system to reward the directors and key management

SHAREHOLDERS

- **Communications**
Maintain regular, effective and fair communication with shareholders
- **General Meetings**
Attended by committees' chairman and/or members

ACCOUNTABILITY

- **Internal Control**
Independent internal control function
- **Risk Management**
Maintain sound risk management system to safeguard shareholders' interests and the Group's assets

CORPORATE GOVERNANCE

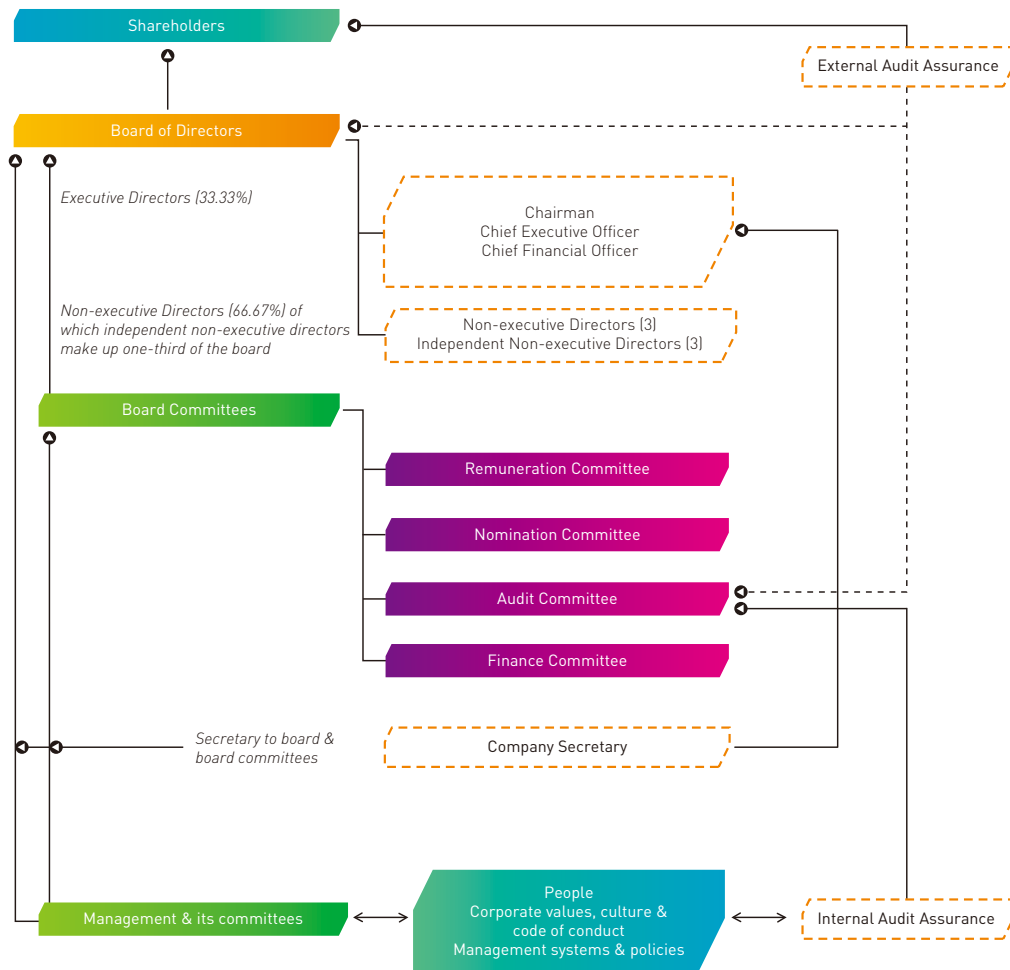
Corporate Governance Practices

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

This report describes how the Company has applied its corporate governance practices to its everyday activities. Save as disclosed below, the Company has fully complied with the applicable code provisions in the Corporate Governance Code (the "Code") set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year of 2019.

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

Corporate Governance Structure



CORPORATE GOVERNANCE

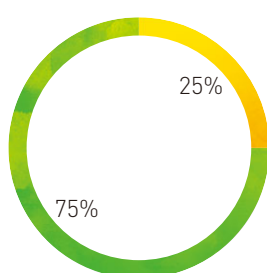
Board of Directors

Key features of our Board

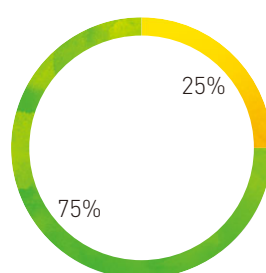
Independence

The Company emphasises on independence and objectivity of the Board and all committees. As at 31 December 2019, the Board consisted of three executive directors, three non-executive directors and three independent non-executive directors. With the services of all Board members, the Board would have a prudential oversight on the Company's businesses and developments.

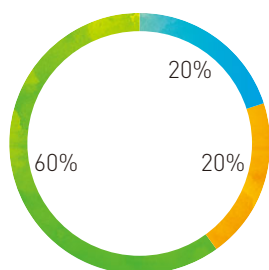
Audit Committee



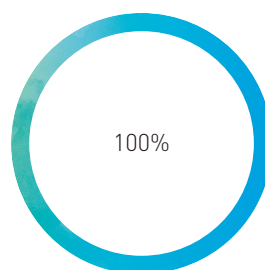
Remuneration Committee



Nomination Committee



Finance Committee

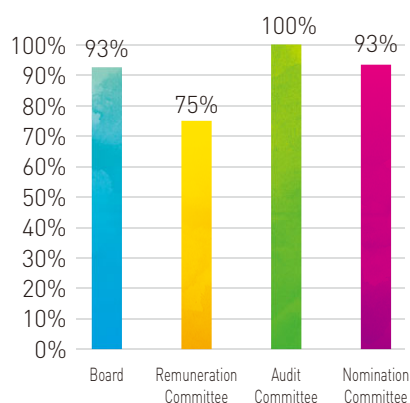


● Executive director ● Non-executive director ● Independent non-executive director

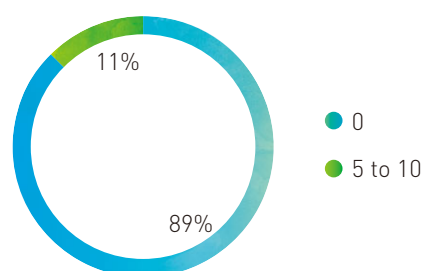
Commitment

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

Attendance Rate at Meetings



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



● 0
● 5 to 10

CORPORATE GOVERNANCE

Attendance at Meetings

The following table summarises directors' attendance at Board and committees' meetings and general meeting held in 2019:

✓ Attended ✗ Absent – Not Applicable

	Meetings Held/Attended				
	Board	Remuneration Committee	Audit Committee	Nomination Committee	General Meeting
	(Total: 5)	(Total: 2)	(Total: 2)	(Total: 3)	(Note 5) (Total: 1)
Executive Directors					
Mr. Xin Yue Jiang – <i>Chairman</i>	✓✓✓✓✓	--	--	✓✓✓	✓
Dr. Lin Zhenhui – <i>Chief Executive Officer</i>	✓✓✓✓✓	--	--	---	✓
Mr. Luo Ning ^(Note 1)	✓✓---	--	--	---	✗
Dr. David Chan Tin Wai ^(Note 2) – <i>Chief Financial Officer</i>	✓✓✓--	--	✓ – Note 2	---	✓
Mr. Esmond Li Bing Chi ^(Note 3) – <i>Chief Financial Officer</i>	--✓✓✓	--	--✓ Note 3	---	--
Non-executive Directors					
Mr. Liu Zhengjun ^(Note 4)	--✓✓✓	--	--	---	--
Mr. Liu Jifu	✓✓✗✓✓	✗✓	--	✓✗✓	✓
Mr. Fei Yiping	✓✓✓✓✗	--	✓✓	---	✓
Independent Non-executive Directors					
Mr. Liu Li Qing	✓✓✓✓✓	✓✓	✓✓	✓✓✓	✓
Mr. Zuo Xunsheng	✓✓✓✓✓	✓✓	✓✓	✓✓✓	✓
Mr. Lam Yiu Kin	✓✓✓✓✗	✓✗	✓✓	✓✓✓	✓

Notes:

- Mr. Luo Ning ceased to be an executive director of the Company with effect from 27 May 2019.
- Dr. David Chan Tin Wai also attended the audit committee meeting held on 27 February 2019 as the Chief Financial Officer of the Company. He resigned as an executive director and Chief Financial Officer of the Company with effect from 6 August 2019.
- Mr. Esmond Li Bing Chi was appointed as an executive director and Chief Financial Officer of the Company with effect from 6 August 2019. He also attended the audit committee meeting held on 13 August 2019 as the Chief Financial Officer of the Company.
- Mr. Liu Zhengjun was appointed as a non-executive director of the Company with effect from 14 August 2019.
- The Company's external auditor also attended the annual general meeting of the Company held on 15 May 2019 (the "2019 AGM"), which Mr. Luo Ning was unable to attend as he had other engagements.

CORPORATE GOVERNANCE

Overall Accountability

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

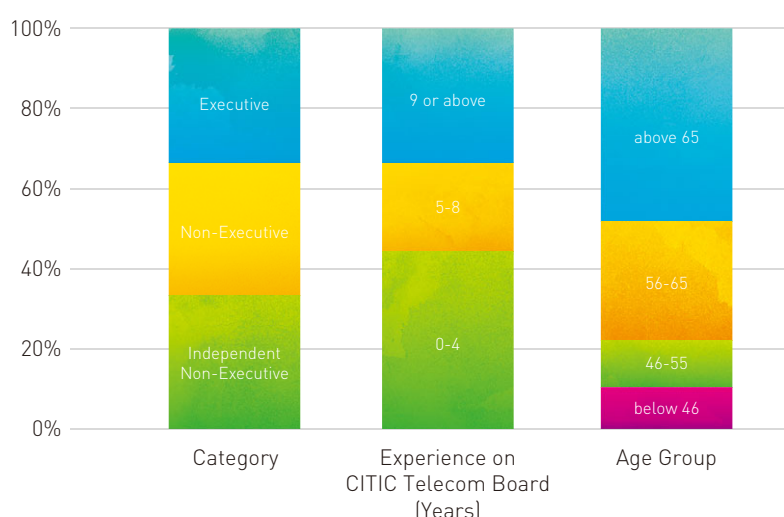
During the year, the Board has performed a self-evaluation of its performance and reviewed the contribution required from a director to perform his responsibilities. The Board is of the view that all directors have given sufficient time and attention to the Group's affairs and the Board operates effectively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

Board Composition, Diversity and Balance

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

The Board currently comprises three executive and six non-executive directors of whom three are independent as defined in the Listing Rules. The directors are of diverse academic background in the areas of telecommunications, engineering, accounting, economics, business administration and management. Brief biographical particulars of the directors are set out on pages 70 to 73 of this Annual Report. The Company believes that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Group's business.

Board Diversity Statistics



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

CORPORATE GOVERNANCE

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

During the year of 2019,

- i) Mr. Luo Ning ceased to be an executive director of the Company;
- ii) Dr. David Chan Tin Wai resigned as an executive director and Chief Financial Officer of the Company and Mr. Esmond Li Bing Chi was appointed in his stead; and
- iii) Mr. Liu Zhengjun was appointed as a non-executive director of the Company.

In addition, Dr. Lin Zhenhui resigned as an executive director and Chief Executive Officer of the Company with effect from 28 February 2020 and Mr. Cai Dawei was appointed in his stead.

Messrs. Cai Dawei, Esmond Li Bing Chi and Liu Zhengjun were appointed by the Board as directors of the Company subsequent to the 2019 AGM. In accordance with the Articles of Association of the Company, they will hold office only until the forthcoming AGM and will be eligible for re-election at the forthcoming AGM.

Mr. Lam Yiu Kin, an independent non-executive director of the Company, will retire by rotation and, being eligible, has offered himself for re-election at the forthcoming AGM of the Company. Notwithstanding Mr. Lam's engagement as an independent non-executive director for a number of listed companies and his chairing the audit committees of seven of these listed companies, the Nomination Committee and the Board are of the view that Mr. Lam is able to devote sufficient time to act as an independent non-executive director of our Company on the basis that (i) he has confirmed he is able to and will devote sufficient time to discharge his duties and responsibilities as an independent non-executive director; (ii) he is not preoccupied with any full-time work and none of his current commitments as an independent non-executive director of the other listed companies would require his full-time involvement and he does not participate in the day-to-day operations of those listed companies; (iii) with his extensive experience and knowledge, particularly on corporate governance acquired and developed from his background and past experience (including his directorships in other listed companies), he is fully aware of the responsibilities and expected time involvement for independent non-executive directors; (iv) he has held directorships for over three years in eight of the above listed companies; and (v) he has demonstrated that he is able to devote sufficient time to discharge his duties owed to each of these listed companies by attending board meetings and board committee meetings of these listed companies during their latest financial year, as disclosed in these listed companies' latest published annual reports. In accordance with the Code, the re-election of Mr. Lam will be subject to a separate resolution to be approved at the forthcoming AGM.

Roles of the Board

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

CORPORATE GOVERNANCE

Board Responsibilities and Delegation

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

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

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

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

Details of the responsibilities, membership, attendance and activities during the year of each Board committee are set out on pages 50 to 60 of this Annual Report.

Board Meetings and Attendance

The Board meets regularly to review the financial and operating performance of the Group and to discuss future strategy. A total of five Board meetings were held in 2019. At the Board meetings, the Board reviewed significant matters including, inter alia, the Group's annual and interim financial statements, annual budget, proposals for final and interim dividends, annual report and interim report, connected transactions and the risk management report. At least 14 days' notice is given to all directors for all regular Board meetings and all directors are given the opportunity to include matters for discussion in the agenda. The agenda and Board papers for each meeting are sent to all directors more than 3 days in advance of every regular Board meeting. All minutes of the Board meetings are kept by the company secretary of the Company and are available to all directors for inspection. For the sake of good corporate governance, the Chairman of the Company has also held a meeting with the independent non-executive directors without the presence of the other directors during the year.

The attendance record of each director at the Board meetings in 2019 is set out in the table on page 51 of this Annual Report.

CORPORATE GOVERNANCE

Chairman and Chief Executive Officer

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

Directors' Continuing Professional Development Programme

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

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

During the year, the Company has also organised two briefing sessions relating to the smart cities blueprint and the role of the board of directors on sustainable development conducted by Messrs. PricewaterhouseCoopers and Ernst & Young respectively for the directors of the Company.

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

Directors	Type of continuous professional development programme
Executive Directors	
Mr. Xin Yue Jiang	A, B, C
Dr. Lin Zhenhui	A, B, C
Mr. Luo Ning (resigned with effect from 27 May 2019)	B, C
Dr. David Chan Tin Wai (resigned with effect from 6 August 2019)	A, B, C
Mr. Esmond Li Bing Chi (appointed with effect from 6 August 2019)	A, B, C
Non-executive Directors	
Mr. Liu Zhengjun (appointed with effect from 14 August 2019)	B, C
Mr. Liu Jifu	B, C
Mr. Fei Yiping	A, B, C
Independent Non-executive Directors	
Mr. Liu Li Qing	A, B, C
Mr. Zuo Xunsheng	A, B, C
Mr. Lam Yiu Kin	A, B, C

Notes:

A: attending briefings and/or seminars

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

C: reading monthly updates on the Group's performance, position and prospects

CORPORATE GOVERNANCE

Board Committees

Board Committees	Composition	Members
Remuneration Committee ("RC")	- Four members: All NEDs - Three out of four members, including the RC Chairman, are INEDs	- Mr. Liu Li Qing (<i>Chairman</i>) - Mr. Liu Jifu - Mr. Zuo Xunsheng - Mr. Lam Yiu Kin
Audit Committee ("AC")	- Four members: All NEDs - Three out of four members, including the AC Chairman, are INEDs	- Mr. Lam Yiu Kin (<i>Chairman</i>) - Mr. Fei Yiping - Mr. Liu Li Qing - Mr. Zuo Xunsheng
Nomination Committee	- Five members - Three out of five members are INEDs	- Mr. Xin Yue Jiang (<i>Chairman</i>) - Mr. Liu Jifu - Mr. Liu Li Qing - Mr. Zuo Xunsheng - Mr. Lam Yiu Kin
Finance Committee	Three members	- Mr. Xin Yue Jiang - Dr. Lin Zhenhui (resigned on 28 February 2020) - Mr. Cai Dawei (appointed on 28 February 2020) - Mr. Esmond Li Bing Chi

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

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

Remuneration Committee

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

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

CORPORATE GOVERNANCE

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

Membership and Attendance	
Members	Attendance/ Number of Meetings
Independent Non-executive Directors	
Mr. Liu Li Qing – <i>Chairman</i>	2/2
Mr. Zuo Xunsheng	2/2
Mr. Lam Yiu Kin	1/2
Non-executive Director	
Mr. Liu Jifu	1/2

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

Details of the Company's remuneration policies are set out in the Sustainability Report on page 117 of this Annual Report, and directors' emoluments and retirement benefits are disclosed on pages 189 to 190 and 218 to 222 of this Annual Report. Share options granted under the Company's share option plan are disclosed on pages 91 to 96 and pages 223 to 228 of this Annual Report.

The remuneration paid to the directors of the Company, by name, for the year ended 31 December 2019 is set out in note 8 to the financial statements. The remuneration paid to the senior management, by band, for the year ended 31 December 2019 is set out below:

Remuneration of senior management other than directors for the full year of 2019

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

Audit Committee

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

CORPORATE GOVERNANCE

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

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

The Audit Committee held two meetings in 2019. The agenda and accompanying committee papers were sent to the committee members more than 3 days prior to each meeting.

The Audit Committee discussed with the management and the external auditor on the key audit matters summarised below and procedures performed by the external auditor. Please refer to pages 134 to 137 of this Annual Report for details of procedures performed by the external auditor.

Key Audit Matters	How did the Audit Committee address the matters
Impairment assessment of goodwill	The Audit Committee considered the methodology, estimates and assumptions used in assessing the impairment of goodwill. The Audit Committee was satisfied that the methodology, estimates and assumptions adopted were considered appropriate.
Revenue recognition	The Audit Committee considered the implemented policies and internal controls in connection with the Group's revenue cycles and was satisfied that adequate internal controls are in place to ensure the accuracy, existence and completeness of the Group's revenue recognition. The Audit Committee was satisfied that the key internal controls were operating effectively throughout 2019.

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

CORPORATE GOVERNANCE

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

Membership and Attendance	
Members	Attendance/ Number of Meetings
Independent Non-executive Directors	
Mr. Lam Yiu Kin – <i>Chairman</i>	2/2
Mr. Liu Li Qing	2/2
Mr. Zuo Xunsheng	2/2
Non-executive Director	
Mr. Fei Yiping	2/2

During 2019, the Audit Committee has considered the external auditors' proposed audit fees; discussed with the external auditors their independence and the nature and scope of the audit; reviewed the interim and annual financial statements of the Group, particularly judgmental areas, before submission to the Board; reviewed the risk management and internal control system and the internal audit plan, findings and management's response; reviewed the Group's adherence to the code provisions in the Code; reviewed the risk management report and the amendments to the whistle-blowing policy before submitting to the Board for approval. The Audit Committee reviewed the Group's Sustainability Report to ensure compliance with regulatory requirements. The Audit Committee recommended the Board to adopt the interim and annual financial statements for 2019. The Audit Committee has also performed the corporate governance duties as set out in its terms of reference.

Nomination Committee

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

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

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

CORPORATE GOVERNANCE

Three meetings were held and two resolutions in writing were passed in 2019. The composition of the Nomination Committee during the year as well as the meeting attendance of the committee members are as follows:

Membership and Attendance	
Members	Attendance/ Number of Meetings
Executive Director	
Mr. Xin Yue Jiang – <i>Chairman</i>	3/3
Non-executive Director	
Mr. Liu Jifu	2/3
Independent Non-executive Directors	
Mr. Liu Li Qing	3/3
Mr. Zuo Xunsheng	3/3
Mr. Lam Yiu Kin	3/3

In 2019, the Nomination Committee reviewed the director nomination policy. The Nomination Committee has also reviewed and made recommendations to the Board on the appointment of new directors and has assessed the independence of independent non-executive directors and made recommendations to the Board on the re-election of the directors retiring at the 2019 AGM. The recommendations were made after considering the composition of the Board, the director nomination policy and the board diversity policy of the Company, with due regard to the overall effective function of the Board as a whole. The relevant members of the Nomination Committee abstained from voting when his own nomination was being considered. The Nomination Committee also reviewed the composition of the management of the Group and its changes during the year. It also reviewed the structure, size and diversity of the Board and discussed the measurable objectives, including knowledge, appropriate professional qualifications, relevant business background and experience, skills, related management expertise and agreed that these measurable objectives were achieved for the diversity on the Board which contributed to the corporate strategy and the business development of the Company.

Finance Committee

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

The Finance Committee currently comprises three executive directors, namely, Mr. Xin Yue Jiang, Mr. Cai Dawei and Mr. Esmond Li Bing Chi. In 2019, a few resolutions in writing were passed by the Finance Committee to approve the opening of bank accounts and the financial transactions of the Company such as acceptance of banking facilities.

CORPORATE GOVERNANCE

Accountability and Audit

Financial Reporting

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

The Board considers that the adoption of new and revised financial reporting standards has an impact on the Group’s financial statements, details of which are disclosed in notes 1(a) and 1(c) to the financial statements.

The responsibilities of the external auditor with respect to the financial statements for the year ended 31 December 2019 are set out in the Independent Auditor’s Report on pages 133 to 140 of this Annual Report.

External Auditor and their Remuneration

The external audit provides an objective assessment of the financial information presented by the management, and is considered one of the essential elements to ensure effective corporate governance. The Board is of the view that, as a good corporate governance measure, the Company should consider rotation of its auditor after an appropriate period of time. Thus, KPMG, Certified Public Accountants, the Company’s external auditors since 2005, retired at the close of the 2019 AGM and PricewaterhouseCoopers (“PwC”), Certified Public Accountants and Registered Public Interest Entity Auditor, was appointed as the Company’s external auditors with effect from the close of the 2019 AGM. Their independence and audit process are reviewed and monitored by the Audit Committee which considers the scope of the audit work, audit fees, non-audit services as well as their appointment and retention.

During the year, the fees charged by PwC for the audit of the Company and its subsidiaries amounted to approximately HK\$4,879,000. In addition, approximately HK\$3,093,000 was charged by PwC for non-audit services. The non-audit services mainly consist of taxation services, interim review, advisory and other professional services. The fees charged by other auditors of the Group for audit services and non-audit services during the year amounted to approximately HK\$1,729,000 and HK\$172,000 respectively.

Risk Management and Internal Control

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

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

CORPORATE GOVERNANCE

Risk management and internal control system features

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

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

Management process for significant risks

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

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

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

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

The Group’s significant risks can be found in the “Risk Management” section on pages 37 to 46 of this Annual Report.

CORPORATE GOVERNANCE

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

Risk factors	Impacts to the Group	Risk Mitigation Measures
Competitive market conditions	Rapid changes in telecommunications technology are lowering barriers to entry and increasing the level of competition in the industry. The effect of increasingly competitive market conditions, including any decline in the Group's revenue and margins of our products and services, may adversely impact on the Group's financial condition and results of operations.	• Striving to promote the development and transition from existing services into new services with new technology. • Providing new services to customers by partnering with industry leaders. • Monitoring the market conditions proactively to facilitate the Group's business strategies, as well as new business developments.
Major regulatory changes	Regulatory or policy changes (e.g. open telecommunication market, price cut, tariff reduction, privacy policy, etc.) may directly impact our strategy and business model as well as increase complexity, and may continue to adversely affect the Group's profitability and financial conditions.	• Developing and maintaining relationships with relevant regulatory stakeholders and policy makers proactively, in an effort to minimise potential adverse effects of policy and regulatory decisions. • Establishing clear, transparent and timely communications with our stakeholders (including customers, government and regulators) about our company and corporate strategy, and seeking to understand their views and maintain good relationships.
Cyber security	With the advent of information technology and its increased application, the frequency and intensity of cyber-attacks are on the rise. The Group's critical information assets are exposed to threats, damage or unauthorized access in the digital world. Any system breakdown or breach in security may have adverse impact on the integrity, accuracy and confidentiality of data and information about the Group and our customers.	• Reviewing and updating the security controls on our network continually, especially in times of global ransomware and other cyber-crime events. • Providing training in relation to data security and privacy awareness for all employees. • Conducting regular cyber security drills across the organisation to test the level of staff compliance and vigilance.

CORPORATE GOVERNANCE

Risk factors	Impacts to the Group	Risk Mitigation Measures
Business resilience	There are multiple threats to Group's ability to ensure resilience and continuity of key processes, system and people, including extreme weather events, natural disasters, terrorist attacks, etc.. These events could harm the Group's revenue and prospects.	- Maintaining business capabilities, strategies, and plans in place which seek to prevent, respond to and recover from disruptions of critical network/service. - Partnering with our external vendors to deliver improved management of our technology asset lifecycles and resilience.
Interest rate risk	The Group is exposed to interest rate risk through the impact of rate changes on interest from long term borrowings. The Group may be affected by changes in the prevailing interest rates of the global credit market. Any increase in interest rate in connection with the currencies the Group borrows will increase the Group's finance costs and may adversely affect the Group's financial condition and results of operations.	Performing regular review to achieve a balance between minimising the Group's overall cost of fund and managing large interest rate movements, as well as having regard to the floating/fixed rate mix appropriate to its current business portfolio.
Novel coronavirus (COVID-19) outbreak	The outbreak will threaten the health of our employees and customers, and may impact the customers in reducing the use of Group's services.	- Carrying out preventive measures (e.g. regular disinfection, wearing preventive equipment, etc.) to safeguard the health of our staff and customers. - Leveraging the Group's disaster recovery services and remote access solutions to help enterprise customers fight against the coronavirus, which is both aligned with our corporate social responsibility and to cultivate customer's habit on using these services.

Monitoring the effectiveness of risk management and internal control system

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

CORPORATE GOVERNANCE

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

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

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

Internal Audit

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

Business Ethics

Code of conduct

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

Whistle-blowing policy

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

CORPORATE GOVERNANCE

According to the whistle-blowing policy, concerns can be raised via email or by post to the Head of Internal Control and Compliance Department; or in writing to the Chairman of the Company or the Chairman of the Audit Committee. All allegations received shall be registered and will be evaluated to determine the credibility, materiality and verifiability. To this end, the allegation will be evaluated to determine whether there is a legitimate basis to warrant an investigation. The Head of Internal Control and Compliance Department will handle the investigation and directly report to the Chairman of the Company. Those who have conflict of interest will not be included.

Inside Information/Price-Sensitive Information

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

Directors’ Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in Appendix 10 of the Listing Rules. All directors confirmed that they have complied with the required standard set out in the Model Code throughout 2019. The interests held by individual directors in the Company’s securities at 31 December 2019 are set out in the Directors’ Report on page 96 of this Annual Report.

Good Employment Practices

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

Communication with Shareholders

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

Information Disclosure on Corporate Website

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

During 2019, the Company has issued announcements in respect of, inter alia, proposed change of auditor and some connected transactions which can be viewed on the Company’s website (www.citictel.com).

Dividend Policy

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

General Meetings with Shareholders

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

CORPORATE GOVERNANCE

Voting by Poll

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

Investor Relations

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

Shareholders' Rights

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

Convening of general meeting

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

The request –

- (a) must state the general nature of the business to be dealt with at the meeting;
- (b) may include the text of a resolution that may properly be moved and is intended to be moved at the meeting;
- (c) may consist of several documents in like form;
- (d) may be sent in hard copy form or in electronic form to the company secretary of the Company at the Company's registered office (25th Floor, CITIC Telecom Tower, 93 Kwai Fuk Road, Kwai Chung, New Territories, Hong Kong) or via email at contact@citictel.com; and
- (e) must be authenticated by the person or persons making it.

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

CORPORATE GOVERNANCE

Procedures for directing shareholders' enquiries to the Board

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

The Company Secretary

CITIC Telecom International Holdings Limited

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

Email: contact@citictel.com

Tel No.: +852 2377 8888

Fax No.: +852 2918 4838

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

Procedures for putting forward proposals at general meetings by shareholders

- Circulating a resolution for an AGM

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

- represent at least 2.5% of the total voting rights of all shareholders who have a right to vote on the resolution at the AGM to which the request relates; or
- at least 50 shareholders who have a right to vote on the resolution at the AGM to which the request relates.

The request –

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

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

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

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

CORPORATE GOVERNANCE

The request –

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

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

Constitutional Documents

There are no changes in the constitutional documents of the Company in 2019.

Non-Competition Undertaking

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

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

Directors and Senior Management

DIRECTORS

Executive Directors

#^ Mr. Xin Yue Jiang, aged 71, has been appointed as the Chairman of the Company from 19 March 2009. He joined the Company in January 2008 as executive director and Vice Chairman of the Board. Mr. Xin is also the Chairman of Companhia de Telecomunicações de Macau, S.A.R.L. ("CTM") and CITIC Telecom International CPC Limited ("CPC"), both being subsidiaries of the Company. Mr. Xin graduated from China Naval Aeronautic Engineering Institute and Central University of Finance and Economics and obtained a Master degree in Economics and Management from the Graduate School of Chinese Academy of Social Sciences. After serving a substantial period of time in the government of the People's Republic of China (the "PRC") in which Mr. Xin was involved in the administration of science, technology information and economics, Mr. Xin joined in succession various major conglomerates as senior management, researcher or chief engineer. When Mr. Xin was with China Netcom (Hong Kong) Operations Limited, he held the position of Senior Vice President and Senior Consultant. Mr. Xin had also participated in the planning, implementation and management of many different important state projects. Mr. Xin thus possesses extensive knowledge and experience in science and technology information, business operation and management, and capital market operation. Since 1985, Mr. Xin has joined many different overseas studies and visits, and gained many valuable experiences in promoting co-operation with overseas enterprises, technology exchange, product research and development, and product marketing. Mr. Xin has long participated in the study and research of corporate governance and corporate culture, in particular the characteristics of Western economy and the corporate governance practices adopted by overseas enterprises, and has made significant achievement in that regard.

^ Mr. Cai Dawei, aged 43, has been an executive director and the Chief Executive Officer of the Company since 28 February 2020. He is also the Vice Chairman of CPC and China Enterprise ICT Solutions Limited ("CEC", a subsidiary of the Company) and Corporate Representative of the Company in the board of CTM. Mr. Cai joined the Company in August 2009. He was a member of Corporate Management as from July 2015 and was appointed as the Vice President of the Company in December 2016, responsible for various aspects of businesses, including Business Operation, Business and Management Information System, Data Centre Business Development and Property Management, etc. He was also a director of CTM for the period from June 2013 to January 2019, participating profoundly in the management and innovative development of CTM. In January 2019, Mr. Cai joined the team of North American Region of the Company and has been appointed as the President of the Region since May 2019. Mr. Cai obtained a Bachelor degree in Telecom Engineering from Beijing University of Posts and Telecommunications in 1998, and received a Master degree in Business Administration from the University of International Business and Economics in 2005. Prior to joining the Company, Mr. Cai held various positions within China Telecommunications Corporation and China Netcom Corporation during 1998 to 2009, and he was Vice President of China Netcom (Hong Kong) Operations Limited. To date, Mr. Cai has over 21 years practical experience in the field of telecommunications, and has a deep understanding and achievement in business operation and management, communication and information technology development, new business expansion and network operation management.

Directors and Senior Management

[^] **Mr. Li Bing Chi, Esmond**, aged 58, has been an executive director and the Chief Financial Officer of the Company since 6 August 2019. He is also a director of CTM, a director and the Chief Executive Officer of CPC and a director and President of CEC. Mr. Li joined CITIC Pacific Limited (now known as CITIC Limited, a company listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange"), being the controlling shareholder of the Company and a subsidiary of CITIC Group Corporation ("CITIC Group", the ultimate holding company of the Company)) as Vice President, Telecom Project Development in 2001. Mr. Li worked as chief financial officer of CPC from 2004 to August 2019 and was transferred to the Group in 2007 when CPC was acquired by the Group. Mr. Li is a fellow member of the Association of Chartered Certified Accountants and a member of Hong Kong Institute of Certified Public Accountants ("HKICPA"), and he was a certified public accountant in the State of Washington, United States of America and a member of the American Institute of Certified Public Accountants in the United States of America. He obtained a Professional Diploma in Accountancy from The Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University) and a Master of Business Administration from the University of Warwick in the United Kingdom. Prior to joining CITIC Limited, Mr. Li was with Netalone.com Limited, the Cable & Wireless HKT group and Ernst & Young. Mr. Li has over 35 years of extensive experience in the finance and accounting field.

Non-Executive Directors

Mr. Liu Zhengjun, aged 54, has been a director of the Company since August 2019. He is currently a vice president and a member of the Executive Committee of CITIC Limited and a non-executive director and Chairman of the Board of Asia Satellite Telecommunications Holdings Limited ("Asia Satellite", whose shares are withdrawn from listing on the Stock Exchange on 5 September 2019). He is also a member of the Nomination Committee and a non-voting member of the Audit Committee of Asia Satellite. Mr. Liu formerly served as staff member, deputy director, director of Jinan Regional Office of National Audit Office of the PRC ("CNAO"), director general of the Department of Public Finance Audit of CNAO, director general of Changchun Regional Office of CNAO, director general of the Department of Non-profit Government Agencies Audit of CNAO and director general of the Law Department of CNAO. He graduated from Nankai University in finance with a Master's degree and Doctorate in economics.

^{Δ#} **Mr. Liu Jifu**, aged 76, has been a director of the Company since November 2010. He is also the Chairman of the Supervisory Board of CTM. Mr. Liu is a director of CITIC Pacific Limited ("CITIC Pacific", a controlling shareholder of the Company), CITIC Hong Kong (Holdings) Limited ("CITIC HK") and CITIC International Financial Holdings Limited (all of these three companies are subsidiaries of CITIC Group). Mr. Liu previously served as an executive director of CITIC Limited. He was with the Financial and Economics Research Institute in the Chinese Academy of Social Sciences, an executive director of China Everbright Group Limited, and the Chairman of China Everbright Travel Inc and China PINGHE Import & Export Co., Ltd.

Directors and Senior Management

* **Mr. Fei Yiping**, aged 56, has been a director of the Company since June 2016. He is also a director and the chief financial officer of CITIC Pacific, a director and the chief financial officer of CITIC HK, a Vice Chairman and President of CITIC Pacific China Holdings Limited, a director and General Manager of Rainbow Wisdom Investments Limited (a subsidiary of CITIC Group), a director of Dah Chong Hong Holdings Limited (a fellow subsidiary of the Company whose shares are withdrawn from listing on the Stock Exchange on 10 January 2020), a director of CTM, and also a director of certain member companies of CITIC Pacific involved in special steel, property and energy and a director of certain member companies of CITIC Limited involved in iron ore mining, property and its interests in McDonald's mainland China and Hong Kong businesses (including, inter alia, Grand Foods Holdings Limited), and also the Chairman of the Audit, Compliance and Risk Management Committee of Grand Foods Holdings Limited. Mr. Fei was also a non-executive director of the Company during the period from January 2010 to February 2013. Mr. Fei is a graduate from Beijing Science and Technology University and received a Master in Business Administration from the University of Edinburgh in the United Kingdom. Mr. Fei is a FCPA of CPA Australia. He has over 23 years experience in accounting and financial management. He has been with CITIC Group since 1991. Between 2001 and 2008, Mr. Fei first acted as treasurer and director of CitiSteel USA, Inc. and then as vice president of CITIC USA Holdings, Inc. and chief representative of CITIC Group in New York. When he returned to China in 2008, he became deputy director-general of the finance department of CITIC Group.

Independent Non-Executive Directors

*△# **Mr. Liu Li Qing**, aged 79, joined the Company as an independent non-executive director in March 2007. Mr. Liu, a senior economist, graduated from Management Engineering in Beijing University of Posts and Telecommunications in 1963. Mr. Liu served as a Vice Minister of Ministry of Posts and Telecommunications during the period from 1996 to 1998 and the Head of State Post Bureau from March 1998 to April 2003. After 2003, Mr. Liu also served as the Deputy Director of the Committee for Economic Affairs of the Tenth National Committee of the Chinese People's Political Consultative Conference, the Chairman of Sino-French Life Insurance Co., Ltd., the Vice Chairman of China Optimization Society of Capital Construction, the Honorary President of China Institute of Communications, as well as the Chairman and Honorary Chairman of China Association of Communications Enterprises. Mr. Liu is now the Senior Consultant of China Association of Communications Enterprises.

*△# **Mr. Zuo Xunsheng**, aged 69, joined the Company as an independent non-executive director in April 2014. He obtained an EMBA degree from Guanghua School of Management of Peking University in 2004. From July 1993 to October 1997, Mr. Zuo served as the Director of the former Bureau of Telecommunications of Jinan City, Shandong Province. From October 1997 to May 2000, he served as the Director of the former Posts and Telecommunications Bureau of Shandong Province. He was the President of the former Shandong Telecommunications Company from May 2000 to April 2002.

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

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

Directors and Senior Management

*^Δ# **Mr. Lam Yiu Kin**, aged 65, joined the Company as an independent non-executive director in June 2017. Mr. Lam is a fellow member of each of the Association of Chartered Certified Accountants, the Institute of Chartered Accountants in England and Wales, the Chartered Accountants of Australia and New Zealand, and HKICPA. He graduated from The Hong Kong Polytechnic University with a higher diploma in Accountancy in 1975. He was conferred an Honorary Fellow of The Hong Kong Polytechnic University in 2002.

Mr. Lam has over 44 years of extensive experience in accounting, auditing and business consulting. Mr. Lam was previously a member of the Listing Committee and the Financial Reporting Advisory Panel of the Stock Exchange from 1997 to 2003, a committee member of HKICPA from 1994 to 2009, and a partner of PricewaterhouseCoopers from 1993 to 2013. Mr. Lam was an adjunct professor in the School of Accounting and Finance of The Hong Kong Polytechnic University from 2008 to 2016.

Mr. Lam is currently an independent non-executive director of each of (i) Global Digital Creations Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange; (ii) Spring Asset Management Limited as the manager of Spring Real Estate Investment Trust which is listed on the Main Board of the Stock Exchange; (iii) Vital Innovations Holdings Limited (formerly known as Vital Mobile Holdings Limited), a company listed on the Main Board of the Stock Exchange; (iv) Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd., a company listed on the Main Board of the Stock Exchange; (v) Shougang Concord Century Holdings Limited, a company listed on the Main Board of the Stock Exchange; (vi) COSCO SHIPPING Ports Limited, a company listed on the Main Board of the Stock Exchange; (vii) Nine Dragons Paper (Holdings) Limited, a company listed on the Main Board of the Stock Exchange; (viii) WWPKG Holdings Company Limited, a company listed on the Growth Enterprise Market of the Stock Exchange; and (ix) Bestway Global Holding Inc., a company listed on the Main Board of the Stock Exchange. He is also appointed as an independent non-executive director of Topsports International Holdings Limited (a company listed on the Main Board of the Stock Exchange on 10 October 2019) since 26 September 2019. Mr. Lam was an independent non-executive director of Mason Financial Holdings Limited (now known as Mason Group Holdings Limited, a company listed on the Main Board of the Stock Exchange).

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

Directors and Senior Management

SENIOR MANAGEMENT

Mr. Poon Fuk Hei, aged 54, is the Executive Vice President of the Company, Chief Executive Officer (“CEO”) and Chairman of the Executive Committee of CTM, which became a subsidiary of the Group since June 2013. Mr. Poon has joined CTM for 33 years. Mr. Poon became the CEO of CTM in 2007 and has been playing a pivotal role for the sustainable development of CTM.

Mr. Poon is committed to innovation and the development of “Digital Macau”, under Mr. Poon’s leadership, CTM has been consolidating the leadership position in the local telecoms arena in a rapidly changing market. With Mr. Poon’s foresight in promoting the sustainable development of network infrastructure, CTM strived to upgrade the 3 core networks. In 2015, CTM achieved the goal of 100% full fibre network coverage across Macau, making Macau one of the few advanced cities in the world with full fibre network coverage. Along with the popularisation of “Fibre to All” in 2017, the penetration rate of fibre in Macau was further enhanced, enabling Macau to access the World with “speed of light”.

Mr. Poon is far sighted and anticipating the future, with continuously development, CTM Wi-Fi service was further extended to all arrival and departure terminals in Macau, tourism spots, NGOs, recreation areas of Social Housing, and all land and sea public transports.

CTM realised 3G, 4G and is now actively deploying the construction of 5G network in Macau, led by Mr. Poon, CTM takes the lead and becomes quality benchmark of the industry.

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

As the government will soon be enacting a convergence legal and regulatory framework, Mr. Poon is committed to lead CTM to be in the forefront of convergence services for the ultimate benefit of Macau.

Directors and Senior Management

Mr. Cheung Yuet Pun, aged 47, is the Vice President of the Company. He joined the Company in February 2002 and was responsible in areas such as product marketing, development and management and was appointed to be the Chief Technology Officer of the head office in 2008. Mr. Cheung obtained a Bachelor of Science degree of Electrical Engineering from Queen's University at Kingston, Canada in 1995 and also completed the Master of Science (MSc) in Financial Analysis and the Executive Diploma in Management at the Hong Kong University of Science and Technology in 2010 and 2006 respectively. From his professional certification aspect, he was granted the Professional Engineer License of Ontario, Canada since 1999. Mr. Cheung previously held various positions within Nortel Networks Corporation during 1996 to 2002, responsible for software design, technical support, and sales and marketing. To date, Mr. Cheung has about 24 years of operational experience in the telecoms industry.

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

Mr. Wong Ching Wa, aged 45, is the Vice President of the Company. Mr. Wong joined the Company in January 2008 as director of China business department and was responsible for China market and business development of the head office. Mr. Wong is a director of CEC. Mr. Wong obtained a Bachelor degree of Telecom Engineering Management from Beijing Information Technology College in 1996 and a Master degree of Engineering Management from Sichuan University in 2002. Mr. Wong previously held management positions in different telecoms and technology companies in the PRC. Before joining the Company, he was the General Manager of operations management department of China Netcom (Hong Kong) Operations Limited. To date, Mr. Wong has more than 23 years experience in the telecoms industry.

Directors' Report

The directors have pleasure in submitting their Annual Report together with the audited financial statements for the year ended 31 December 2019.

PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. The principal activities and other particulars of the principal subsidiaries are set out in note 15 to the financial statements. A fair review of the business of the Company and further discussion and analysis of the Group's activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group, important events affecting the Group occurred since the end of the financial year 2019, if any, and indication of likely future developments of the Group's business, can be found in the Chairman's Statement, the Business Review, the Financial Review and the Risk Management set out on pages 12 to 17, pages 20 to 28, pages 29 to 36 and pages 37 to 46 of this Annual Report respectively. This discussion forms part of this Directors' Report.

The environmental, employees, customers and suppliers matters and compliance with relevant laws and regulations that have a significant impact on the Company can be found in the Risk Management, the Corporate Governance and the Sustainability Report as set out on pages 37 to 46, pages 48 to 69 and pages 102 to 132 of this Annual Report respectively.

DIVIDENDS

The directors declared an interim dividend of HK5.0 cents (2018: HK4.0 cents) per share in respect of the year ended 31 December 2019 which was paid on 20 September 2019. The directors recommended, subject to the approval of the shareholders at the forthcoming annual general meeting of the Company to be held on 13 May 2020 (the "Annual General Meeting"), the payment of a final dividend of HK15.0 cents (2018: HK14.0 cents) per share in respect of the year ended 31 December 2019 payable on 2 June 2020 to shareholders on the Register of Members at the close of business on 21 May 2020.

MAJOR CUSTOMERS AND SUPPLIERS

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

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	5.5%	
Five largest customers in aggregate	16.6%	
The largest supplier		24.4%
Five largest suppliers in aggregate		52.7%

Directors' Report

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

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to approximately HK\$1,317,000 (2018: HK\$1,443,000).

DIRECTORS

The directors of the Company who held office during the year ended 31 December 2019 and up to the date of this report were:

Mr. Xin Yue Jiang
Mr. Cai Dawei (appointed with effect from 28 February 2020)
Dr. Lin Zhenhui (resigned with effect from 28 February 2020)
Mr. Luo Ning (resigned with effect from 27 May 2019)
Mr. Esmond Li Bing Chi (appointed with effect from 6 August 2019)
Dr. David Chan Tin Wai (resigned with effect from 6 August 2019)
Mr. Liu Zhengjun (appointed with effect from 14 August 2019)
Mr. Liu Jifu
Mr. Fei Yiping
Mr. Liu Li Qing
Mr. Zuo Xunsheng
Mr. Lam Yiu Kin

Messrs. Cai Dawei, Esmond Li Bing Chi and Liu Zhengjun were appointed by the Board as directors of the Company subsequent to the last annual general meeting of the Company. Thus, in accordance with Article 95 of the Articles of Association of the Company, they shall hold office only until the Annual General Meeting and shall then be eligible for re-election.

In addition, pursuant to Article 104(A) of the Articles of Association of the Company, Messrs. Liu Jifu and Lam Yiu Kin shall retire by rotation in the Annual General Meeting. All, being eligible, offer themselves for re-election.

The names of all directors who have served on the boards of the subsidiaries of the Company during the year ended 31 December 2019 or during the period from 1 January 2020 to the date of this Report are available on the Company's website at www.citictel.com.

DIRECTORS' SERVICE CONTRACTS

As at 31 December 2019, there were no service contracts which were not determinable by the employer within one year without payment of compensation (other than statutory compensation) between any company in the Group and any director of the Company proposed for re-election at the Annual General Meeting.

Directors' Report

INDEMNITY OF DIRECTORS

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

COMPETING INTERESTS

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

Mr. Luo Ning, a former executive director of the Company who had resigned on 27 May 2019, is the chairman of 中信網絡有限公司 (CITIC Networks Company Limited) ("CITIC Networks").

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

CONTINUING CONNECTED TRANSACTIONS

Continuing connected transactions conducted in the financial year ended 31 December 2019 are disclosed in accordance with the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as follows:

1. Pursuant to the exclusive service agreement* (the "ESA") entered into between China Enterprise ICT Solutions Limited ("CEC", a non-wholly owned subsidiary of the Company and in which CITIC Group holds 45.09% equity interest), China Enterprise Netcom Corporation Limited ("CEC-HK", a wholly-owned subsidiary of the Company) and CITIC Telecom International CPC Limited ("CPC", another wholly-owned subsidiary of the Company), CEC shall provide technical and support services to the customers of CEC-HK and CPC in the PRC to facilitate the provision of value-added telecoms services to these customers.

A service fee shall be payable to CEC monthly with reference to CEC's costs in servicing such customers provided that CEC-HK and CPC shall be entitled to retain the first 30% of the corresponding sales proceeds from customers such that the service fee shall not in any event exceed 70% of the relevant sales proceeds. If CEC's costs shall be less than 70% of the corresponding sales proceeds, CEC on one hand and CEC-HK and CPC on the other shall be entitled to share the surplus equally. Such service fee was agreed by CPC, CEC-HK and CEC on an arms' length basis and shall be settled monthly.

Directors' Report

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

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

The services fees payable to CEC under the ESA are subject to the annual cap of RMB148.45 million (equivalent to approximately HK\$184.08 million) for the period from 1 January 2019 to 23 June 2019.

The aggregate service fee paid by CEC-HK and CPC to CEC for the period from 1 January 2019 to 23 June 2019 under the ESA was approximately RMB80.80 million.

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

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

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

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

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

During the period from 1 January 2019 to 31 August 2019, no service fee under the MSA was charged to CITIC Networks by the Company, as no services was provided during the period.

** The MSA was first entered into on 25 April 2014 and was subsequently amended or supplemented by supplemental agreements dated 22 April 2015 and 1 September 2016. The MSA has expired on 31 August 2019.

Directors' Report

3. Pursuant to the telecoms services agreement dated 5 August 2016 (the "Telecoms Services Agreement") entered into between CEC and CITIC Networks, CEC shall engage CITIC Networks as service provider for the provision of various telecoms services (the "Telecoms Services"), such as leasing of circuits and racks for data networking, to CEC for a term of three years from 7 August 2016 to 6 August 2019 (both days inclusive).

An estimated basic monthly service fee of approximately RMB1.64 million, subject to adjustment based on actual usage, shall be payable to CITIC Networks by CEC.

The annual cap for the transactions under the Telecoms Services Agreement for the period from 1 January 2019 to 6 August 2019 is HK\$51,250,000.

As the Telecoms Services Agreement expired on 6 August 2019, CITIC Networks and CEC entered into the supplemental agreement on 7 August 2019 (the "Supplemental Agreement"), pursuant to which CEC shall continue to engage CITIC Networks as service provider for the provision of the Telecoms Services to CEC for a further term of three years from 7 August 2019 to 6 August 2022 (both days inclusive).

An estimated basic monthly service fees of approximately RMB2.40 million (equivalent to approximately HK\$2.74 million), subject to adjustment based on actual usage, shall be payable to CITIC Networks by CEC and it shall be settled monthly.

The annual caps for the transactions under the Supplemental Agreement are set out below:

	For the period from 7 August to 31 December 2019	For the financial years ending 31 December 2020	2021	For the period from 1 January to 6 August 2022
RMB (in million)	18.67	46.37	53.33	35.77
Approximately equivalent to HK\$ (in million)	21.28	52.86	60.80	40.78

The aggregate service fees paid by CEC to CITIC Networks under (i) the Telecoms Services Agreement for the period from 1 January 2019 to 6 August 2019; and (ii) the Supplemental Agreement for the period from 7 August 2019 to 31 December 2019 were approximately RMB16,620,000 (equivalent to approximately HK\$19,194,000) and RMB8,918,000 (equivalent to approximately HK\$9,913,000) respectively.

Directors' Report

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

For each service order under the SDH Services Agreement, the service fee shall include (i) an one-off set-up fees; and (ii) a monthly service fee, the amount of which will depend on the location and bandwidth of the SDH circuits provided by Guangdong Eastern Fibernet based on the business needs of CEC.

An estimated total basic monthly service fee of approximately RMB603,000 (equivalent to approximately HK\$675,000), subject to adjustment based on actual usage, shall be payable to Guangdong Eastern Fibernet by CEC on a monthly prepayment basis.

The service fees payable by CEC to Guangdong Eastern Fibernet under the SDH Services Agreement are subject to the annual caps set out below:

	For the financial year ended 31 December 2019	For the period from 1 January 2020 to 18 February 2020
RMB (in million)	17.53	2.41
Approximately equivalent to HK\$ (in million)	19.63	2.70

Guangdong Eastern Fibernet is an associate of CITIC Group since a subsidiary of CITIC Group is interested in more than 30% equity interest in Guangdong Eastern Fibernet, and, therefore, is a connected person of the Company.

The aggregate service fee paid by CEC to Guangdong Eastern Fibernet for the year ended 31 December 2019 under the SDH Services Agreement was approximately RMB8,891,000.

Directors' Report

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

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

On 12 December 2019, CPC and CEC entered into a new funding support agreement (the "New Funding Support Agreement") to supersede and replace the Funding Support Agreement. Pursuant to the New Funding Support Agreement, CPC shall make available funding support of not more than RMB65 million to CEC if and when a shortage of funds arises in the operation of the Cloud Data Centre and in the possible expansion of CEC's businesses at any time during the period commencing from 12 December 2019 and ending on 11 December 2022. CPC shall provide funds by way of shareholder's loans and the interest rate shall be equivalent to the RMB benchmark interest rates for loans of financial institutions as announced by the People's Bank of China for the same period. The funding support to be provided by CPC to CEC during the term of the New Funding Support Agreement shall not at any time exceed RMB65 million (equivalent to approximately HK\$72 million).

The maximum amount of funding support to be provided by CPC to CEC for each of the period from 12 December 2019 to 31 December 2019, two financial years ending 31 December 2020 and 2021, and the period from 1 January 2022 to 11 December 2022 is RMB65 million.

The maximum balances of the funds advanced by CPC to CEC throughout the period from 1 January 2019 to 11 December 2019 under the Funding Support Agreement and throughout the period from 12 December 2019 to 31 December 2019 under the New Funding Support Agreement were both RMB35 million.

6. On 31 May 2018, Neostar Investment Limited ("Neostar", a wholly-owned subsidiary of the Company) as the landlord and Dah Chong Hong Holdings Limited ("DCH") as the tenant had entered into a tenancy agreement (the "DCH Tenancy Agreement") in respect of the whole of 7th floor to 11th floor of CITIC Telecom Tower situated at 93 Kwai Fuk Road, Kwai Chung, New Territories, Hong Kong ("CITIC Telecom Tower") for a term of three years commencing from 1 June 2018 and expiring on 31 May 2021 (both days inclusive).

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

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

Directors' Report

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

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

The aggregate amounts (including the aggregate rentals, the management charges and other outgoings) paid by DCH under the DCH Tenancy Agreement for the year ended 31 December 2019 was approximately HK\$16,435,000.

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

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

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

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

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

Directors' Report

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

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

The aggregate service fees paid by the CITIC Group Members in relation to the Data Centre Services under the Framework Agreement for the year ended 31 December 2019 was approximately HK\$11,791,000.

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

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

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

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

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

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

The aggregate service fees paid by the CITIC Group Members in relation to the VPN Services under the Framework Agreement for the year ended 31 December 2019 was approximately HK\$19,475,000.

Directors' Report

c) *The Internet Access Services*

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

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

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

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

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

The aggregate service fees paid by the CITIC Group Members in relation to the Internet Access Services under the Framework Agreement for the year ended 31 December 2019 was approximately HK\$8,236,000.

Directors' Report

8. The following tenancy agreements for properties in the PRC have been entered into in 2018:

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

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

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

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

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

CEC shall pay the monthly rental of approximately RMB0.41 million (equivalent to approximately HK\$0.48 million) and its share of the management fees (which is subject to revision and covers air-conditioning charges during normal business hours) of approximately RMB0.11 million (equivalent to approximately HK\$0.13 million) quarterly in advance. CEC is also responsible for the payment of its own utility charges and other charges in respect of the Beijing Premises.

Both CEC and CB Property Management Co. shall have right to early terminate the Beijing Tenancy Agreement by giving three months' prior written notice to each other. CEC has a right of first offer to lease the Beijing Premises for a new term upon the expiration of the Beijing Tenancy Agreement subject to the terms and conditions to be agreed between the parties.

Directors' Report

CEC also entered into related agreements and arrangement with CB Property Management Co. and its subsidiary relating to the leasing of car parking spaces at the CITIC Building in Beijing and the provision of management services in respect of certain utility facilities at the Beijing Premises to CEC during the term of the Beijing Tenancy Agreement (the "Related Agreements and Arrangement"). The fees payable by CEC under such related agreements and arrangement include (i) one-off installation fees for telephone and Internet facilities and monthly fees for the use of telephone and Internet facilities; (ii) air-conditioning (outside normal business hours only) and electricity charges, the amount of which is based on actual usage; (iii) monthly charges for providing plantation services in the Beijing Premises; and (iv) monthly rental for car parking spaces.

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

As the Wuhan Tenancy Agreement and the Beijing Tenancy Agreement (collectively the "PRC Tenancy Agreements") are of similar nature and use of the properties and they have been entered into within the same 12-month period, they were aggregated and treated as if they were one transaction in accordance with the Listing Rules.

The expected maximum amounts (including the rentals, the management fees and other charge and other outgoings) payable by CEC to Wuhan Fuxin and CB Property Management Co. respectively under the PRC Tenancy Agreements for the year ended 31 December 2019 was RMB7.9 million (equivalent to approximately HK\$9.2 million).

The aggregate amount (including the rentals, the management fees and other charge and other outgoings) paid by CEC under the PRC Tenancy Agreements for the year ended 31 December 2019 was approximately RMB5,346,000.

Due to the demolition of the #5 Building of the CITIC Building, CEC has moved out from the Beijing Premises in October 2019 and thus starting from October 2019, no charges (including the rentals, the management fees and other charge and other outgoings) would be payable from CEC to CB Property Management Co. under the Beijing Tenancy Agreement and the Related Agreements and Arrangement.

The applicable percentage ratios as defined in the Listing Rules calculated with reference to the expected maximum amounts (including the rentals, the management fees and other charge and other outgoings) payable by CEC to Wuhan Fuxin for the remaining term of the Wuhan Tenancy Agreement on a stand-alone basis from 1 January 2020 will be less than 0.1%.

Directors' Report

9. On 19 September 2018, CITIC Telecom International Limited ("CTI", a wholly-owned subsidiary of the Company) as the tenant and Tendo Limited ("Tendo") as the landlord entered into the main premises tenancy agreement (the "Main Premises Tenancy Agreement") in relation to the leasing of the main premises (the "Main Premises") comprising the whole of the 5th floor, a portion of the ground floor, a portion of the 3rd floor podium, a portion of the roof floor, and an area for cable duct and trunking at Ap Lei Chau Building located at No.111 Lee Nam Road, Ap Lei Chau, Hong Kong. The term is three years commencing from 20 September 2018 and expiring on 19 September 2021 (both days inclusive), with an aggregate monthly rental of approximately HK\$822,000. CTI shall also pay its share of management charges in respect of the Main Premises, being approximately HK\$76,000 per month, subject to revision. CTI shall also be responsible for the payment of its own utility charges, government rates and government rent in respect of the Main Premises during the term of the Main Premises Tenancy Agreement.

Pursuant to a main premises renewal option agreement dated 21 August 2015 entered into between CTI and Tendo (the "Main Premises Renewal Option Agreement"), upon expiration of the Main Premises Tenancy Agreement on 19 September 2021, CTI shall have the option to renew the lease of the Main Premises for a further term commencing from 20 September 2021 to 19 September 2024 subject to the terms thereof. In the event that CTI shall have duly exercised its option to renew for a further term, the Main Premises Tenancy Agreement will be renewed at a new rent to be mutually agreed by the parties.

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

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

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

The aggregate amounts paid by CTI to Tendo under the Main Premises Tenancy Agreement for the year ended 31 December 2019 was approximately HK\$10,810,000.

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

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

Directors' Report

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

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

The annual caps in respect of the provision of the Management Services under the Management Services Agreement are set out below:

	For the year ended 31 December 2019	For the year ending 31 December 2020
HK\$ (in million)	14.5	16.0

The aggregate amount paid to Hang Luen Chong under the Management Services Agreement for the year ended 31 December 2019 was approximately HK\$12,472,000.

- On 19 June 2019, CEC-HK and CPC entered into a service agreement with CEC (the "Service Agreement"), pursuant to which CEC-HK and CPC shall engage CEC as service provider for the provision of technical and support services in the PRC to the customers of CEC-HK and CPC to facilitate the provision of value-added telecoms services to these customers for a term of three years from 24 June 2019 to 23 June 2022 (both days inclusive). CEC is also responsible for arranging, operating and maintaining all necessary technical and support services in the PRC to service the customers of CEC-HK and CPC.

A service fee shall be payable to CEC charged on the basis of cost plus a prevailing market rate (such prevailing market rate may vary depending on the nature and/or extent of the services required by CEC-HK and CPC) in providing such services to the customers of CEC-HK and CPC. The service fee payable to CEC shall be settled monthly.

Directors' Report

The service fees payable by the Group to CEC under the Service Agreement are subject to the annual caps set out below:

	For the period from 24 June to 31 December 2019	For the financial years ending 31 December 2020 2021		For the period from 1 January to 23 June 2022
RMB (in million)	94.70	217.90	250.60	144.10
Approximately equivalent to HK\$ (in million)	110.80	254.94	293.20	168.60

The aggregate service fees paid by CEC-HK and CPC to CEC under the Service Agreement for the period from 24 June 2019 to 31 December 2019 was approximately RMB70,424,000.

Review of the Continuing Connected Transactions:

The independent non-executive directors of the Company have reviewed the aforesaid continuing connected transactions conducted in the year ended 31 December 2019 and confirmed that the transactions had been entered into

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

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing the findings and conclusions in respect of the Continuing Connected Transactions disclosed by the Group on pages 78 to 90 of this Annual Report in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Related Party Transactions:

Details of material related party transactions undertaken in the normal course of business are provided under note 31 to the financial statements. None of these related party transactions constitutes a discloseable connected transaction as defined under the Listing Rules, except for those described in the section of "Continuing Connected Transactions", in respect of which the disclosure requirements in accordance with Chapter 14A of the Listing Rules have been complied with.

Directors' Report

SHARE OPTION PLAN

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

1. The purpose of the Plan is to attract and retain the best quality personnel for the development of the Company's businesses; to provide additional incentives to Employees (as defined here below); and to promote the long term financial success of the Company by aligning the interests of grantees to shareholders.
2. The grantees of the Plan are any person employed by the Company or any of its subsidiaries and any person who is an officer or director (whether executive or non-executive) of the Company or any of its subsidiaries (the "Employees") as the Board may, in its absolute discretion, select.
3. The total number of shares of the Company (the "Shares") issued and to be issued upon exercise of options (whether exercised or outstanding) in any 12-month period granted to each grantee must not exceed 1% of the Shares in issue. Where any further grant of options to a grantee would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant shall be subject to separate approval by the shareholders of the Company in general meeting.
4. The exercise period of any option granted under the Plan must not be more than ten years commencing on the date of grant.
5. The acceptance of an offer of the grant of the options must be made within 28 days from the date of grant with a non-refundable payment of HK\$1.00 from the grantee.
6. The subscription price determined by the Board will not be less than the higher of (i) the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant; and (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant.

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

Directors' Report

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

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

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

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 year ended 31 December 2019.

Directors' Report

A summary of the movements of the share options during the year ended 31 December 2019 is as follows:

A. Directors of the Company

Name of director	Date of grant	Exercise period	Number of share options			Balance as at 31.12.2019	Percentage to the number of issued shares %
			Balance as at 1.1.2019	Exercised during the year ended 31.12.2019	Lapsed during the year ended 31.12.2019		
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	0.195
Lin Zhenhui	24.3.2015	24.3.2016–23.3.2021	1,573,000	251,000 (Note 1)	–	1,322,000	
	24.3.2015	24.3.2017–23.3.2022	1,573,000	573,000 (Note 1)	–	1,000,000	
	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 (Note 1)	–	–	
						3,895,000	0.106
Luo Ning (Note 2)	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 (Note 3)	24.3.2015	24.3.2016–23.3.2021	1,358,500	1,358,500 (Note 4)	–	N/A	
	24.3.2015	24.3.2017–23.3.2022	1,358,500	1,358,500 (Note 4)	–	N/A	
	24.3.2017	24.3.2018–23.3.2023	1,358,500	1,358,500 (Note 4)	–	N/A	
	24.3.2017	24.3.2019–23.3.2024	1,358,500	1,358,500 (Note 4)	–	N/A	
						N/A	N/A

Directors' Report

Name of director	Date of grant	Exercise period	Number of share options			Balance as at 31.12.2019	Percentage to the number of issued shares %
			Balance as at 1.1.2019	Exercised during the year ended 31.12.2019	Lapsed during the year ended 31.12.2019		
Esmond Li Bing Chi (Note 5)	24.3.2015	24.3.2017-23.3.2022	-	-	-	726,000	
						726,000	0.020
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 6)	-	-	
	24.3.2017	24.3.2018-23.3.2023	200,000	200,000 (Note 6)	-	-	
	24.3.2017	24.3.2019-23.3.2024	200,000	200,000 (Note 6)	-	-	
						-	-
Zuo Xunsheng	24.3.2015	24.3.2017-23.3.2022	200,000	200,000 (Note 7)	-	-	
	24.3.2017	24.3.2018-23.3.2023	200,000	200,000 (Note 7)	-	-	
	24.3.2017	24.3.2019-23.3.2024	200,000	200,000 (Note 7)	-	-	
						-	-

Directors' Report

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 (Note 8)	Exercised during the year ended 31.12.2019 (Note 9)	Lapsed during the year ended 31.12.2019 (Note 10)	Balance as at 31.12.2019
24.3.2015	24.3.2016–23.3.2021	24,006,067	15,611,000	24,500	8,370,567
24.3.2015	24.3.2017–23.3.2022	27,202,250	14,572,000	31,500	11,872,750
					(Note 5)
24.3.2017	24.3.2018–23.3.2023	26,151,500	14,667,500	122,500	11,361,500
24.3.2017	24.3.2019–23.3.2024	32,398,500	16,345,000	255,500	15,798,000

C. Others (Note 11)

Date of grant	Exercise period	Number of share options			
		Balance as at 1.1.2019 (Note 8)	Exercised during the year ended 31.12.2019 (Note 12)	Lapsed during the year ended 31.12.2019 (Note 10)	Balance as at 31.12.2019
24.3.2015	24.3.2016–23.3.2021	1,234,500	541,000	540,500 (Note 2)	653,000
24.3.2015	24.3.2017–23.3.2022	1,359,000	529,500	552,500 (Note 2)	777,000
24.3.2017	24.3.2018–23.3.2023	1,011,000	277,500	101,000	632,500
24.3.2017	24.3.2019–23.3.2024	1,052,500	405,000	–	647,500

Notes:

1. The weighted average closing price of the shares immediately before the dates on which Dr. Lin Zhenhui exercised the options was HK\$2.88.
2. Mr. Luo Ning resigned as 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 then reclassified to section C "Others" and have subsequently lapsed during the year.
3. Dr. David Chan Tin Wai resigned as an executive director of the Company with effect from 6 August 2019.
4. 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.
5. Mr. Esmond Li Bing Chi was appointed as an executive director of the Company with effect from 6 August 2019. His remaining share options upon his appointment was 726,000 share options which were granted on 24 March 2015. These options were not exercised during the year and were then reclassified from the closing balance of section B "Employees of the Company working under continuous contracts, other than the Directors" to the closing balance as at 31 December 2019 of section A "Directors of the Company".
6. 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.

Directors' Report

7. The weighted average closing price of the shares immediately before the date on which Mr. Zuo Xunsheng exercised the options was HK\$3.32.
8. Some share options were reclassified from section B "Employees of the Company working under continuous contracts" to section C "Others" due to the resignation/retirement/death of the relevant staff in 2018.
9. The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK\$3.30.
10. These are in respect of options granted to some employees under continuous contracts who have subsequently resigned. Such options have lapsed during the year ended 31 December 2019.
11. 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 who had retired; and iii) an officer who is not an employee under continuous contract of the Company.
12. 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 31 December 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 (Personal interests)	Percentage to the number of issued shares %
CITIC Telecom International Holdings Limited		
Esmond Li Bing Chi	112,500	0.003
CITIC Limited, an associated corporation		
Liu Jifu	840,000	0.003

2. Share Options in the Company

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

Save as disclosed above, as at 31 December 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 in the Listing Rules.

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

Directors' Report

SUBSTANTIAL SHAREHOLDERS

As at 31 December 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	2,129,345,175	58.19
CITIC Polaris Limited	2,129,345,175	58.19
CITIC Glory Limited	2,129,345,175	58.19
CITIC Limited	2,129,345,175	58.19
CITIC Corporation Limited	2,129,345,175	58.19
CITIC Investment (HK) Limited	2,129,345,175	58.19
Silver Log Holdings Ltd.	2,129,345,175	58.19
CITIC Pacific	2,129,345,175	58.19
Crown Base International Limited	2,129,345,175	58.19
Effectual Holdings Corp.	2,129,345,175	58.19
CITIC Pacific Communications Limited	2,129,345,175	58.19
Douro Holdings Inc.	2,129,345,175	58.19
Ferretti Holdings Corp.	2,129,345,175	58.19
Ease Action Investments Corp.	2,129,345,175	58.19
Peganin Corp.	2,129,345,175	58.19
Richtone Enterprises Inc.	2,129,345,175	58.19

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

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

Directors' Report

CONTRACTS OF SIGNIFICANCE WITH CONTROLLING SHAREHOLDERS

The Company and the controlling shareholders of the Company have entered into the following contracts of significance which were subsisting during the year ended 31 December 2019:

1. Deed of non-competition dated 21 March 2007 executed by CITIC Limited in favour of the Company, mainly to the effect that at any time during which the shares of the Company are listed on the Stock Exchange and CITIC Limited and/or its associates are regarded as a controlling shareholder of the Company under the Listing Rules, (i) CITIC Limited will not engage and will procure its subsidiaries not to engage in the provisions of telecommunications hub-based service (the "Restricted Activity") globally or in any other business that may compete with the Restricted Activity, and (ii) in the event that any opportunity is made available to CITIC Limited to invest in any independent third party's business engaging in the Restricted Activity, CITIC Limited will use its best efforts to procure that such investment opportunity is offered to the Group and the Group shall have a first right of refusal.
2. Deed of Indemnity dated 21 March 2007 given by CITIC Limited in favour of the Company (and its subsidiaries), pursuant to which CITIC Limited will keep the Company and its subsidiaries indemnified against any taxation falling on it resulting from or by reference to any revenue, income, profits or gains granted, earned, accrued, received or made on the listing date of the Company or any event, transaction, act or omission occurring or deemed to occur on or before the listing date of the Company.
3. Administrative services agreement dated 20 August 2014 (the "Administrative Services Agreement") entered into between the Company and CITIC Pacific, a controlling shareholder of the Company, pursuant to which CITIC Pacific and the Company will share the company secretarial services and the internal audit services with retrospective effect from 1 July 2014. The amount payable by the Company to CITIC Pacific for the services received shall be determined on costs basis with payment terms to be agreed between the parties from time to time. The Administrative Services Agreement may be terminated if CITIC Limited, the immediate holding company of CITIC Pacific, shall hold less than 30% of the shares of the Company and is terminable by giving a six months' prior notice in writing by either party. Messrs. Liu Jifu and Fei Yiping are directors of CITIC Pacific and Mr. Fei Yiping is also the chief financial officer of CITIC Pacific. Therefore, both of them have indirect interests in the Administrative Services Agreement. A copy of the Administrative Services Agreement will be available for inspection at the Annual General Meeting.
4. Trademark licence agreement dated 17 November 2016 entered into between the Company and CITIC Group, pursuant to which CITIC Group agreed to licence, on a non-exclusive basis, the trademarks "中信", "CITIC" and  for use by the Company. The agreement is for a term of three years up till 16 November 2019, and may be renewed thereafter. No consideration is payable by the Company to CITIC Group for the use of the aforesaid trademarks. The agreement has expired on 16 November 2019 and a new trademark licence agreement will be signed at a later time. The Company will comply with the relevant requirements of the Listing Rules as appropriate if and when the new agreement is signed.

Apart from the above and the transactions as mentioned in the section of "Continuing Connected Transactions", none of the Company or any of its subsidiaries has entered into any other contract of significance with the Company's controlling shareholders or their subsidiaries which were subsisting during the year ended 31 December 2019.

Directors' Report

EQUITY-LINKED AGREEMENTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

BORROWINGS AND ISSUE OF GUARANTEED BONDS

On 5 March 2013, CITIC Telecom International Finance Limited ("CITIC Finance"), a wholly-owned subsidiary of the Company, issued US\$450 million 6.1% guaranteed bonds due 2025 (the "Bonds") to professional investors pursuant to a subscription agreement made between the Company (as guarantor), CITIC Finance and CITIC Securities Corporate Finance (HK) Limited, Deutsche Bank AG, Singapore Branch, Standard Chartered Bank and UBS AG, Hong Kong Branch on 26 February 2013 for financing part of the consideration paid by the Company in respect of the acquisition of 79% interest in Companhia de Telecomunicações de Macau, S.A.R.L. The Bonds are listed on the Stock Exchange on 6 March 2013. All of the Bonds remained outstanding at 31 December 2019.

Particulars of borrowings of the Group as at 31 December 2019 are set out in note 23 to the financial statements.

SHARE CAPITAL

During the year ended 31 December 2019, a total of 71,979,500 shares of the Company were issued upon the exercise of share options granted under the Plan as mentioned in the section of "Share Option Plan".

Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year ended 31 December 2019 and the Company has not redeemed any of its shares during the year ended 31 December 2019.

CONFIRMATION OF INDEPENDENCE

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

FIVE YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 47 of this Annual Report.

PROPERTY

Particulars of the property held for investment of the Group are shown on page 249 of this Annual Report.

Directors' Report

RETIREMENT SCHEMES

The Group operates a defined benefit retirement plan and several defined contribution retirement plans. Particulars of the retirement schemes are set out in note 25 to the financial statements.

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

Apart from those disclosed in the section of "Directors and Senior Management", the changes in monthly salaries of the following executive directors of the Company under their respective service contracts are set out below pursuant to Rule 13.51B(1) of the Listing Rules:

Name of director	Previous monthly salary	Monthly salary (with effect from 1 January 2020)
Xin Yue Jiang	HK\$339,240	HK\$350,440
Lin Zhenhui	HK\$329,860	HK\$340,750
Esmond Li Bing Chi	HK\$195,000	HK\$201,440

Note: For information in relation to the 2019 full year emoluments of the directors of the Company, please refer to note 8 to the financial statements.

AUDITOR

Messrs. PricewaterhouseCoopers ("PwC") retire and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PwC as auditor of the Company is to be proposed at the Annual General Meeting.

By Order of the Board

Xin Yue Jiang

Chairman

Hong Kong, 3 March 2020

FORWARD LOOKING STATEMENTS

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

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

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

SUSTAINABILITY REPORT

Our Sustainability Core Values

Corporate social responsibility has always been a vital component of the Group's corporate business philosophy and strategy. Our sustainability vision of "People and Community" constitutes as the foundation of our principle, and is fully infused into our daily operations to drive sustained and continued business growth.



SUSTAINABILITY REPORT

**WE CONNECT
THE GREEN**



SUSTAINABILITY REPORT

We devoted effort in various sustainability aspects, including community engagement, employee training and development, and environmental protection, and strived to leverage our inherent strengths to promote social development. We believe that a responsible business could underpin win-win situations for the Group, its shareholders, customers, employees, business partners, and the community.



Sustainability Governance Structure

The Group attaches great importance to maintaining a robust corporate governance system which leading to long-term success of our organisation. In addition to determining the overall strategy and direction, the Board also oversees and evaluates ongoing progress of our sustainability. Training on corporate sustainable development is regularly scheduled for the Board members, as required. The Audit Committee is responsible for reviewing the Group's Sustainability Report to ensure compliance with regulatory requirements.

As guided by the Group, subsidiaries conduct respective reviews on their sustainability performance regularly and report their progress to the Group on an annual basis.

SUSTAINABILITY REPORT

Communication with Stakeholders

To ensure that the Group fully understands the expectations of our stakeholders, we consistently engage with a diverse range of stakeholders through various means to collect their opinions, and actively address their concerns raised.

Principle stakeholders	Means of communications
Shareholders and investors	Group annual reports and announcements General meetings Investors' meetings Roadshows Group website Surveys
Customers	Regular visits and interviews Customers satisfaction surveys Collection and analysis of customer service benchmarks
Staff	Staff forum Staff training and development programmes Performance management system Internal communications Staff suggestion box Surveys
Suppliers and partners	Establishment of supplier and business partner management system Advocacy of green supply chain management and signing of environmental agreements with suppliers Performance evaluation Tenders and other regular meetings Surveys
Non-government organisations, community groups, media	Community welfare activities News releases, press conferences and presentations Regular meetings

SUSTAINABILITY REPORT

Materiality Analysis

Prioritising material sustainability topics serves as the basis for the Group's sustainability performance management and reporting. To this end, an independent third-party consultant has been commissioned to conduct a materiality analysis this year. During the process, we surveyed 156 stakeholders to assess the importance of 20 identified environmental, social and governance (ESG) topics. Upon management validation, we have confirmed 8 material topics, which are illustrated in this year's materiality matrix.

– Step 1 : Identification of ESG Topics Relevant to the Group's Business

- Identify industry-relevant ESG topics through peer benchmarking

– Step 2 : Materiality Analysis

- Invite different stakeholders to evaluate the importance of the identified ESG topics, and analyse results via scientific approaches

– Step 3 : Management Validation

- CITIC Telecom's management review and determine the result of materiality analysis

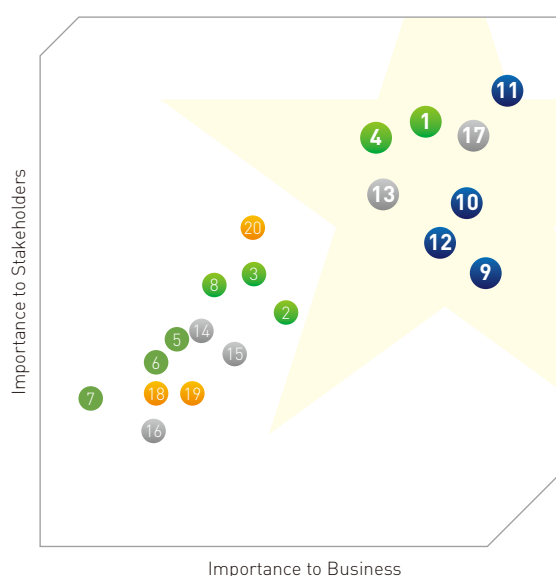
– Step 4 : Materiality Confirmation

- Develop the final list of material topics, and prioritise for reporting in response to stakeholder concerns

2019 List of ESG Topics:

Environmental	①	Energy*
	2	Greenhouse gas emissions
	3	Air emissions
	④	Waste*
	5	Water
	6	Materials
	7	Biodiversity
	8	Climate Change
Employment and Labour Practices	⑨	Employee retention*
	⑩	Occupational health and safety*
	⑪	Training and development*
	⑫	Diversity and equal opportunities*
Operational Practices	⑬	Service and product innovation*
	14	Customer data privacy
	15	Responsible advertising and promotion
	16	Supply chain management
	⑰	Anti-corruption*
Community	18	Community investment
	19	Human rights protection
	20	Access to communications

2019 CITIC Telecom Materiality Matrix:



* Confirmed as our 8 material ESG Topics

SUSTAINABILITY REPORT

Responsible Operational Management

The Group aspires to become an integrated telecommunications enterprise, which provides comprehensive services in an internet-enabled era. Through delivering premium telecommunications and data transmission services to customers, we strive to facilitate connections anytime and anywhere among people and with smart devices. By doing so, we are expected to provide our society with an impetus to a higher quality of life. The Group holds fast to our core belief of “Wisdom and Integrity for Fostering Prosperity” to embrace technological innovation and drive our business development. We are learning and improving through our wisdom and hardships persistently. On the other hand, we continue to uphold our business integrity and high corporate standards. Joining hands with other corporates and external parties, we are committed to shape a better future for all.

Pledge for Premium Products and Services

As a leading multinational telecommunications and ICT service provider in Asia-Pacific, the Group believes that quality is the lifeblood of an enterprise. Therefore, we place high priority on the quality of our products and services.

We are keen on bringing our customers efficient and attentive service experiences, which is essential in achieving customer satisfaction and retaining them for long-term cooperation. To achieve this, we have established a set of key customer-service indicators. Through these indicators, not only are we able to analyse results of internal testing or user experience trials but can also monitor our service performance and provide improvement advice for our business departments regularly. For instance, the Group’s subsidiary in Macau has set up a quality management committee and a dedicated quality assurance department to monitor and analyse the performance of our customer hotline, retail stores and installation and maintenance services, and internet service quality. It helps ensure that our service performance is living up to customer expectations and making progressive improvements.

To attain higher customers’ satisfaction, we actively seek for opinions and feedbacks from our customers and identify rooms for improvement in our operations. Besides the monthly satisfaction tracking and user-experience testing, during the year, the Group engaged a third party in Macau to conduct customer satisfaction survey, where about 1,100 phone interviews were conducted for analysis.

Meanwhile, the customer service team of the Group has established standard procedures to handle customer complaints. Through investigations into each complaint case, we understand their root causes and avoid similar incidents in the future. During the year, the Group has received a total of 656 complaints regarding our services and products.

Upholding our service quality to international standards, our subsidiary has received ISO 9001 Quality Management System and ISO 20000 IT Service Management System certifications for its standardised quality management practices.

Besides, the Group’s subsidiaries won different industry awards and recognitions during the year. For instance, our subsidiary was awarded the “International Customer Relationship Excellent Awards” by Asia Pacific Customer Service Consortium for twelve consecutive years, and the “Chinese Champion in Europe Award” by European Union Chamber of Commerce in China. Moreover, our subsidiary in Singapore was conferred the Dun & Bradstreet (D&B) Business Eminence Award 2019.

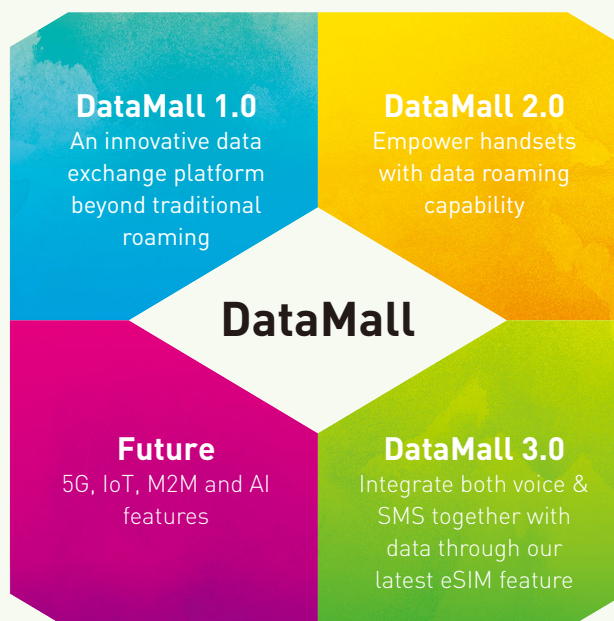
Product and Service Innovation

Given the ever-changing nature of today’s society, people’s demands for data transmission and telecommunications services are evolving quickly. To respond to our customer needs and stay ahead of the industry, the Group has accelerated its technological innovation and product research and development (R&D) works on different emerging services, such as mobile telecommunications, internet, internet of things (IoT), as well as integrated ICT services.

SUSTAINABILITY REPORT

Innovative Product Case Study (1): New DataMall 3.0 Service Platform

The Group is transforming itself to become a smart city operator. We understand that complete freedom on data traffic, which is no longer bounded by any contract, time or geographical boundaries, is needed in societies nowadays. In 2019, the Group launched the latest version of our "DataMall 3.0 Global Data Traffic Trading Platform". The platform not only allows our customers to exchange mobile data of their accords, but has also enabled eSIM function and a one-stop platform for them to choose their phone number, voice and SMS service packages in one go. Customers are thus able to enjoy telecommunications services easily no matter where they go.



As more and more 5G technology applications would be introduced in areas like IoT, machine-to-machine (M2M) and artificial intelligence in the future, our DataMall platform will further revolutionise the next-generation data traffic trading services to cope with future data demand.

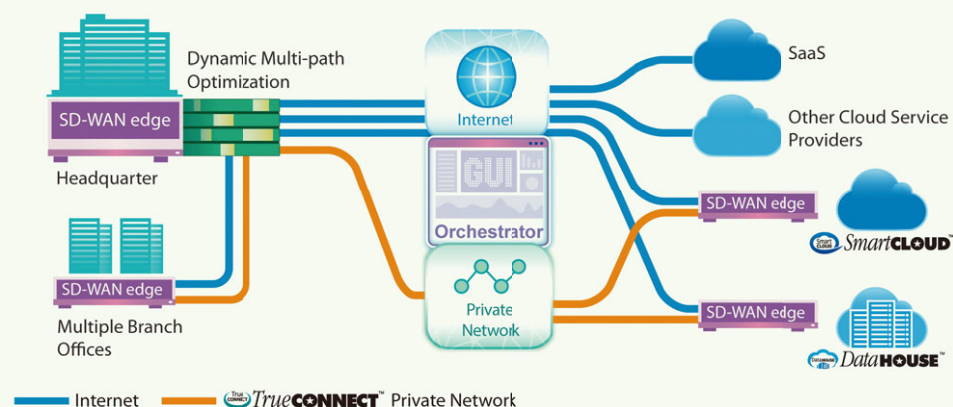
**CASE
STUDY 01**

Innovative Product Case Study (2): TrueCONNECT™ Hybrid

As the transition to a digital era is propelling corporates' future development, there is a growing demand for the dynamic, cloud-based application of wide area network (WAN) technology. In light of this, the

Group's subsidiary partnered with Internet Security Service Provider Fortinet® to launch TrueCONNECT™ Hybrid, a secured software-defined WAN (SD-WAN) solution.

TrueCONNECT™ Hybrid Network Diagram



The newly-launched hybrid infrastructure solution combines the enhanced features from VMware SD-WAN by VeloCloud and disrupts the legacy network structure of traditional corporate IT systems. Using advanced networking technology and smart deployment capabilities, TrueCONNECT™ Hybrid is able to leverage both private networks and internet resources, achieving high levels of network security and performance quality. Matching the changing needs of today's more dispersed corporate structure, it presents a breakthrough to the Group's product and service development.

**CASE
STUDY 02**

SUSTAINABILITY REPORT

High Standard of Business Ethics

The Group upholds a high standard of business ethics and corporate integrity, and strictly abide by all laws relating to anti-bribery, fraud and extortions in our operating countries. The Group has established its Code of Conduct and policies relating to business ethics and personal conducts, such as the “Measures for Executive’s Integrity and Treatment of Violations”. The measures require our Board members and employees to avoid engaging in situations of conflicts of interest, bribery, insider dealing or receiving illegal gifts and commission.

The Group has also set up a group-wide “Anti-money Laundering Managing Practices”, which clearly describes our management structure on anti-money laundering, roles and responsibilities and reporting channels, as well as the handling procedures in case of any violations. The above regulations and policies have articulated our commitment on responsible operations and set out the standards of behaviour and ethics we expect from staff members.

To preserve our business integrity and reputation, we strictly require all Board members and employees to uphold good personal conduct. The Group regularly holds internal seminars and invites regulatory authorities to conduct training so as to foster a probity culture in our

business operations. During the year, the Group has organised anti-corruption training and awareness-raising activities for our senior management, middle management, first-line management and general staff.

In case of suspected bribery, corruption, misconduct or violations against the Group’s Code of Conduct, employees are encouraged to file anonymous complaints through our designated whistleblowing policy. Information of the whistle-blower will be kept confidential, and the Group will not tolerate any form of retaliation, including discrimination, harassment, intimidation, punishment, or solicitation. If the whistle-blower finds the investigation result unsatisfactory, he/she could appeal to the Group’s Chairman or Audit Committee’s Chairman for follow-up. The Audit Committee would endeavour to monitor our employees’ behaviour avoiding any corrupted practices and to ensure that we are compliant with local laws and regulations.



On March 15, the Group’s legal department held legal risk prevention and mitigation training for local and overseas employees.



On November 14, representative from the Independent Commission Against Corruption of Hong Kong was invited to provide a seminar on personal integrity.



On October 18, our Singapore subsidiary organised anti-corruption talk to employees.

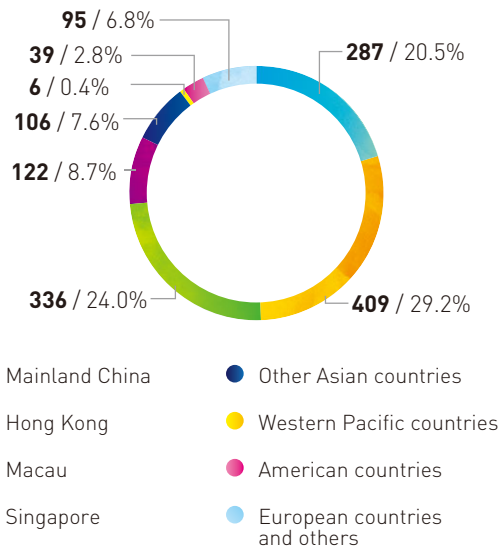
SUSTAINABILITY REPORT

The Group has also established a risk management system covering all the business segments to monitor, assess and manage various risks in the Group's business activities, including business ethics and corruption risks. To know more about our compliance and risk assessment processes, please refer to the Risk Management of the Annual Report (pages 37 to 46 and 61 to 65).

Sustainable Supply Chain Management

The Group operates through its branches in different countries and regions and is actively expanding our presence in Asia-Pacific multinational telecommunications services. In light of this, we make good uses of our growing influence to promote an honest and sustainable supply chain. In 2019, the Group has a total of 1,400 suppliers originating from different regions.

Number of suppliers engaged in 2019 and their geographical distribution



The Group's Code of Conduct clearly states that allowing open and fair competition in our procurement and tendering process is required, and it is in line with public interest and accountability. The principles for our procurement team is to not only comply with professional standards and anti-corruption policies requirements, but to also implement effective monitoring and management measures in prevention of any bribery, fraudulent practice or misconduct behaviour during the procurement and tendering process.

To promote the concept of "green supply chain," the Group continues to select suitable products and services in the most cost-effective and environmentally-friendly way. During our procurement process, we take into considerations such as sustainability, environmental protection and emissions reduction. Through constant communications and collaboration, such as sending suppliers sustainability questionnaires and signing environmental partnership agreements, we invite suppliers to shoulder our common responsibility of environmental protection.

SUSTAINABILITY REPORT

Protection of Customer Data Privacy

In the age of internet, protection of customer data privacy is of paramount importance. Thus, we make earnest efforts to protect personal information and abide by relevant laws and regulations in our operating countries. To ensure proper management of customer's personal information, we have established and updated our privacy protection guidelines and procedures from time to time.

The Group has also put in place different IT security policies and developed relevant IT systems to prevent unauthorised use of customer information. At the same time, we regularly provide training or talks relating to information security and privacy protection to enhance their vigilance towards personal information protection.

The Group's Subsidiary: Information management practices in line with international standards

The Group's subsidiary has engaged a third party for an information security audit to ensure that our IT systems are flawless and reliable. The subsidiary has not only obtained an ISO/IEC 27001 Information Safety Management System qualification, it is also the first Infrastructure as a service (IaaS) provider in Hong Kong to receive ISO/IEC 27017 accreditation for its cloud services safety. The accreditation reassures that the information protection levels of our services are up to international standards.

The Group's Macau Subsidiary: Revamping personal data protection practices and department structure in accordance with latest laws and regulations

Responding to the newly-enacted Cybersecurity Law in Macau SAR in 2019, our subsidiary in Macau has further revamped its internal data handling procedures, including:

- Customer real-name authentication procedure;
- Information security system; and
- Handling procedure relating to information security incidents

Besides, we have set up a designated department responsible for corporate information security under the IT Department. We have been hiring employees with professional backgrounds in information security and assigning data protection officers at different business units. Joining hands together, they will be evaluating and synchronising the corporate's internal data handling process and ensuring that our operations would meet all the latest legal requirements.

Support to Telecommunications Industry Development

Under rapid technological advancement, the telecommunications industry is required to innovate and improve constantly to match with the next generation's demand for data transmissions, including 5G technology, cloud computing, big data, IoT, and artificial intelligence. With an aim to drive the industry forward, the Group is actively participating in different international and domestic industry activities. At the same time, the Group provides active support to local industry associations like the Communication Associations Hong Kong, for maintaining high industry standards and fostering the development of responsible operations.

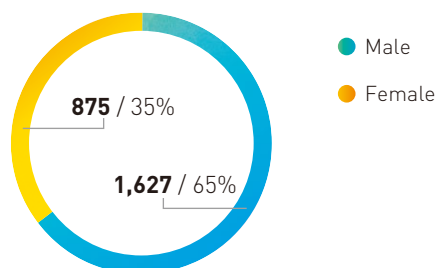
SUSTAINABILITY REPORT

Building a Strong “CITIC Telecom Team”

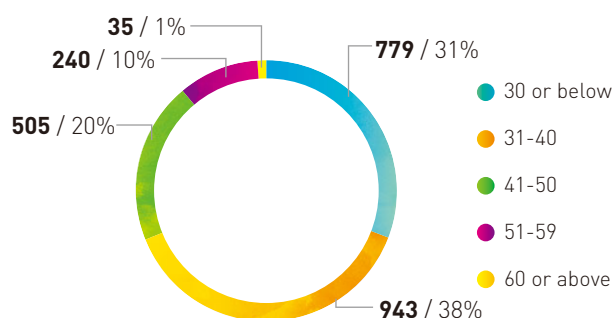
Responding to the challenges ahead in business transformations and industry innovation, the Group is dedicated to building a globalised and world-class workforce. By adopting a “select, nurture, engage, manage and retain” multi-pronged talent management approach, we make earnest efforts to build up a strong “CITIC Telecom Team”. As of the end of 2019, our total number of employees reached 2,580, which has been growing in line with our business expansion.

Employee distribution by geographical location	2019	2018
Hong Kong	532	541
Mainland China	666	650
Macau	1,043	1,043
Singapore	128	126
Other Asian countries	113	108
American countries	20	21
European countries and others	78	79
Number of employees	2,580	2,568

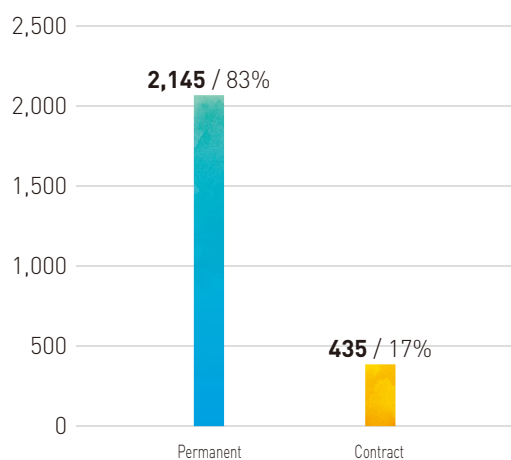
Employee distribution by gender^(Note 1)



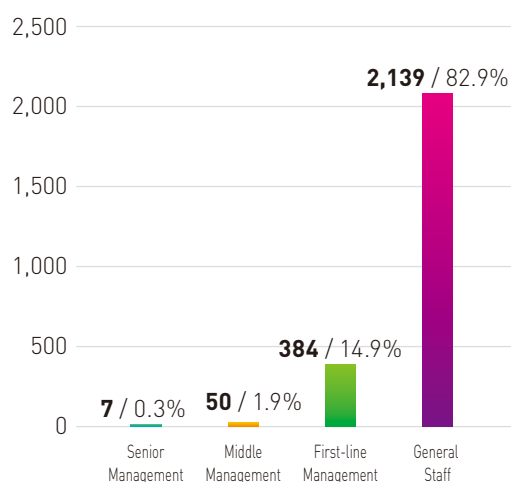
Employee distribution by age^(Note 1)



Employee distribution by employment contract



Employee distribution by employment type



Note:

- 1 As personal data privacy of European Union citizens is protected by the General Data Protection Regulation (“GDPR”), the statistics of our European employees are not included in employee distribution breakdown by gender and by age.

SUSTAINABILITY REPORT

Equal Opportunities

The Group has adopted fair employment practices and strives to create a working environment without any discrimination. We strictly abide by equal opportunities and anti-discrimination laws in our operating countries, and ensure equal opportunities for job applicants and employees during recruitment, promotion and career development. Any kind of discrimination or unfair treatment owing to individuals' family status, race, gender, disability or any other legally protected grounds, is strictly prohibited.

In addition, to ensure relevant policies are consistently implemented, our subsidiary regularly invites speakers from the Equal Opportunity Commission to have seminars of the related topics for employees.

Employee Retention

The Group realises that high employee turnover might undermine our competitiveness and operational efficiency. In order to maintain the Group's competitive advantages and our pool of telecommunications talents, we have provided employees with training and career development opportunities, enhanced remuneration and benefits scheme and better job satisfaction. In 2019, the Group's total number of employee turnover was 409, equivalent to a turnover rate of 15.9%, which is slightly lower than our employee turnover rate in 2018 (16.6%).

Training and Development

The Group believes that employees are our most precious assets and we are committed to providing them with all kinds of training and development programmes. Our programmes have been meticulously designed for the "optimisation of professional performance, motivation of staff's potentials, and revitalisation of learning culture". By helping our employees with multi-dimensional development programmes, we target to achieve better human capital development and retention.

Integrated Talent Development Initiatives: "Digital Macau 2.0" Development Programme

Our Macau subsidiary has adopted innovative training methods through its "Digital Macau 2.0" Development Programme. The programme combines theory and real-life practice with an aim to train people up with multi-dimensional capabilities like teamwork, project planning and execution. The programme recruited a total of 10 employees, all of whom were being recommended by department heads and the Human Resources Department. Throughout the programme, they will be divided into cross-functional teams to receive all-rounded trainings and project learning opportunities. Our trainees do not only get the chances to learn more about the current development and infrastructure planning of "Digital Macau", they also attended a series of courses on the latest technological trends and management skills, which are exclusively presented through our partnership with renowned training institutions.

Besides, the Group introduces various training and development programmes for employees of different seniorities, ranks and job duties. These programmes aim at transferring knowledge, enhancing employees' skillsets and service quality, and developing our management talents. Through different internal and external training programmes as well as the promotion of a learning culture, we nurture talented teams and drive the Group's business growth. To keep our employees abreast of the latest development of the telecommunication technologies, the Group provides timely training according to market trends. For instance, trainings on 5G and eSIM were conducted within the year.

SUSTAINABILITY REPORT

During the year, the Group has organised “Innovation and R&D conference”, “Human resources and team building conference”, and “Finance working conference” respectively. The meetings aim at gathering leaders and key staff of the Group to set up guidelines on these topics. The meetings also help foster cross-functional sharing and knowledge exchange so that our employees could learn from experts of different aspects.

Meanwhile, the Group is keen on nurturing people with management potentials and helping them climb up career ladders. During the year, our subsidiary has tailored the personal development programmes for 20 middle managers, which includes classroom training, project case study, external and internal mentoring. The programme places great emphasis on trainees’ management and planning capabilities like business innovations and conflict management. Besides the leadership skills enhancement training, there are case study sessions providing chances for them to learn from the Company’s actual business pain-points, creating win-win situations for both the managers and the Company.

Internship schemes



There are regular trainee schemes of the Group, which focus on management and technical aspects respectively, to cater for the different needs of our youngsters. Our management trainee programme aims at nurturing versatile management talents through a wide array of initiatives, including on-the-job training, project management, as well as soft and technical skills training sessions. Meanwhile, our technical trainee programme focuses on training up the next generation of telecommunication experts through specialised training at our business units.

Continuous professional development of the Board and senior management

The Group attaches great importance to the continuous professional training of each Board member and senior management staff. This year, we have organised training related to smart city and sustainable development. Also, the Group encourages them to participate in external seminars and international meetings, so as to improve their industry knowledge and sharpen their professional skillsets.

SUSTAINABILITY REPORT

The Group takes good care of employees' personal development needs. Through our sponsorships, we encourage our employees to extend their knowledge and sharpen their skillsets beyond work, which are also beneficial to their work performance.



As testament to our concerted efforts, during the year the Group was awarded the "Manpower Developer" under the ERB Manpower Developer Award Scheme launched by the Employees Retraining Board, in recognition of its remarkable commitment and achievement in training and development.

Going forward, the Group will continue to promote a diverse learning culture and cultivate talents with potentials. Through supporting employees' personal development needs and the Group's development goals, we are committed to creating a team that is persistently attaining excellence and improving itself.

Occupational Health and Safety

The Group is dedicated to safeguarding the health and safety of our employees. We abide by all occupational health and safety regulations and implement effective measures to ensure all employees could work under a safe and sound environment. Our measures include organising regular safety talks, conducting fire drills,



and distributing health and safety-related information to employees. During the year, the Group has no fatality incident during work and 383.5 lost days due to work injuries.

Besides, employee's health conditions are crucial to their productivity. Therefore, our employee benefit plans at our Hong Kong headquarters include both regular medical check-ups and vaccination programmes. During the year, our subsidiary has also sponsored employees to receive vaccination for influenza prevention. It helps enhancing the awareness of the importance of prevention from getting serious illness or diseases to our employees.

In response to the recent situation of new coronavirus epidemic (COVID-19), the Group under the leadership of the Chairman, formulated a series of measures to cope with the outbreak and work deployment, including the establishment of the "Epidemic Prevention and Control Leading Group" in the early stage of the outbreak, the regular working meetings, the setup of an outbreak reporting mechanism, the continuous strengthening of disinfection and cleaning work in buildings and office areas, distribution of anti-epidemic hygiene supplies to employees and one-time special anti-epidemic subsidies for all staff.



SUSTAINABILITY REPORT

Work-life Balance

The Group puts great emphasis on employees' work-life balance as well as their mental and physical wellbeing. At headquarters, the Group has provided indoor gym room and multi-functional recreation centre for employees

to perform body training and different types of leisure activities after work. Meanwhile, the Group continues to organise different interest classes and talks to provide employees with fitness and nutrition tips, so as to raise their awareness on healthy lifestyle.



SUSTAINABILITY REPORT

Each year the Group regularly organises different types of leisure activities like travels, employee and family hiking events to strengthen employee bonding, relieve them from stress and add spices to their lives beyond work. The Group also holds different types of sport competitions, such as basketball championship, badminton competitions and the CITIC Hong Kong and Macau Three-Person Basketball Match. Moreover, we support employees to participate in inter-company sports activities, such as the basketball competition organised by the Hong Kong Information Technology Joint Council. Through these activities we not only advocate for better mental and physical health, but also provide employees with opportunities to cooperate and know more about each other beyond work. We believe these activities are essential for building a supportive team.

At the same time, the Group understands family is an integral part of our employees' lives. Our subsidiary organises "Family Day" from time to time, which let family members of our employees visit and immerse into our working environment. To further promote an inclusive culture for working mothers, our subsidiary has set up a nursery room in designated office area.

The Group is recognised for its efforts to provide employees with a delightful workplace. During the year, we received the following awards:



"Family-Friendly Employers Award", "Special Mention (Gold) Award", "Award for Breastfeeding Support"

Awarding organisations: Family Council and Home Affairs Bureau



"Happy Company 2019"

Awarding organisations: Hong Kong Productivity Council and Promoting Happiness Index Foundation

Remuneration and Benefits

To reward our employees' contributions at work, we offer them a comprehensive remuneration and benefits package according to employment laws and market requirements, which includes benefits of medical schemes and holidays, etc. Employees of the Hong Kong headquarters are also entitled to dental, retirement plans, shuttle bus services, lunch arrangements, gifts for child birth as well as shopping discounts.

Our employee remuneration is determined based on a meritocracy principle, which rewards our employees according to their personal performance and contribution. By adopting this remuneration scheme, we target at nurturing the Group's talents and raising their proficiency in the long term. To ensure competitive remuneration employee package offer, the Group evaluates the remuneration and benefits scheme annually and makes proper adjustment in line with our business need.

During the year, the Group received the "Good MPF Employer 5 Years Award" and "Support for MPF Management Award" from the Mandatory Provident Fund Authority in recognition of its provision of comprehensive retirement benefits for its employees.

SUSTAINABILITY REPORT

Open and Two-way Communication

The Group advocates for an open and two-way communication process at workplace and welcomes different opinions from employees. We believe that only through mutual respect and genuine communications, employees would see themselves as part of the Group and help drive corporate development together. Therefore, the Group has set up an intranet communication channel, placed suggestion boxes at each office floor and held regular employee forum for employees to express their needs in daily work-lives in Hong Kong Headquarters. Besides, our employees are encouraged to voice out their concerns or complaints to their respective supervisors, management, or directly to our Chief Executive Officer or Chairman. Upon receiving relevant concerns or complaints, the Chief Executive Officer or the Chairman will respond on behalf of the Board and transfer complaints into opportunities for constructive dialogue.

The Group respects employees' right to collective bargaining. Whenever there are relevant applicable laws in our operating regions, the Group would maintain positive relationship and regular exchanges with local labour unions. Yet, laws relating to collective bargaining agreements are not applicable to the Group's headquarters in Hong Kong.

Caring for the Environment

As a responsible corporate citizen, the Group strives to operate in an environmentally-responsible way and implement approaches to manage our environmental performances. We continue to formulate and enhance our policies related to environmental protection, energy saving and emissions reduction, so as to reduce the environmental footprint of our operational activities and achieve sustainable business operations.

The Group's impact on the environment is mainly concerned with energy consumption and waste generation by its offices, data centres and other network operations, as well as the associated greenhouse gas emissions. The "CITIC Telecom Green Policy" has been established to provide clear guide for our environmental management. We put our focus on the environment protection works in data centres and offices so as to facilitate ongoing business sustainability.

"CITIC Telecom Green Policy"

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

SUSTAINABILITY REPORT

Construction and Operation of Green Data Centres

Data centre operation is the Group's core business. We prioritise energy saving and emission reduction in system procurement, telecom chamber construction and facilities planning. We also adopt a wide range of green measures in our day-to-day operations to put the notion of green data centre into practices.

Telecom chamber construction and facilities planning

We have employed a series of energy-saving measures in hardware configuration to reduce the overall energy consumption. We select highly energy-efficient systems and components in the procurement of air-conditioning systems and cabinet power supply systems, which consume most of the energy in data centres.

Air-conditioning system and components	Adopt advanced computer room air-conditioning (CRAC) system with EC Fan and Smart Control to consistently monitor the temperature and humidity of the data centre and automatically regulate the operation of the cooling system
	Purchase air-conditioning system with excellent heat dissipation capabilities
Cabinet power supply system	Employ uninterruptible power source (UPS) systems and power distributor cabinets that are compliant with environmental requirements set out by ISO 14006 Eco-design, European Union (EU), the Restriction of Hazardous Substances Directive (RoHS), and the Waste Electrical and Electronic Equipment Directive (WEEE)

Further hardware enhancements for energy conservation have also been taken in the planning of the data centre in CITIC Telecom Tower:

	Hardware	Energy-Efficient Features
Telecom chambers planning	Platform design	Utilise cold/hot air convection to reduce the mixing of cold/hot airflow
	Air-dampers	High-efficiency air-dampers controlling air inflow to prevent outdoor humidity affecting indoor room temperature
Cabinet design	Floor panels	Retrofit air-grille floor panels in front of heat-releasing cabinets to increase cold airflow
	Containment doors & blanking plates	Install containment doors and blanking plates between cabinets to reduce mixing of cold/hot airflow and wear-out
Air-conditioning	Chilled water supply temperature regulation	Adjust chilled water supply temperature based on the cooling requirements corresponding to the overall power consumption of the cabinets
	Spray system for the air-conditioning units	Utilise water mist evaporation to reduce energy demand for cooling

SUSTAINABILITY REPORT

Energy-saving measures in daily operation

To further promote energy conservation in daily operations of data centres, the Group has carried out green planning in its management system and optimised the operating systems of data centres to avoid unnecessary energy consumption.

The enhanced monitoring system could retrieve external information such as real-time weather information and forecasts for the nearby area, assisting our operation staff to make timely adjustments to the air-conditioning units. Through this, we effectively maintain a stable operating environment for the data centres.

Furthermore, the real-time monitoring system offers a holistic user interface with access to operating status of various mechanical and electrical systems. The operation staff can swiftly obtain operating data for analysis and timely adjust the interactions among mechanical and electrical systems, and monitor the overall loading to maximise operating efficiency. The system is also equipped with a risk alert and management system, which provides early warning signals of abnormal operation to help prevent and mitigate equipment failure.

In the meantime, our electricity bill management system provides customers with monthly energy consumption data to facilitate the planning for their energy-saving initiatives. We also monitor the daily energy consumption

of data centres with the metering online provided by CLP. If any exceptional consumption is identified, our in-charge department will take corresponding corrective actions and undergo incident investigations to avoid future wastage.

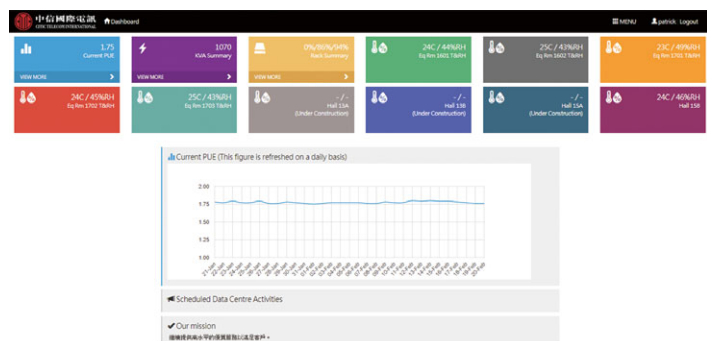
Besides, after prudent risk assessments, the Group increased the temperature of telecom chambers for internal use by 2°C as a demonstration of our effort in energy conservation, without comprising the operating efficiency.

The Group will continue to explore and enhance our energy-saving approaches, and consider to embed more energy-saving designs in the planning and expansion of our future data centres.

Green Initiatives in Daily Office Operations

Adhering to the "CITIC Telecom Green Policy", the Group consistently implements the 4R environmental principles in daily office operations. We regularly monitor our energy, paper and water consumption to identify further rooms for improvement. To jointly improve the Group's environmental performance with our staff, we have set up a "Green Corner" on the Company intranet to disseminate environmental information to all employees.

The Group's subsidiary has successfully obtained ISO 14001 environmental management system certification as a recognition for establishing, implementing, monitoring and improving its environmental management system up to international standard.



Real-time monitoring system of data centre



"Green Corner" on the Company intranet

SUSTAINABILITY REPORT

*Energy saving*

Energy-saving LED bulbs are used in the office area, and high-energy-efficient products and technologies are also given priority when replacing old electrical appliances and equipment. The Group's Macau subsidiary adopts chiller plant with oil-free compressor and magnetic bearings to reduce the energy consumption of air-conditioning systems in offices and telephone network rooms.

During the year, our Hong Kong headquarters continued to participate in WWF Hong Kong's "Earth Hour 2019" by switching lights off in the office and public areas like pantries for one hour during lunchtime.

Paper conservation

Considering paper use as our main resource consumption, we have implemented a series of measures to reduce paper consumption, including encouraging paper reuse, digitalising internal and external communications, and introducing automation systems to replace paper workflow.

The Group's Macau subsidiary also launched electronic bills and eService Portal to provide customers with new and diversified self-service features. In 2018, it developed the "CTM Buddy" mobile app for customers to retrieve their bills and settle their payment, and encouraged them to adopt SMS bill notifications, so as to promote a paperless customer experience.

Waste recycling

We support employees to practise good habits of waste recycling by setting up recycling bins in conspicuous locations in the office. Hazardous waste such as computer hardware, industrial batteries, toner cartridges are



Magnetic bearing oil-free chiller

regularly collected and handled by authorised recyclers for proper disposal and recycling. Our Hong Kong headquarters has also continued to take part in the "Toner & Ink Cartridges Recycling & Reuse Programme" organised by Friends of the Earth (HK).

Water conservation

We installed automatic sensor faucets to avoid wastage, and continued to raise employees' awareness on water conservation via email memos and posting reminders at pantries in the office.

Office greening

We constructed an indoor green garden at the CITIC Telecom Tower with over 100 green plants to infuse vitality into our offices.

SUSTAINABILITY REPORT

Environmental Performance Data

Use of Resources	Units	2019	2018	Difference ^(Note 2)
Energy consumption				
Electricity	kWh	54,178,176	51,429,189	5.3%
Petrol	litres	126,308	130,994	-3.6%
Diesel	litres	9,128	15,937	-42.7% ^(Note3)
Intensity of energy consumption (Energy consumption/GFA)	GJ/m ²	1.2035	1.1464	5.0%
Water consumption				
Water consumption	m ³	20,669	18,457	12.0%
Intensity of water consumption (Water consumption/GFA)	m ³ /m ²	0.1361	0.1216	11.9%
Waste Recycling				
Non-hazardous waste recycling				
Paper	kg	1,621	3,148	-48.5%
Hazardous waste recycling				
Computer, communications and electrical appliances	pc	32,468	46,423	-30.1%
Industrial batteries	pc	311	1,282	-75.7%
Toner and ink cartridges	pc	58	96	-39.6%
GHG Emissions^(Note 5)				
Scope 1: Direct GHG emissions	tonnes of CO ₂ -equivalent	981.8	667.5	47.1%
Scope 2: Energy indirect GHG emissions	tonnes of CO ₂ -equivalent	40,190.7	38,371.7	4.7%
Scope 3: Other indirect GHG emissions	tonnes of CO ₂ -equivalent	259.5	265.1	-2.1%
Total GHG emissions	tonnes of CO ₂ -equivalent	41,432.0	39,304.3	5.4%
Intensity of GHG emissions				
(Total GHG emissions/GFA)	tonnes of CO ₂ -equivalent/m ²	0.2497	0.2368	5.4%

Notes:

- As the numbers for each indicator in 2018 and 2019 have been rounded, the actual year-to-year percentage change might be slightly different from that of the percentage of the numbers illustrated.
- The number of Macau's power outage in 2019 reduced significantly as compared to 2018. Hence there was a decrease in the operation of backup power generators which resulted in a fall in diesel consumption.
- In 2018, our Macau subsidiary recycled a significant amount of waste from storage clearance, thus waste generation in 2019 was comparatively less.
- The Group's greenhouse gas emissions were calculated in accordance with ISO 14064 International Standard for GHG Emissions Inventories and Verification and adopted carbon emission factors applicable to the Group's four major operating regions, namely Hong Kong, Mainland China, Macau and Singapore.

SUSTAINABILITY REPORT

Environmental Activities

During the year, the Group embarked on several environmental protection activities and continued to show support to initiatives advocated by various environmental organisations.

On nature conservation, our subsidiary launched a tree planting activity under the theme “Let’s plant together” with 10 trees planted, while our Hong Kong headquarters and Singapore subsidiary participated in beach clean-up events respectively to convey our commitment to preserving the beauty of the environment.

On resources conservation, the Group participated in the “Lai See Reuse and Recycle Program 2019” initiated by Greeners Action. Besides, our subsidiary also joined the “CNY Container Donation Drive” organised by Yale-NUS Cendana, and participated in red packets, moon cake and mooncake boxes and other recycling activities held by the property management company to jointly promote festive waste reduction.

To raise employees’ awareness on environmental protection, the Hong Kong headquarters supported “2019 environmental protection activity – handicraft making with children” and “2019 environmental protection activity – walk of coast with kids” organised by the Hong Kong Council of the Church of Christian in China. Our volunteer teams participated in the handicraft making activity with children, which provided environmental education for our employees and children while enjoying the time of making eco-enzymes and tie-dye bags together. Our subsidiary also arranged visits to Hong Kong T · PARK and Guangzhou China Resources Thermal Power Plant to enhance employees’ awareness on resources recovery and management; and participated in the World Green Organization’s “Night Safari under the stars” night-time walk to let our employees learn more about the impacts of pollution.

At the same time, the Group actively shows support for various environmental organisations and their visions on sustainable development. During the year, our subsidiary organised employees to join the “26th Green Power Hike” held by Green Power and “Green Walk Hong Kong 2019” hosted by the World Green Organization.

Environmental Awards and Certifications

The Group and its subsidiaries are honoured to have received recognition and several awards for its sustainability efforts. This year, the Group received the “Bronze Award” under the Media and Communications Sector of the “Hong Kong Awards for Environmental Excellence” which was co-organised by the Environmental Campaign Committee, Environmental Protection Department and nine other organisations. The award recognised our strategic accomplishments in “Green Leadership”, “Programme & Performance” and “Partner Synergy” at office and data centres.



The Group was also bestowed the title and logo of “Hong Kong Green Organisation Certification” and received the “Energywise Certificate (Basic Level)” and “Carbon Reduction Certificate” issued by the Environmental Campaign Committee in recognition of our efforts and contributions to environmental protection.

Our subsidiary was once again awarded the “Green Office” and “Eco-Healthy Workplace” labels under the Green Office Awards Labelling Scheme initiated by the World Green Organisation. This initiative encourages companies to practise “green” in diverse business aspects, and our subsidiary was recognised for its effectiveness in implementing various green measures.

SUSTAINABILITY REPORT

Our Singapore office was presented with the Singapore Environmental Achievement Award (SEAA) again organised by the Singapore Environment Council. Being one of the most remarkable environmental awards programs in Asia, this honour recognises the company's outstanding performance in environmental management and sustainable development.



Caring and Support for the Community

The Group has made positive contributions in our four major operating locations through untiring efforts in supporting and promoting a wide variety of charitable activities. During the year, the Group made charitable donations over HK\$1.31 million and various in-kind sponsorships in form of services and goods to support underprivileged groups, education, healthcare, sports and environmental protection. To encourage our staff to participate in voluntary services and community activities, the Group has set up the "CITIC Telecom International Volunteer Service Team" to help the people in need and disseminate environmental messages to the society. During 2019, the Group spent over 1,150 hours in volunteer services.

Community Disaster Relief

The Group endeavours to provide reliable and quality telecommunication services. In times of typhoons, Hong Kong and Macau are prone to heavy rainstorms and thus our community often suffer from its devastating impacts. Despite the adverse environment, we are dedicated to upholding our commitment in ensuring smooth and uninterrupted network operations.

As soon as being aware of upcoming typhoon, we immediately activate contingency plan and adopt appropriate precautionary measures, including deploying mobile power generation equipment in various Remote Line Units (RLUs), adding water gates in RLUs located in low-lying districts, firming cell sites and hoisting capacity of backup powers, in order to minimise the potential disturbances to communication services. Meanwhile, we closely monitor our network performance and are on standby to provide prompt assistance. After typhoon, we would continue to provide support to our customers, and conduct maintenance and repair works. We make our best effort to help our customers in flooded areas for restoration of services once after the return of power supply.

Leveraging Our Inherent Strengths to Support Community Development

The Group upholds the principle of rewarding the society and serving the community. We do not only encourage employees to get involved in community services, but also strives to utilise our professional knowledge and resources in communication and information technology to enhance the quality of lives of the community.

Promoting development of "Digital Macau"

Our subsidiary in Macau has long been promoting the infrastructure development of "Digital Macau". We continue to enhance the quality of its network infrastructure through significant investment of resources and introduction of various edge-cutting information technology, whilst gradually shifting our focus to a variety of smart applications. With the advancement of 5G network technology, we moved into the "Digital Macau 2.0" era with a strong determination to build Macau into a leading smart city.

We have joined hands with different business partners and organisations in integrating the application of IoT, big data and artificial intelligence to create greater benefits for the community. For example, we successfully set up 5G media broadcast platform in 2019 to further enhance the quality and stability of outdoor mobile broadcasting. This is particularly useful in broadcasting disaster news for residents to receive real-time updates. The

SUSTAINABILITY REPORT

Group will continue exploring the possibilities of 5G and other technologies in Macau's smart city construction and development. We will also cooperate with more stakeholders to expand the application of smart technologies into various industries, so as to foster smart living with higher convenience and efficiency.

Promoting development of "Digital Campus"

To echo the goal of achieving "Digital Macau", our subsidiary in Macau has actively supported the development of "Digital Campus" with the launch of self-developed smart applications such as "Education Cloud" and "School Communication", which offer end-to-end instant messaging channels and exchange of updated educational information among educational institutions, parents and students. In addition, the Group is devoted to integrating advanced information technology into traditional classroom learning to enhance teaching quality and students' learning effectiveness. During the year, our subsidiary in Macau launched a "Digital Classroom" application platform to provide electronic learning resources for students. This also encourages teachers to utilise creative teaching methods to enhance students' interest in studying through a more interactive environment and more enriching content. The tool can also assist teachers to understand students' learning progress by using its data analysis tool, further facilitating teaching and students' learning.



Nurturing Youth

Youngsters are the future leaders of our society, and hence the Group has put great emphasis on supporting our younger generation. In cooperation with different schools and young groups, the Group has organised a variety of activities to assist youngsters in exploring their potentials and interests, whilst developing future talents for the society.

Our subsidiary in Macau fully supports "The 34th China Adolescents Science & Technology Innovation Contest". Through setting up the "CTM Digital Macau Award", we award outstanding and innovative young people for their contributions to smart city development, and hope to inspire more new ideas on innovative technology.

At the same time, the Group continues to arrange company visits for schools and young groups. We introduce them to the operations of a telecommunications business and the Group's plan on 5G technology development to deepen their understanding of the industry. To cultivate talents for the industry, our subsidiary in Macau has organised the "Youth Development Program" for several years. We



SUSTAINABILITY REPORT

also joined hands with secondary schools to launch the “Training and Employment Collaboration” and provide professional trainings, internship programs, site visits and lectures. Students who have completed the course are given priority in our graduate recruitment.

Promoting Inclusive Access to Communications

The Group is committed to strengthening the connection between underprivileged groups and the society through improving the accessibility of telecommunications services.

The Group’s subsidiary in Macau has launched the “Telecom Service Caring Plan” to offer concessions to Disability Proof holders on our mobile and fibre broadband services. In addition, we organised a sharing talk on smart living applications for the Macau Deaf Association to encourage the disabled to enjoy a better life with the use of the Internet.

Besides, to enable the elderly to have a more convenient and enjoyable life with the aid of advanced technologies, our subsidiary in Macau helped the elderly blend into the digital society through organising the “Smart Application Sharing”, offering elderly monthly concessions, and replacing telecommunications equipment for elderly centres.

The Macau subsidiary also provided telecommunications support to various organisations and groups, including fixed line and mobile communication services for UGAMM, telecommunication services for Macau Special Olympics athletes during overseas competitions, fixed line services for the emergency support of Macau Red Cross, as well as Smart Campus Program for sponsoring 25 local schools on their dedicated internet access. Moreover, with the

support of the Social Welfare Bureau (IAS), the Macau subsidiary provided free CTM Wi-Fi hotspot at 9 frontline service units of IAS and 55 centres of various social service organisations, enabling the underprivileged and service users to enjoy free network services. This facilitates the society in adopting more advanced technology, and also improves people’s accessibility to diversified services and information.

50222 Hiker SMS Tracking Service

The Group is committed to serving the community through telecommunications. With a view to safeguarding the personal safety of hikers, the Group, together with mobile operators in Hong Kong, have continued to provide full support to the 50222 Hiker SMS Tracking Service. This is a potentially life-saving SMS-based tool available to all users of Hong Kong’s country parks. It offers free SMS service for hikers to report their tracks to “50222” as marked on posts in the parks indicating trail distance. In case of need, the Hong Kong Government’s emergency services can pinpoint the locations more accurately by referring to the latest track number sent by the hikers.



SUSTAINABILITY REPORT

Awards and Commendations

During the year, the Group is honoured to receive awards and commendations from multiple organisations to recognise our contributions to the society.

The Group has been awarded as 5 Years Plus “Caring Company”, while the subsidiary has received 10 Years Plus “Caring Company” for its efforts in promoting corporate social responsibility through caring for the employees, community and environment. The Group was also consecutively granted the logo of “The Hong Kong Outstanding Corporate Citizenship Award” under the “Hong Kong Corporate Citizenship Award Scheme” in recognition of our outstanding performance in our quality profession, caring for the employees, contributions to the society, as well as environmental protection. In addition, the Group was continuously awarded the “Social Capital Builder Award” by the Community Investment and Inclusion Fund of the Labour and Welfare Bureau for our participation in social services with the spirit of mutual aid and benefit.

Our subsidiary received a “Fair Trade Corporate Label – Silver Award” from Hong Kong Fair Trade to appreciate the Company’s active participation in various activities in the past to promote fair trade. The Group’s Macau subsidiary also continued to receive an “Outstanding Corporate Volunteer Team” award from the Association of Volunteer Social Service Macao in appreciation of its significant contributions in community services.



SUSTAINABILITY REPORT

Environmental, Social and Governance Reporting Guide

Compliance with Reporting Standards

This Sustainability Report was prepared in accordance with the ESG Reporting Guide issued by The Stock Exchange of Hong Kong Limited. All “comply or explain” provisions, and appropriate key performance indicators under “recommended disclosures” are selected for disclosure. We also adhere to the four reporting principles set out in the Guide when defining our content, namely materiality, quantitative, balance and consistency.

Reporting and Data Scope

This report covers the sustainability performance and measures of the Group’s headquarters and its subsidiaries for the reporting period of 1 January 2019 to 31 December 2019.

To reflect the Group’s environmental performance in a more comprehensive manner, we have been enhancing our data collection system and expanded our scope of 2018 and 2019 environmental data disclosure. It now covers operations of our three major business units (i.e. headquarters, CTM and CPC) in four major operating locations, namely Hong Kong, Mainland China, Macau and Singapore (which collectively accounts for over 90% of revenue from telecommunications services).

Content Index

Key areas and aspects	General Disclosures and KPIs		Section/Statement	Referencing page number
A. Environmental				
Aspect A1: Emissions	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Caring for the Environment The Group is not aware of any material non-compliance with relevant laws and regulations that have a significant impact on the Group during the reporting period.	Pages 118-124
	KPI A1.1	The types of emissions and respective emissions data.	Given the Group does not generate a significant amount of emissions during operation, this topic was regarded non-material in the materiality analysis, and thus such data is not disclosed.	Not applicable
	KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Caring for the Environment	Page 122

SUSTAINABILITY REPORT

Key areas and aspects	General Disclosures and KPIs	Section/Statement	Referencing page number
	KPI A1.3 Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Caring for the Environment	Page 122
	KPI A1.4 Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Caring for the Environment	Page 122
	KPI A1.5 Description of measures to mitigate emissions and results achieved.	Caring for the Environment	Pages 118-124
	KPI A1.6 Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Caring for the Environment	Pages 118-124
Aspect A2: Use of resources	General Disclosure Policies on the efficient use of resources, including energy, water and other raw materials.	Caring for the Environment	Pages 118-124
	KPI A2.1 Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Caring for the Environment	Page 122
	KPI A2.2 Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Caring for the Environment	Page 122
	KPI A2.3 Description of energy use efficiency initiatives and results achieved.	Caring for the Environment	Pages 118-124
	KPI A2.4 Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	The Group does not have any issue in sourcing water that is fit for purpose.	Not applicable
	KPI A2.5 Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Given the Group's operations does not involve significant amount of packaging materials, this topic was regarded non-material in the materiality analysis, and thus such data is not disclosed.	Not applicable

SUSTAINABILITY REPORT

Key areas and aspects	General Disclosures and KPIs		Section/Statement	Referencing page number
Aspect A3: The environment and natural resources	General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	Caring for the Environment	Pages 118-124
	KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Caring for the Environment	Pages 118-124
B. Social				
Employment and labour practices				
Aspect B1: Employment	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Responsible Operational Management, Building a Strong "CITIC Telecom Team"	Pages 107-111, 112-118
	KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	Building a Strong "CITIC Telecom Team"	Page 112
Aspect B2: Health and safety	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Building a Strong "CITIC Telecom Team"	Page 115
	KPI B2.1	Number and rate of work-related fatalities.	Building a Strong "CITIC Telecom Team"	Page 115
	KPI B2.2	Lost days due to work injury.	Building a Strong "CITIC Telecom Team"	Page 115
	KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Building a Strong "CITIC Telecom Team"	Page 115

SUSTAINABILITY REPORT

Key areas and aspects	General Disclosures and KPIs		Section/Statement	Referencing page number
Aspect B3: Development and training	General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Building a Strong "CITIC Telecom Team"	Pages 113-115
Aspect B4: Labour standards	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Building a Strong "CITIC Telecom Team" The Group is not aware of any non-compliance with relevant laws and regulations on preventing child or forced labour.	Pages 112-118
Operating practices				
Aspect B5: Supply chain management	General Disclosure	Policies on managing environmental and social risks of the supply chain.	Responsible Operational Management	Page 110
	KPI B5.1	Number of suppliers by geographical region.	Responsible Operational Management	Page 110
	KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Responsible Operational Management	Page 110
Aspect B6: Product responsibility	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Responsible Operational Management The Group is not aware of any material non-compliance with relevant laws and regulations on product responsibility that have a significant impact on the Group during the reporting period.	Pages 107-111
	KPI B6.2	Number of products and service related complaints received and how they are dealt with.	Responsible Operational Management	Page 107
	KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Responsible Operational Management	Page 111

SUSTAINABILITY REPORT

Key areas and aspects	General Disclosures and KPIs		Section/Statement	Referencing page number
Aspect B7: Anti-corruption	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Responsible Operational Management	Pages 107-110
	KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	The Group is not aware of any material non-compliance with relevant laws and regulations on anti-corruption that have a significant impact on the Group during the reporting period.	Not applicable
	KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Responsible Operational Management	Pages 109-110
Aspect B8: Community investment	General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Caring and Support for the Community	Pages 124-127
	KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Caring and Support for the Community	Pages 124-127
	KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	Caring and Support for the Community	Pages 124-127

INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

Independent Auditor's Report to the members of CITIC Telecom International Holdings Limited

(incorporated in Hong Kong with limited liability)

OPINION

What we have audited

The consolidated financial statements of CITIC Telecom International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 141 to 248, which comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

INDEPENDENT AUDITOR'S REPORT

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

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

Key audit matters identified in our audit are summarised as follows:

- Impairment assessment of goodwill
- Revenue recognition

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of goodwill Refer to note 14 to the consolidated financial statements. As at 31 December 2019, the carrying value of the Group's goodwill amounting to HK\$9,713 million was allocated to cash generating units ("CGUs") comprising of: (i) Telecoms Business – Macau, (ii) Enterprise Solutions (outside Macau), and (iii) Other Telecommunications Services. Goodwill is subject to management's impairment assessments annually and when there is an indication of impairment. In carrying out the impairment assessments, the recoverable amount of each CGU was determined by management based on value-in-use calculation using cash flow projections. Significant judgements are required by management to estimate the future cash flows of the Group's CGUs and to determine the key assumptions, including the long term growth rates used in the cash flow projections, and the discount rates applied to bring the future cash flows back to their present values.	Our procedures in relation to the management's impairment assessments of goodwill included: • Evaluated the reasonableness of management's identification of CGUs based on our understanding of the Group's business; • Evaluated the value of goodwill allocated to each CGU and assessed the methodology applied by management in the preparation of the discounted cashflow forecasts with reference to the requirements of the prevailing accounting standards;

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of goodwill (continued)	
Management concluded that there was no impairment in respect of the goodwill based on the results of their impairment assessments.	- Evaluated the discounted cashflow forecasts prepared by management, including the reasonableness of the key assumptions used, by taking into account our understanding, experience and knowledge of the telecommunications sector and the Group's future business plans, and assessed the reasonableness of the discount rates with the involvement of our internal expert; - Compared the revenue, cost of sales and services and other operating expenses included in discounted cashflow forecasts prepared in the prior year with the current year's performance and made enquiries to management as to the reasons for any significant variation identified to assess management's historical estimation accuracy; and - Performed sensitivity analyses on the key assumptions where we flexed the long term growth rates and the discount rates as these are the key assumptions against which the value-in-use calculations are most sensitive to. Based on available evidence and our work performed, we found the assumptions and estimates used in the goodwill impairment assessments by management to be supportable by the available evidence.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition	Our procedures performed in addressing the risk of material misstatement in revenue recognition in relation to the use of complex IT systems included: • Obtained an understanding and evaluated the design, implementation and operating effectiveness of the key internal controls over the capturing, processing and recording of revenue; • Tested the IT environment in which billing, rating and other relevant supporting systems reside; and • Tested, on a sample basis, the revenue transactions by tracing the transactions from the telecommunications systems to supporting documents, such as customer contracts, underlying invoices and settlement, where applicable. Based on available evidence and our work performed, we found the revenue recognised with the use of complex IT systems to be supportable by available evidence.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

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

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

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

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

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Cheng Lap Yam.

PricewaterhouseCoopers

Certified Public Accountants

3 March 2020

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2019
(Expressed in Hong Kong dollars)

	Note	2019 \$'000	2018 \$'000
Revenue	3	9,013,980	9,464,013
Valuation gain on investment property	11	18,296	23,683
Other income	4	36,044	44,399
Other net loss	5	(16,568)	(25,120)
		9,051,752	9,506,975
Cost of sales and services	6(a)	(4,961,067)	(5,583,843)
Depreciation and amortisation	6(d)	(913,491)	(725,440)
Staff costs	6(c)	(1,048,299)	(1,034,868)
Other operating expenses		(538,170)	(687,573)
		1,590,725	1,475,251
Finance costs	6(b)	(341,371)	(337,067)
Share of (loss)/profit of a joint venture		(128)	3,100
Profit before taxation	6	1,249,226	1,141,284
Income tax	7(a)	(229,326)	(173,392)
Profit for the year		1,019,900	967,892
Attributable to:			
Equity shareholders of the Company		1,002,228	951,039
Non-controlling interests		17,672	16,853
Profit for the year		1,019,900	967,892
Earnings per share (HK cents)	10		
Basic		27.5	26.7
Diluted		27.4	26.7

The notes on pages 146 to 248 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 27(b).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2019
(Expressed in Hong Kong dollars)

	Note	2019 \$'000	2018 \$'000
Profit for the year		1,019,900	967,892
Other comprehensive income for the year (after tax and reclassification adjustments)			
<i>Items that will not be reclassified to profit or loss:</i>			
Remeasurement of net defined benefit liability	25(a)(v)	35,019	(43,015)
Deferred tax recognised on the remeasurement of net defined benefit liability	7(c)	(4,092)	5,269
Surplus on revaluation of land and buildings held for own use upon change of use to investment property	11(b)(iii)	–	52,578
		30,927	14,832
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Foreign currency translation adjustments:			
– exchange differences on translation of financial statements of operations outside Hong Kong		(5,489)	(16,804)
Other comprehensive income for the year		25,438	(1,972)
Total comprehensive income for the year		1,045,338	965,920
Attributable to:			
Equity shareholders of the Company		1,028,406	950,202
Non-controlling interests		16,932	15,718
Total comprehensive income for the year		1,045,338	965,920

The notes on pages 146 to 248 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2019
(Expressed in Hong Kong dollars)

	Note	2019 \$'000	2018 \$'000
Non-current assets			
Investment property	11	647,648	629,352
Property, plant and equipment	11	2,435,216	2,767,198
Right-of-use assets	12	695,365	–
Intangible assets	13	1,385,195	1,553,522
Goodwill	14	9,712,967	9,717,906
Interest in a joint venture	16	8,911	8,924
Non-current contract assets	19(a)	36,429	41,294
Non-current other receivables and deposits	20	112,372	119,937
Deferred tax assets	7(c)	65,595	67,957
		15,099,698	14,906,090
Current assets			
Inventories	17	143,973	94,704
Contract costs	18	7,087	6,365
Contract assets	19(a)	473,808	530,404
Trade and other receivables and deposits	20	1,338,201	1,375,350
Current tax recoverable	7(b)	13,740	3,200
Cash and bank deposits	21(a)	1,312,780	1,049,109
		3,289,589	3,059,132
Current liabilities			
Trade and other payables	22	1,469,497	1,496,802
Contract liabilities	19(b)	170,956	156,475
Bank and other borrowings	23	288,957	327,529
Lease liabilities	24	126,226	952
Current tax payable	7(b)	207,428	165,122
		2,263,064	2,146,880
Net current assets		1,026,525	912,252
Total assets less current liabilities		16,126,223	15,818,342
Non-current liabilities			
Non-current contract liabilities	19(b)	1,920	–
Non-current bank and other borrowings	23	5,988,949	6,529,947
Non-current lease liabilities	24	379,539	895
Non-current other payables	22	37,509	44,487
Net defined benefit retirement obligation	25(a)	59,828	99,578
Deferred tax liabilities	7(c)	233,099	247,719
		6,700,844	6,922,626
NET ASSETS		9,425,379	8,895,716
Capital and reserves			
Share capital	27(c)	4,628,534	4,402,388
Reserves		4,748,075	4,452,364
Total equity attributable to equity shareholders of the Company		9,376,609	8,854,752
Non-controlling interests		48,770	40,964
TOTAL EQUITY		9,425,379	8,895,716

Approved and authorised for issue by the board of directors on 3 March 2020.

Xin Yue Jiang
Director

Cai Dawei
Director

The notes on pages 146 to 248 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2019
(Expressed in Hong Kong dollars)

	Note	Attributable to equity shareholders of the Company						Non-controlling interests	Total equity
		Share capital	Capital reserve	Property revaluation reserve	Exchange reserve	Retained profits	Total		
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'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 2018:									
Profit for the year		-	-	-	-	951,039	951,039	16,853	967,892
Other comprehensive income for the year		-	-	52,578	(16,047)	(37,368)	(837)	(1,135)	(1,972)
Total comprehensive income for the year		-	-	52,578	(16,047)	913,671	950,202	15,718	965,920
Dividend paid to non-controlling interests		-	-	-	-	-	-	(8,545)	(8,545)
Shares issued under share option plan	26(b)(iii)	121,846	(24,501)	-	-	-	97,345	-	97,345
Equity-settled share-based transactions	6(c)	-	16,780	-	-	-	16,780	-	16,780
Dividends approved in respect of the previous financial year	27(b)(iii)	-	-	-	-	(463,252)	(463,252)	-	(463,252)
Release upon lapse of share options	26(b)(iii)	-	(17,127)	-	-	17,127	-	-	-
Dividends declared in respect of the current financial year	27(b)(i)	-	-	-	-	(142,730)	(142,730)	-	(142,730)
		121,846	(24,848)	-	-	(588,855)	(491,857)	(8,545)	(500,402)
Balance as at 31 December 2018		4,402,388	79,746	52,578	(26,652)	4,346,692	8,854,752	40,964	8,895,716
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 2019:									
Profit for the year		-	-	-	-	1,002,228	1,002,228	17,672	1,019,900
Other comprehensive income for the year		-	-	-	(4,440)	30,618	26,178	(740)	25,438
Total comprehensive income for the year		-	-	-	(4,440)	1,032,846	1,028,406	16,932	1,045,338
Dividend paid to non-controlling interests		-	-	-	-	-	-	(9,126)	(9,126)
Shares issued under share option plan	26(b)(iii)	226,146	(44,096)	-	-	-	182,050	-	182,050
Equity-settled share-based transactions	6(c)	-	5,538	-	-	-	5,538	-	5,538
Dividends approved in respect of the previous financial year	27(b)(iii)	-	-	-	-	(511,306)	(511,306)	-	(511,306)
Release upon lapse of share options	26(b)(iii)	-	(919)	-	-	919	-	-	-
Dividends declared in respect of the current financial year	27(b)(i)	-	-	-	-	(182,831)	(182,831)	-	(182,831)
		226,146	(39,477)	-	-	(693,218)	(506,549)	(9,126)	(515,675)
Balance as at 31 December 2019		4,628,534	40,269	52,578	(31,092)	4,686,320	9,376,609	48,770	9,425,379

The notes on pages 146 to 248 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2019
(Expressed in Hong Kong dollars)

	Note	2019 \$'000	2018 \$'000
Operating activities			
Cash generated from operations	21(d)	2,629,834	2,012,816
Tax paid:			
– Hong Kong Profits Tax paid		(77,509)	(82,896)
– Macau Complementary Tax paid		(120,651)	(118,148)
– Tax paid for jurisdictions outside Hong Kong and Macau		(17,500)	(15,101)
Tax refunded:			
– Hong Kong Profits Tax refunded		2,265	16,841
– Tax refunded for jurisdictions outside Hong Kong and Macau		323	2,046
Net cash generated from operating activities		2,416,762	1,815,558
Investing activities			
Payment for the purchase of property, plant and equipment		(481,569)	(603,926)
Proceeds from sale of property, plant and equipment		1,989	803
Decrease in pledged deposits		3,084	219,631
Interest received		10,561	13,675
Net cash used in investing activities		(465,935)	(369,817)
Financing activities			
Proceeds from new bank and other borrowings	21(e)	2,436,409	400,316
Proceeds from new shares issued under share option plan		182,050	97,345
Payment for transaction costs on bank borrowings	21(e)	(12,704)	(309)
Repayment of bank and other borrowings	21(e)	(3,100,487)	(1,370,938)
Other borrowing costs paid	21(e)	(304,207)	(310,233)
Capital element of lease rentals paid	21(e)	(164,398)	(1,431)
Interest element of lease rentals paid	21(e)	(16,044)	(120)
Dividends paid to equity shareholders of the Company		(694,137)	(605,982)
Dividend paid to non-controlling interests		(9,126)	(8,545)
Net cash used in financing activities		(1,682,644)	(1,799,897)
Net increase/(decrease) in cash and cash equivalents		268,183	(354,156)
Cash and cash equivalents as at 1 January	21(a)	1,037,786	1,403,556
Effect of foreign exchange rate changes		(1,553)	(11,614)
Cash and cash equivalents as at 31 December	21(a)	1,304,416	1,037,786

The notes on pages 146 to 248 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2019 comprise CITIC Telecom International Holdings Limited (the "Company") and its subsidiaries (together referred to as the "Group") and the Group's interest in a joint venture.

The measurement basis used in the preparation of the financial statements is the historical cost basis, except that investment property, including interests in leasehold land and buildings held as investment property where the Group is the registered owner of the property interest (see note 1(g)) and contingent consideration (see note 1(d)) are stated at their fair value as explained in the accounting policies set out below.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, Leases

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 and remain substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initially applying the new standard on 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

a. New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

HKFRS 16, Leases (continued)

b. Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to land and buildings and other assets as disclosed in note 29(b). For an explanation of how the Group applies lessee accounting, see note 1(j)(i).

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 3.1%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

- (i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;
- (ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment);
- (iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review;
- (iv) the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- (v) the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

HKFRS 16, Leases (continued)

b. Lessee accounting and transitional impact (continued)

The following table reconciles the operating lease commitments as disclosed in note 29(b) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	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 in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining 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 at 31 December 2018.

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the captions for the balances. Accordingly, instead of "obligations under finance leases", these amounts are included within "lease liabilities", and the depreciated carrying amount of the corresponding leased assets is identified as right-of-use assets. In addition, leasehold land previously included in 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. There is no impact on the opening balance of equity.

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

HKFRS 16, Leases (continued)

b. Lessee accounting and transitional impact (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:			
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

c. 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 year.

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 (see note 21(e)). 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 (see note 21(f)).

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

HKFRS 16, Leases (continued)

The following tables give an indication of the hypothetical impact of the adoption of HKFRS 16 on the Group's financial result and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under HKFRS 16 in these consolidated 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 in 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.

	2019				2018
			Deduct: Estimated amounts related to		Compared to amount reported for 2018 under HKAS 17
	Amounts reported under HKFRS 16 (A) \$'000	Add back: HKFRS 16 depreciation and interest expense (B) \$'000	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	
Line items in the consolidated income statement for the year ended 31 December 2019 impacted by the adoption of HKFRS 16:					
Cost of sales and services	(4,961,067)	–	(93,491)	(5,054,558)	(5,583,843)
Depreciation and amortisation	(913,491)	175,525	–	(737,966)	(725,440)
Other operating expenses	(538,170)	–	(85,952)	(624,122)	(687,573)
Finance costs	(341,371)	16,002	–	(325,369)	(337,067)
Profit before taxation	1,249,226	191,527	(179,443)	1,261,310	1,141,284
Profit for the year	1,019,900	191,527	(179,443)	1,031,984	967,892
Attributable to:					
Equity shareholders of the Company	1,002,228	162,520	(155,761)	1,008,987	951,039
Non-controlling interests	17,672	29,007	(23,682)	22,997	16,853
Earnings per share (HK cents)					
Basic	27.5	4.5	(4.3)	27.7	26.7
Diluted	27.4	4.4	(4.2)	27.6	26.7
Line items in the consolidated statement of comprehensive income for the year ended 31 December 2019 impacted by the adoption of HKFRS 16:					
Total comprehensive income for the year	1,045,338	191,527	(179,443)	1,057,422	965,920
Attributable to:					
Equity shareholders of the Company	1,028,406	162,520	(155,761)	1,035,165	950,202
Non-controlling interests	16,932	29,007	(23,682)	22,257	15,718

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

HKFRS 16, Leases (continued)

c. Impact on the financial result and cash flows of the Group (continued)

	2019 Estimated amounts related to operating leases as if under HKAS 17 (notes 1 & 2) (A) \$'000	Hypothetical amounts for 2019 as if under HKAS 17 (C = A+B) \$'000	2018 Compared to amounts reported for 2018 under HKAS 17 \$'000	
Line items in the consolidated cash flow statement for year ended 31 December 2019 impacted by the adoption of HKFRS 16:				
Cash generated from operations	2,629,834	(179,443)	2,450,391	2,012,816
Net cash generated from operating activities	2,416,762	(179,443)	2,237,319	1,815,558
Capital element of lease rentals paid	(164,398)	163,441	(957)	(1,431)
Interest element of lease rentals paid	(16,044)	16,002	(42)	(120)
Net cash used in financing activities	(1,682,644)	179,443	(1,503,201)	(1,799,897)

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.

d. Leasehold investment property

Under HKFRS 16, the Group is required to account for all leasehold properties as investment properties when these properties are held to earn rental income and/or for capital appreciation ("leasehold investment properties"). The adoption of HKFRS 16 does not have a significant impact on the Group's financial statements as the Group previously elected to apply HKAS 40, *Investment properties*, to account for all of its leasehold properties that were held for investment purposes as at 31 December 2018. Consequentially, these leasehold investment properties continue to be carried at fair value.

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(c) Changes in accounting policies (continued)***HKFRS 16, Leases (continued)***e. Lessor accounting**

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of HKFRS 16.

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

(e) Joint ventures

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

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

When the Group's share of losses exceeds its interest in the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method, together with any other long-term interests that in substance form part of the Group's net investment in the joint venture (after applying the expected credit loss ("ECL") model to such other long-term interests where applicable (see note 1(m)(i)).

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Joint ventures (continued)

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

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

(f) Goodwill

Goodwill represents the excess of

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

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

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

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

(g) Investment property

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

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

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Investment property (continued)

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

In the comparative period, when the Group held a property interest under an operating lease and used the property to earn rental income and/or for capital appreciation, the Group could elect on a property-by-property basis to classify and account for such interest as an investment property. Any such property interest which had been classified as an investment property was accounted for as if it were held under a finance lease (see note 1(j)), and the same accounting policies were applied to that interest as were applied to other investment properties leased under finance leases. Lease payments were accounted for as described in note 1(j).

(h) Property, plant and equipment

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

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

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

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

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Property, plant and equipment (continued)

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

- Freehold land is not depreciated.
- Buildings situated on freehold land are depreciated over their estimated useful lives, being no more than 50 years after the date of completion.
- The Group's interests in buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and the buildings' estimated useful lives, being no more than 50 years after the date of completion.
- Telecommunications equipment is depreciated over 2 to 20 years.
- Other assets are depreciated over 2 to 5 years.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Intangible assets (other than goodwill)

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

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

– Trade names/trademarks	15–27 years
– Customer relationships	4–17 years
– Computer software	3 years

Both the useful lives and method of amortisation are reviewed annually.

(j) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

(A) Policy applicable from 1 January 2019

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Group are primarily IT-equipment and small items of office equipment. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Leased assets (continued)

(i) As a lessee (continued)

(A) Policy applicable from 1 January 2019 (continued)

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term. 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.

The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate, 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. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Lease payments are allocated between principal and finance cost. The finance cost is charged to the 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. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 1(m)(iii)).

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Leased assets (continued)

(i) As a lessee (continued)

(A) Policy applicable from 1 January 2019 (continued)

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

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.

The Group presents right-of-use assets that do not meet the definition of investment property and presents lease liabilities separately in the consolidated statement of financial position.

(B) Policy applicable prior to 1 January 2019

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases, with the following exceptions:

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

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Leased assets (continued)

(i) As a lessee (continued)

(B) Policy applicable prior to 1 January 2019 (continued)

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

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

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with note 1(x)(iv).

When the Group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the exemption described in note 1(j)(i), then the Group classifies the sub-lease as an operating lease.

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Financial assets

The Group classifies its financial assets as to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the income statement.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the consolidated income statement and presented in other gains/(losses) together with foreign exchange gains and losses.

(l) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Credit losses and impairment of assets

(i) Credit losses from financial instruments and contract assets

The Group recognises a loss allowance for ECLs on the following items:

- financial assets measured at amortised cost (including cash and cash equivalents, and trade and other receivables and deposits); and
- contract assets as defined in HKFRS 15 (see note 1(p)).

Measurement of ECLs

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

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

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

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

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

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

The Group applies the HKFRS 9 simplified approach where loss allowances for trade debtors and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Measurement of ECLs (continued)

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

Significant increases in credit risk

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

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

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

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

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

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Basis of calculation of interest income

Interest income recognised in accordance with note 1(x)(v) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

Credit-impaired financial assets

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

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

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or past due event;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

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

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

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(iii) *Impairment of other non-current assets*

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

- property, plant and equipment (other than property carried at revalued amounts);
- right-of-use assets;
- intangible assets;
- goodwill;
- interest in a joint venture; and
- investments in subsidiaries in the Company's statement of financial position.

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

- Calculation of recoverable amount

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

- Recognition of impairment losses

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

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

- Reversals of impairment losses

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

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

(n) Inventories

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

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

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

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

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

(o) Contract costs

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

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

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Contract costs (continued)

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

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

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

(p) Contract assets and contract liabilities

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

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

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

As a practical expedient under HKFRS 15, an entity need not adjust the promised amount of consideration for the effects of a significant financing component if the entity expects, at contract inception, that the period between when the entity transfers a promised goods or service to a customer and when the customer pays for that goods or service will be one year or less.

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Trade and other receivables and deposits

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

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

(r) Cash and cash equivalents

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

(s) Trade and other payables

Trade and other payables are initially recognised at fair value, which are subsequently stated at amortised cost using the effective interest method.

(t) Interest-bearing borrowings

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

(u) Employee benefits

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

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

(ii) Defined benefit retirement plan obligations

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

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Employee benefits (continued)

(iii) *Defined benefit retirement plan obligations (continued)*

Service cost and net interest expense (income) on the net defined benefit liability (asset) are recognised in profit or loss and allocated by nature as part of “staff costs”, “other operating expenses” or “finance costs”. Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. Net interest expense (income) for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability (asset). The discount rate is the yield at the end of the reporting period on high quality government bonds that have maturity dates approximating the terms of the Group’s obligations.

When the benefits of a plan are changed, or when a plan is curtailed, current service cost for the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised.

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

(iii) *Share-based payments*

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

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

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Income tax

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Income tax (continued)

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

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

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

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

- in the case of current tax assets and liabilities, the Group or the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Provisions, contingent liabilities and onerous contracts

(i) *Provision and contingent liabilities*

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

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

(ii) *Onerous contracts*

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

(x) Revenue and other income

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Revenue and other income (continued)

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

(i) Revenue from telecommunications services

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

(ii) Sale of mobile handsets and equipment

Revenue is recognised when the customer takes possession of and accepts the goods. If the goods are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

(iii) Revenue from business solution projects

When the outcome of a project can be reasonably measured, project revenue is recognised progressively over time by measuring the progress towards complete satisfaction of a performance obligation, by reference to surveys of performance completed to date or milestones reached.

The likelihood of the Group earning contractual bonuses for early completion or suffering contractual penalties for late completion are taken into account in making these estimates, such that revenue is only recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

When the outcome of the project cannot be reasonably measured, project revenue is recognised only to the extent of project costs incurred that are expected to be recovered.

If at any time the costs to complete the contract are estimated to exceed the remaining amount of the consideration under the contract, then a provision is recognised in accordance with the policy set out in note 1(w)(ii).

(iv) Rental income from investment properties

Rental income receivable from investment properties is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are earned.

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Revenue and other income (continued)

(v) Interest income

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

(y) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Company initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

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

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(z) Borrowing costs

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

(aa) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(aa) Related parties (continued)

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

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(ab) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

NOTES TO THE FINANCIAL STATEMENTS

2 ACCOUNTING JUDGEMENT AND ESTIMATES

Notes 11(c), 14, 25, 26, and 28 contain information about the assumptions and their risk factors relating to valuation of investment property, goodwill impairment, defined benefit retirement obligation, fair value of share options granted, and financial instruments. Other significant sources of estimation uncertainty are as follows:

(a) Depreciation and amortisation

Property, plant and equipment, right-of-use assets and intangible assets are depreciated and amortised on a straight-line basis over its estimated useful lives. The Group reviews annually the useful life of an asset and its residual value, if any. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimation. Changes in technology or changes in the intended use of these assets may cause the estimated period of use or value of these assets to change.

(b) Impairment

In considering the impairment losses that may be required for certain non-financial assets of the Group, the recoverable amount of the asset needs to be determined. The recoverable amount is the greater of its fair value less costs of disposal and value in use. It is difficult to precisely estimate fair value because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to items such as level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as revenue and operating costs.

The impairment provisions for trade debtors and contract assets are based on assumptions about the expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the customer's credit worthiness and past collection history, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see note 28(a).

An increase or decrease in the above impairment losses would affect the net profit in current and future years.

(c) Income tax

The Group is subject to income tax in various jurisdictions. Significant judgement is required in determining the worldwide provision for income tax. There are transactions during the ordinary course of business, for which the determination of the ultimate tax position is uncertain during the ordinary course of business. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

NOTES TO THE FINANCIAL STATEMENTS

2 ACCOUNTING JUDGEMENT AND ESTIMATES (CONTINUED)

(c) Income tax (continued)

Deferred tax assets in respect of tax losses carried forward are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted at the end of the reporting period. In determining the carrying amounts of deferred tax assets, expected taxable profits are estimated which involves a number of assumptions relating to the operating environment of the Group and requires significant level of judgement exercised by the directors. Any change in such assumptions and judgement would affect the carrying amounts of deferred tax assets to be recognised and hence the financial results in future years.

(d) Business solution projects

As explained in note 1(x)(iii), revenue from business solution projects are recognised over time. Such revenue and profit recognition on an uncompleted project is dependent on estimating the total outcome of the contract, as well as the work done to date. Based on the Group's recent experience and the nature of the business solution activities undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that the outcome of the contract can be reasonably measured. Until this point is reached, the related contract assets disclosed in note 19(a) do not include profit which the Group may eventually realise from the work done to date. In addition, actual outcomes in terms of total costs or revenue may be higher or lower than estimated at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

(e) Determining the lease term and discount rate

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.

NOTES TO THE FINANCIAL STATEMENTS

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

Revenue represents fees from the provision of telecommunications services and sale of mobile handsets and equipment.

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

	Note	2019 \$'000	2018 \$'000
Revenue from contracts with customers within the scope of HKFRS 15			
Disaggregated by major products or service lines:			
Mobile services	(i)	1,242,974	1,276,511
Internet services	(ii)	1,065,588	1,009,680
International telecommunications services	(iii)	1,774,619	1,655,703
Enterprise solutions	(iv)	3,088,148	2,953,618
Fixed line services	(v)	225,080	243,572
Fees from the provision of telecommunications services		7,396,409	7,139,084
Sale of mobile handsets and equipment		1,617,571	2,324,929
		9,013,980	9,464,013

Notes:

- (i) Mobile services broadly include mobile local and roaming services, other mobile value-added services and others.
- (ii) Internet services broadly include Internet access services, data centre services and others.
- (iii) International telecommunication services broadly include voice services, SMS services and "DataMall 自由行" services.
- (iv) Enterprise solutions broadly include enterprise solutions services, virtual private network services and others.
- (v) Fixed line services broadly include domestic and international fixed telephony services and others.

NOTES TO THE FINANCIAL STATEMENTS

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(a) Revenue (continued)

(i) Disaggregation of revenue (continued)

Disaggregation of revenue from external customers by geographical location is disclosed in note 3(b)(iv).

During the years ended 31 December 2019 and 2018, revenue from the provision of telecommunications services is substantially recognised over time and sale of mobile handsets and equipment is recognised at a point-in-time.

(ii) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

	2019 \$'000	2018 \$'000
Within 1 year	2,040,204	1,598,898
Over 1 year	1,107,116	1,270,357
	3,147,320	2,869,255

The Group will recognise the expected revenue in future when or as the service is performed or as the work is completed.

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its contracts for products or services such that the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for products or services that had an original expected duration of one year or less.

NOTES TO THE FINANCIAL STATEMENTS

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 senior executive management, which has been identified as being the chief operating decision maker, for the purposes of resource allocation and performance assessment, the Group has identified only one operating segment, i.e. telecommunications operations.

(i) Segment results, assets and liabilities

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

- Segment assets include all assets, with the exception of investment property, interest in a joint venture, deferred tax assets, current tax recoverable, and other corporate assets. Segment liabilities include trade and other payables, contract liabilities, lease liabilities and net defined benefit retirement obligation attributable to the operating activities of the segment.
- Revenue and expenses are allocated to the reportable segment with reference to sales generated by the segment and the expenses incurred by the segment or which otherwise arise from the depreciation or amortisation of assets attributable to the segment.

(ii) Reconciliation of reportable segment profit

	2019 \$'000	2018 \$'000
Profit		
Reportable segment profit	2,540,418	2,271,103
Net loss on disposal of property, plant and equipment	(1,448)	(2,790)
Net foreign exchange loss	(15,120)	(22,330)
Depreciation and amortisation	(913,491)	(725,440)
Finance costs	(341,371)	(337,067)
Share of (loss)/profit of a joint venture	(128)	3,100
Interest income	10,522	11,498
Rentals income from investment property less direct outgoings	24,460	21,155
Change in fair value of contingent consideration	–	10,116
Valuation gain on investment property	18,296	23,683
Unallocated head office and corporate expenses	(72,912)	(111,744)
Consolidated profit before taxation	1,249,226	1,141,284

NOTES TO THE FINANCIAL STATEMENTS

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(iii) Reconciliations of reportable segment assets and liabilities

	2019 \$'000	2018 \$'000
Assets		
Reportable segment assets	17,583,745	17,184,934
Investment property	647,648	629,352
Interest in a joint venture	8,911	8,924
Deferred tax assets	65,595	67,957
Current tax recoverable	13,740	3,200
Unallocated head office and corporate assets	69,648	70,855
Consolidated total assets	18,389,287	17,965,222
Liabilities		
Reportable segment liabilities	2,209,454	1,762,229
Bank and other borrowings	288,957	327,529
Current tax payable	207,428	165,122
Non-current bank and other borrowings	5,988,949	6,529,947
Deferred tax liabilities	233,099	247,719
Unallocated head office and corporate liabilities	36,021	36,960
Consolidated total liabilities	8,963,908	9,069,506

NOTES TO THE FINANCIAL STATEMENTS

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(iv) Geographic information

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

	Revenue from external customers		Specified non-current assets	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Hong Kong (place of domicile)	3,330,252	3,262,584	1,799,881	1,719,592
The People's Republic of China (the "PRC")	847,754	662,489	572,447	208,626
Macau	4,068,243	4,679,127	11,764,881	12,010,605
Singapore	456,204	501,394	503,500	484,179
Others	311,527	358,419	244,593	253,900
	5,683,728	6,201,429	13,085,421	12,957,310
	9,013,980	9,464,013	14,885,302	14,676,902

4 OTHER INCOME

	2019 \$'000	2018 \$'000
Interest income from bank deposits	8,149	7,918
Other interest income	2,373	3,580
	10,522	11,498
Gross rental income from investment property	25,522	22,785
Change in fair value of contingent consideration (note)	–	10,116
	36,044	44,399

Note: During the year ended 31 December 2018, the Group remeasured the fair value of contingent consideration for the acquisition of subsidiaries during the year ended 31 December 2016 with contingent consideration arrangements based on certain criteria stated in the sale and purchase agreement, and a gain of \$10,116,000 was recognised.

NOTES TO THE FINANCIAL STATEMENTS

5 OTHER NET LOSS

	2019 \$'000	2018 \$'000
Net loss on disposal of property, plant and equipment	1,448	2,790
Net foreign exchange loss	15,120	22,330
	16,568	25,120

6 PROFIT BEFORE TAXATION

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

	2019 \$'000	2018 \$'000
(a) Cost of sales and services		
Cost of provision of telecommunications services	3,362,286	3,290,761
Cost of sales of mobile handsets and equipment	1,598,781	2,293,082
	4,961,067	5,583,843
(b) Finance costs		
Interest on bank and other borrowings	305,696	314,704
Interest on lease liabilities (note 21(e))	16,044	120
Other finance charges	16,836	20,196
Other interest expense (note 25(a)(v))	2,795	2,047
	341,371	337,067
(c) Staff costs (including directors' emoluments (note 8))		
Contributions to defined contribution retirement plans	72,642	69,730
Expenses recognised in respect of defined benefit retirement plan (note 25(a)(v))	9,588	9,062
Total retirement costs	82,230	78,792
Equity-settled share-based payment expenses (note 26(b)(iv))	5,538	16,780
Salaries, wages and other benefits	960,531	939,296
	1,048,299	1,034,868

NOTES TO THE FINANCIAL STATEMENTS

6 PROFIT BEFORE TAXATION (CONTINUED)

	2019 \$'000	2018 \$'000
(d) Other disclosures		
Rental charges		
– leased circuits	877,943	1,051,441
– land and buildings	–	143,963
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019 (note 12)	206,659	–
Amortisation (note 13)	167,586	167,817
Depreciation charge		
– property, plant and equipment (note 11(a))	560,813	557,623
– right-of-use assets (note 12)	185,092	–
	913,491	725,440
Auditors' remuneration		
– audit services	6,608	7,665
– non-audit services	3,265	1,692
	9,873	9,357
Impairment losses for trade debtors and contract assets (note 28(a))	14,238	12,429
Write off for other receivables	–	26,207
Rentals income from investment property less direct outgoings of \$1,062,000 (2018: \$1,630,000)	(24,460)	(21,155)

NOTES TO THE FINANCIAL STATEMENTS

7 INCOME TAX

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

	2019 \$'000	2018 \$'000
Current tax		
Hong Kong Profits Tax		
– Provision for the year	90,597	90,430
– Under/(over)-provision in respect of prior years	1,446	(61,908)
	92,043	28,522
Macau Complementary Tax		
– Provision for the year	130,928	124,441
– Over-provision in respect of prior years	(3,120)	–
	127,808	124,441
Jurisdictions outside Hong Kong and Macau		
– Provision for the year	22,181	11,037
– Under/(over)-provision in respect of prior years	3,368	(11,684)
	25,549	(647)
Deferred tax		
Origination and reversal of temporary differences (note 7(c))	(16,074)	21,076
	229,326	173,392

The provision for Hong Kong Profits Tax for 2019 is calculated at 16.5% (2018: 16.5%) of the estimated assessable profits for the year, taking into account a reduction granted by the Hong Kong SAR Government of 75% of the tax payable for the year of assessment 2018/2019 subject to a maximum reduction of \$20,000 for each business (2018: a maximum reduction of \$30,000 was granted for the year of assessment 2017/2018 and was taken into account in calculating the provision for 2018).

The provision for Macau Complementary Tax for 2019 is calculated at 12% (2018: 12%) of the estimated assessable profits for the year. Assessable profits of the first Macau Patacas ("MOP") 600,000 (equivalent to approximately \$582,000) (2018: MOP600,000 (equivalent to approximately \$583,000)) are exempted from Macau Complementary Tax.

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

NOTES TO THE FINANCIAL STATEMENTS

7 INCOME TAX (CONTINUED)

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

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

	2019 \$'000	2018 \$'000
Profit before taxation	1,249,226	1,141,284
Notional tax on profit before taxation, calculated at the rates applicable to profits in the cities or countries concerned	167,513	154,984
Tax effect of non-taxable income and non-deductible expenses	47,881	55,013
Tax effect of unused tax losses not recognised	8,704	5,098
Tax effect of temporary differences previously not recognised and recognition of previous unused tax losses	4,138	33,343
Under/(over)-provision in respect of prior years	1,694	(73,592)
Others	(604)	(1,454)
Actual tax expense	229,326	173,392

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

	2019 \$'000	2018 \$'000
Current tax recoverable	(13,740)	(3,200)
Current tax payable	207,428	165,122
	193,688	161,922

NOTES TO THE FINANCIAL STATEMENTS

7 INCOME TAX (CONTINUED)

(c) Deferred tax assets and liabilities recognised:

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

	Intangible assets arising from business combination \$'000	Depreciation allowances in excess of the related depreciation \$'000	Defined benefit retirement obligation \$'000	Future benefits of tax losses \$'000	Others \$'000	Total \$'000
Deferred tax arising from:						
As at 1 January 2018	210,372	96,713	(8,196)	(140,122)	4,448	163,215
(Credited)/charged to profit or loss (note 7(a))	(21,915)	(42)	1,519	42,555	(1,041)	21,076
Credited to reserves	-	-	(5,269)	-	-	(5,269)
Exchange adjustments	(224)	188	(3)	132	647	740
As at 31 December 2018	188,233	96,859	(11,949)	(97,435)	4,054	179,762
As at 1 January 2019	188,233	96,859	(11,949)	(97,435)	4,054	179,762
(Credited)/charged to profit or loss (note 7(a))	(18,575)	4,988	672	(1,709)	(1,450)	(16,074)
Charged to reserves	-	-	4,092	-	-	4,092
Exchange adjustments	(246)	26	6	8	(70)	(276)
As at 31 December 2019	169,412	101,873	(7,179)	(99,136)	2,534	167,504

Reconciliation to the consolidated statement of financial position

	2019 \$'000	2018 \$'000
Net deferred tax assets recognised in the consolidated statement of financial position	(65,595)	(67,957)
Net deferred tax liabilities recognised in the consolidated statement of financial position	233,099	247,719
	167,504	179,762

(d) Deferred tax assets not recognised

In accordance with the accounting policies set out in note 1(v), the Group has not recognised deferred tax assets in respect of unused tax losses of \$93,456,000 (2018: \$113,523,000) as at 31 December 2019 as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdictions and entities. \$55,341,000 (2018: \$57,962,000) of the tax losses do not expire under the current tax legislation, and \$38,115,000 (2018: \$55,561,000) of the tax losses will expire after 2 to 20 years.

NOTES TO THE FINANCIAL STATEMENTS

8 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance (Cap. 622) and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) are as follows:

	2019							
	Directors' fees \$'000	Basic salaries and allowances \$'000	Discretionary bonuses \$'000	Benefits in kind \$'000	Retirement scheme contributions \$'000	Sub-total \$'000	Share-based payments \$'000	Total \$'000
Executive directors								
Xin Yue Jiang	-	4,410	4,537	138	-	9,085	129	9,214
*Lin Zhenhui	-	4,288	4,083	71	18	8,460	114	8,574
Luo Ning (resigned on 27 May 2019)	-	-	-	-	-	-	-	-
Li Bing Chi, Esmond (appointed on 6 August 2019)	-	1,023	2,864	15	47	3,949	-	3,949
Chan Tin Wai, David (resigned on 6 August 2019)	-	1,804	-	71	12	1,887	98	1,985
Non-executive directors								
Liu Zhengjun (appointed on 14 August 2019)	-	-	-	-	-	-	-	-
Liu Jifu	-	-	-	-	-	-	72	72
Fei Yiping	-	-	-	-	-	-	36	36
Independent non-executive directors								
Liu Li Qing	340	-	-	-	-	340	14	354
Zuo Xunsheng	340	-	-	-	-	340	14	354
Lam Yiu Kin	340	-	-	-	-	340	-	340
Total	1,020	11,525	11,484	295	77	24,401	477	24,878

* With effect from 28 February 2020, Mr. Lin Zhenhui resigned as an executive director of the Company and Mr. Cai Dawei was appointed as an executive director in his stead.

NOTES TO THE FINANCIAL STATEMENTS

8 DIRECTORS' EMOLUMENTS (CONTINUED)

	2018							
	Directors' fees \$'000	Basic salaries and allowances \$'000	Discretionary bonuses \$'000	Benefits in kind \$'000	Retirement scheme contributions \$'000	Sub-total \$'000	Share-based payments \$'000	Total \$'000
Executive directors								
Xin Yue Jiang	-	4,269	4,422	73	-	8,764	822	9,586
Lin Zhenhui	-	4,151	3,980	83	18	8,232	723	8,955
Luo Ning	-	-	-	-	-	-	-	-
Chan Tin Wai, David	-	2,955	3,558	59	18	6,590	624	7,214
Non-executive directors								
Liu Jifu	-	-	-	-	-	-	460	460
Fei Yiping	-	-	-	-	-	-	230	230
Independent non-executive directors								
Liu Li Qing	340	-	-	-	-	340	92	432
Zuo Xunsheng	340	-	-	-	-	340	92	432
Lam Yiu Kin	340	-	-	-	-	340	-	340
Total	1,020	11,375	11,960	215	36	24,606	3,043	27,649

The above tables included emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary, and emoluments paid or receivable in respect of director's other services in connection with the managements of the affairs of the Company or its subsidiary undertaking during the period of his/her being as a director. The above emoluments are included in staff costs as presented in note 6(c).

A number of the Company's directors were granted share options of the Company. Details of the share option plans are set out in note 26.

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

During the years ended 31 December 2019 and 2018, no emoluments were paid by the Company to any of the directors as an inducement to join or upon joining the Company or as compensation for loss of office, and none of the directors has waived or agreed to waive any emoluments.

During the years ended 31 December 2019 and 2018, no retirement benefits, payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor are any payable, no consideration was provided to or receivable by third parties for making available directors' services, and there are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities.

No director of the Company had a material interest, directly or indirectly, in any significant transactions, arrangements and contracts in relation to the Company's business to which the Company was or is a party that subsisted at the end of the year or at any time during the year ended 31 December 2019 and 2018.

NOTES TO THE FINANCIAL STATEMENTS

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2018: three) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other three (2018: two) individuals are as follows:

	2019 \$'000	2018 \$'000
Salaries and other emoluments	9,992	7,318
Discretionary bonuses	14,022	10,184
Share-based payments	126	619
Retirement scheme contributions	590	571
	24,730	18,692

The emoluments of the three (2018: two) individuals with the highest emoluments are within the following bands:

	2019 Number of individuals	2018 Number of individuals
\$		
5,500,001–6,000,000	1	–
6,000,001–6,500,000	1	1
12,000,001–12,500,000	–	1
12,500,001–13,000,000	1	–

During the years ended 31 December 2019 and 2018, no emoluments were paid by the Company to any of the highest paid individuals as an inducement to join or upon joining the Company or as compensation for loss of office.

10 EARNINGS PER SHARE

	2019 \$'000	2018 \$'000
Profit attributable to equity shareholders of the Company	1,002,228	951,039

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

	Number of shares	
	2019 '000	2018 '000
Issued ordinary shares as at 1 January	3,587,260	3,544,164
Effect of share options exercised	51,168	16,388
Weighted average number of ordinary shares (basic) as at 31 December	3,638,428	3,560,552
Effect of deemed issue of shares under the Company's share option plan	15,608	2,006
Weighted average number of ordinary shares (diluted) as at 31 December	3,654,036	3,562,558
Basic earnings per share (HK cents)	27.5	26.7
Diluted earnings per share (HK cents)	27.4	26.7

NOTES TO THE FINANCIAL STATEMENTS

11 INVESTMENT PROPERTY AND PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amount

	Land and buildings held for own use	Telecommuni- cations equipment	Other assets (note (f))	Construction in progress	Sub-total	Investment property (notes (c) and (d))	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost or valuation:							
As at 1 January 2018	395,690	4,254,429	347,250	239,150	5,236,519	685,969	5,922,488
Additions	19,190	217,436	52,389	286,735	575,750	-	575,750
Disposals	-	(56,910)	(3,362)	-	(60,272)	-	(60,272)
Transfer from investment property to land and buildings held for own use (note (b)(i))	195,700	-	-	-	195,700	(195,700)	-
Transfer from land and buildings held for own use to investment property (note (b)(ii))	(72,151)	-	-	-	(72,151)	115,400	43,249
Reclassification	-	348,925	14,083	(363,008)	-	-	-
Fair value adjustment	-	-	-	-	-	23,683	23,683
Exchange adjustments	311	(20,829)	(4,282)	87	(24,713)	-	(24,713)
As at 31 December 2018	538,740	4,743,051	406,078	162,964	5,850,833	629,352	6,480,185
Representing:							
Cost	538,740	4,743,051	406,078	162,964	5,850,833	-	5,850,833
Valuation - 2018	-	-	-	-	-	629,352	629,352
	538,740	4,743,051	406,078	162,964	5,850,833	629,352	6,480,185
As at 31 December 2018	538,740	4,743,051	406,078	162,964	5,850,833	629,352	6,480,185
Impact on initial application of HKFRS 16	(229,626)	-	(4,571)	-	(234,197)	-	(234,197)
As at 1 January 2019	309,114	4,743,051	401,507	162,964	5,616,636	629,352	6,245,988
Additions	14,639	105,876	28,567	297,417	446,499	-	446,499
Disposals	(60)	(113,854)	(8,583)	-	(122,497)	-	(122,497)
Reclassification and transfer to intangible assets (note 13)	-	280,101	27,045	(307,246)	(100)	-	(100)
Fair value adjustment	-	-	-	-	-	18,296	18,296
Exchange adjustments	(619)	(29,755)	(722)	(72)	(31,168)	-	(31,168)
As at 31 December 2019	323,074	4,985,419	447,814	153,063	5,909,370	647,648	6,557,018
Representing:							
Cost	323,074	4,985,419	447,814	153,063	5,909,370	-	5,909,370
Valuation - 2019	-	-	-	-	-	647,648	647,648
	323,074	4,985,419	447,814	153,063	5,909,370	647,648	6,557,018

NOTES TO THE FINANCIAL STATEMENTS

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

(a) Reconciliation of carrying amount (continued)

	Land and buildings held for own use	Telecommuni- cations equipment	Other assets (note (f))	Construction in progress	Sub-total	Investment property (notes (c) and (d))	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Accumulated depreciation:							
As at 1 January 2018	70,529	2,312,378	227,881	-	2,610,788	-	2,610,788
Charge for the year (note 6(d))	16,237	500,595	40,791	-	557,623	-	557,623
Written back on disposals	-	(54,326)	(2,353)	-	(56,679)	-	(56,679)
Transfer from land and buildings held for own use to investment property (note (b)(iii))	(9,329)	-	-	-	(9,329)	-	(9,329)
Exchange adjustments	53	(16,261)	(2,560)	-	(18,768)	-	(18,768)
As at 31 December 2018	77,490	2,742,386	263,759	-	3,083,635	-	3,083,635
As at 31 December 2018	77,490	2,742,386	263,759	-	3,083,635	-	3,083,635
Impact on initial application of HKFRS 16	(20,199)	-	(1,905)	-	(22,104)	-	(22,104)
As at 1 January 2019	57,291	2,742,386	261,854	-	3,061,531	-	3,061,531
Charge for the year (note 6(d))	9,742	510,800	40,271	-	560,813	-	560,813
Written back on disposals	(60)	(110,559)	(8,441)	-	(119,060)	-	(119,060)
Exchange adjustments	(180)	(28,646)	(304)	-	(29,130)	-	(29,130)
As at 31 December 2019	66,793	3,113,981	293,380	-	3,474,154	-	3,474,154
Net book value:							
As at 31 December 2019	256,281	1,871,438	154,434	153,063	2,435,216	647,648	3,082,864
As at 1 January 2019	251,823	2,000,665	139,653	162,964	2,555,105	629,352	3,184,457
As at 31 December 2018	461,250	2,000,665	142,319	162,964	2,767,198	629,352	3,396,550

(b) Transfers

(i) Transfer from investment property to land and buildings held for own use

During the year ended 31 December 2018, due to the change of use, part of the Group's investment property was transferred to land and buildings held for own use, which were carried at fair value of \$195,700,000 on the date of transfer.

(ii) Transfer from land and buildings held for own use to investment property

During the year ended 31 December 2018, due to the change of use, part of the Group's land and buildings held for own use was transferred to investment property. Upon the date of transfer, the fair value was determined by directors with reference to the professional valuations using direct comparison approach and are categorised as Level 3 fair value measurement as defined in HKFRS 13, *Fair value measurement*. As a result, revaluation surplus of \$52,578,000 was recognised in other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

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

(c) Fair value measurement of investment property

(i) Fair value hierarchy

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

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

	Fair value at 31 December	Fair value measurements as at 31 December 2019 categorised into		
	2019	Level 1	Level 2	Level 3
	\$'000	\$'000	\$'000	\$'000
Recurring fair value measurement				
Investment property:				
– Industrial – Hong Kong	647,648	–	–	647,648

	Fair value at 31 December	Fair value measurements as at 31 December 2018 categorised into		
	2018	Level 1	Level 2	Level 3
	\$'000	\$'000	\$'000	\$'000
Recurring fair value measurement				
Investment property:				
– Industrial – Hong Kong	629,352	–	–	629,352

During the year ended 31 December 2019, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2018: Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The Group's investment property was revalued as at 31 December 2019. The valuation was carried out by an independent firm of surveyors, Centaline Surveyors Limited, who have among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The management has discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date.

NOTES TO THE FINANCIAL STATEMENTS

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

(c) Fair value measurement of investment property (continued)

(iii) Information about Level 3 fair value measurements

	Valuation technique	Major unobservable input	Input amount	Relationship of unobservable inputs to fair value
Investment property Industrial – Hong Kong	Direct comparison approach	Market unit rate	\$3,687 per square foot (2018: \$3,587 per square foot)	The higher the market unit rate, the higher the fair value

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

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

	2019 \$'000	2018 \$'000
Investment property – Industrial – Hong Kong:		
As at 1 January	629,352	685,969
Transfer to land and buildings held for own use	–	(195,700)
Transfer from land and buildings held for own use	–	115,400
Fair value gain	18,296	23,683
As at 31 December	647,648	629,352

Fair value gain of investment property is recognised in the line item “valuation gain on investment property” on the face of the consolidated income statement.

The fair value gain recognised in profit or loss for the year arise from the investment property held during the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

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

(d) Investment property

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

Undiscounted lease payments under non-cancellable operating leases in place at the reporting date will be receivable by the Group in future periods as follows:

	2019 \$'000	2018 \$'000
Within 1 year	24,607	22,834
After 1 year but within 2 years	12,793	19,010
After 2 year but within 3 years	–	9,751
	37,400	51,595

(e) Assets held under finance leases

During the year ended 31 December 2018, the Group leased certain assets under finance leases expiring from 3 to 5 years. At the end of the lease term the Group has the option to purchase the leased assets at a price deemed to be a bargain purchase option. None of the leases includes contingent rentals.

During the year ended 31 December 2018, no addition of property, plant and equipment was financed by new finance lease. As at 31 December 2018, the net book value of other assets held under finance leases was \$2,666,000.

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

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

NOTES TO THE FINANCIAL STATEMENTS

12 RIGHT-OF-USE ASSETS

	Ownership interests in leasehold land held for own use (note (ii)) \$'000	Other properties leased for own use (note (iii)) \$'000	Other assets (note (iii)) \$'000	Total \$'000
Cost:				
As at 31 December 2018	–	–	–	–
Impact on initial application of HKFRS 16	229,626	569,542	32,555	831,723
As at 1 January 2019	229,626	569,542	32,555	831,723
Additions	–	53,384	16,604	69,988
Exchange adjustments	–	1,603	(730)	873
As at 31 December 2019	229,626	624,529	48,429	902,584
Accumulated depreciation:				
As at 31 December 2018	–	–	–	–
Impact on initial application of HKFRS 16	20,199	–	1,905	22,104
As at 1 January 2019	20,199	–	1,905	22,104
Charge for the year (note 6(d))	8,004	156,849	20,239	185,092
Exchange adjustments	–	(143)	166	23
As at 31 December 2019	28,203	156,706	22,310	207,219
Net book value:				
As at 31 December 2019	201,423	467,823	26,119	695,365
As at 1 January 2019	209,427	569,542	30,650	809,619
As at 31 December 2018	–	–	–	–

NOTES TO THE FINANCIAL STATEMENTS

12 RIGHT-OF-USE ASSETS (CONTINUED)

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2019 \$'000
Depreciation charge	185,092
Interest on lease liabilities (note 6(b))	16,044
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019 (note 6(d))	206,659
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	857

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 21(f) and 24, respectively.

Some leases include an option to renew the lease for an additional period after the end of the non-cancellable lease term. Where practicable, the Group seeks to include such extension options exercisable by the Group to provide operational flexibility. The Group assesses at lease commencement date or date of first adoption if leases were entered into before 1 January 2019 whether it is reasonably certain to exercise the extension options. If the Group is not reasonably certain to exercise the extension options, the future lease payments during the extension periods are not included in the measurement of lease liabilities. The potential exposure to these future lease payments is summarised below:

	Lease liabilities recognised (discounted) \$'000	Potential future lease payments under extension options not included in lease liabilities (undiscounted) \$'000
Data centre – Hong Kong	–	29,569

NOTES TO THE FINANCIAL STATEMENTS

12 RIGHT-OF-USE ASSETS (CONTINUED)

(i) Ownership interests in leasehold land held for own use

The Group holds an industrial building in Hong Kong. The Group is the registered owner of this property interest, including the whole or part of undivided share in the underlying land. Lump sum payments were made upfront to acquire these property interests from their previous registered owners, and there are no ongoing payments to be made under the terms of the land lease, other than payments based on rateable values set by the relevant government authorities. These payments vary from time to time and are payable to the relevant government authorities.

(ii) Other properties leased for own use

The Group has obtained the right to use other properties as its offices, retail stores, cell sites and data centres through tenancy agreements. The leases typically run for an initial period of over 1 to 7 years, with the exception of three rental contracts which have been entered into for the period of 15 years.

(iii) Other assets

Other assets include leased circuits and equipment under leases expiring from over 1 to 5 years. Some leases include an option to renew the lease when all terms are renegotiated. None of the leases includes variable lease payments.

NOTES TO THE FINANCIAL STATEMENTS

13 INTANGIBLE ASSETS

	Customer relationships \$'000	Order backlog \$'000	Trade names/ trademarks \$'000	IRU of tele- communications capacity \$'000	Computer software \$'000	Total \$'000
Cost:						
As at 1 January 2018	1,710,652	18,424	806,386	626	24,345	2,560,433
Write-off	(73,454)	(18,424)	-	-	-	(91,878)
Exchange adjustments	(375)	-	(676)	-	9	(1,042)
As at 31 December 2018	1,636,823	-	805,710	626	24,354	2,467,513
As at 1 January 2019	1,636,823	-	805,710	626	24,354	2,467,513
Transfer from property, plant and equipment (note 11(a))	-	-	-	-	100	100
Write-off	-	-	-	(626)	-	(626)
Exchange adjustments	(734)	-	(494)	-	(13)	(1,241)
As at 31 December 2019	1,636,089	-	805,216	-	24,441	2,465,746
Accumulated amortisation:						
As at 1 January 2018	661,743	18,424	141,521	626	16,045	838,359
Charge for the year (note 6(d))	134,254	-	30,972	-	2,591	167,817
Write-off	(73,454)	(18,424)	-	-	-	(91,878)
Exchange adjustments	(60)	-	(252)	-	5	(307)
As at 31 December 2018	722,483	-	172,241	626	18,641	913,991
As at 1 January 2019	722,483	-	172,241	626	18,641	913,991
Charge for the year (note 6(d))	134,157	-	30,916	-	2,513	167,586
Write-off	-	-	-	(626)	-	(626)
Exchange adjustments	(202)	-	(191)	-	(7)	(400)
As at 31 December 2019	856,438	-	202,966	-	21,147	1,080,551
Net book value:						
As at 31 December 2019	779,651	-	602,250	-	3,294	1,385,195
As at 31 December 2018	914,340	-	633,469	-	5,713	1,553,522

NOTES TO THE FINANCIAL STATEMENTS

14 GOODWILL

	2019 \$'000	2018 \$'000
Cost and carrying amount:		
As at 1 January	9,717,906	9,729,268
Exchange adjustments	(4,939)	(11,362)
As at 31 December	9,712,967	9,717,906

Impairment tests for cash-generating units containing goodwill

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

	2019 \$'000	2018 \$'000
Telecoms business – Macau	8,890,265	8,894,844
Enterprise solutions (outside Macau)	243,867	248,030
Other telecommunications services	578,835	575,032
	9,712,967	9,717,906

The recoverable amounts of the cash-generating units are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a three-year period. For the subsequent two years of the model, data from the financial budgets is extrapolated generally using simplified assumptions such as macro-economic and industry assumptions. Cash flows after the first five-year period are extrapolated generally using expected annual long-term growth rates, in order to calculate the terminal value.

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

	2019	2018
Long term growth rate	3.0%	3.0%
Discount rates	7.6%-9.5%	9.5%-10.5%

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

A reasonable possible change in the above assumptions would not result in impairment and as such disclosure of sensitivity analysis is not considered as necessary.

NOTES TO THE FINANCIAL STATEMENTS

15 INTERESTS IN SUBSIDIARIES

(a) The following list contains only the particulars of principal subsidiaries of the Group:

Name of company	Place of incorporation/ operation	Particulars of issued and fully paid-up capital	Proportion of ownership interest		Principal activity
			Held by the Company	Held by subsidiaries	
Acclivis Technologies and Solutions (HK) Limited	Hong Kong	HK\$2*	-	100%	Provision of telecommunications services
Acclivis Technologies and Solutions Pte. Ltd.	Republic of Singapore	Singaporean Dollars ("SGD") 16,500,000*	-	100%	Provision of telecommunications services
China Enterprise ICT Solutions Limited ("CEC")	The People's Republic of China	Renminbi ("RMB") 84,620,000	-	49% (note (ii))	Provision of value-added telecommunications services
China Enterprise Netcom Corporation Limited	Hong Kong	HK\$100*	-	100%	Provision of telecommunications and technology services
CITIC Telecom CPC Estonia OÜ	Republic of Estonia	Euro ("EUR") 20,001*	-	100%	Provision of telecommunications services
CITIC Telecom CPC Netherlands B.V.	Netherlands	EUR131,056.71*	-	100%	Provision of wired telecommunications services and investment holding
CITIC Telecom CPC Poland Sp. z o.o.	Republic of Poland	Polish Zloty 55,000*	-	100%	Provision of telecommunications services
CITIC Telecom International CPC Limited	Hong Kong	HK\$402,712,186*	-	100%	Provision of telecommunications services

NOTES TO THE FINANCIAL STATEMENTS

15 INTERESTS IN SUBSIDIARIES (CONTINUED)

(a) The following list contains only the particulars of principal subsidiaries of the Group: (continued)

Name of company	Place of incorporation/ operation	Particulars of issued and fully paid-up capital	Proportion of ownership interest		Principal activity
			Held by the Company	Held by subsidiaries	
CITIC Telecom International CPC Japan Limited	Japan	Japanese Yen ("JPY") 10,000,000*	-	100%	Provision of telecommunications services
CITIC Telecom International CPC (Malaysia) Sdn. Bhd.	Malaysia	Malaysian Ringgit ("MYR") 500,000*	-	100%	Provision of telecommunications services
CITIC Telecom International CPC (Singapore) Pte. Ltd.	Republic of Singapore	SGD2,000,000*	-	100%	Provision of telecommunications services
CITIC Telecom International CPC (USA) LLC	United States of America	N/A [#]	-	100%	Provision of operational support services
CITIC Telecom International (Data) Limited	Hong Kong	HK\$2*	-	100%	Provision of data and other telecommunications services
CITIC Telecom International (Japan) Ltd.	Japan	JPY10,000,000*	-	100%	Provision of telecommunications services
CITIC Telecom International Limited	Hong Kong	HK\$2*	100%	-	Provision of telecommunications services
CITIC Telecom International (SEA) Pte. Ltd.	Republic of Singapore	SGD14,000,002*	-	100%	Provision of telecommunications services

NOTES TO THE FINANCIAL STATEMENTS

15 INTERESTS IN SUBSIDIARIES (CONTINUED)

(a) The following list contains only the particulars of principal subsidiaries of the Group: (continued)

Name of company	Place of incorporation/ operation	Particulars of issued and fully paid-up capital	Proportion of ownership interest		Principal activity
			Held by the Company	Held by subsidiaries	
CITIC Telecom (UK) Limited	United Kingdom	Pound Sterling 2*	-	100%	Provision of telecommunications services
ComNet Investment Limited	Hong Kong	HK\$2*	-	100%	Property and equipment holding, and investment holding
ComNet Telecom (Canada) Ltd.	Canada	Canadian Dollars 101**	-	100%	Provision of telecommunications services
ComNet Telecom (HK) Limited	Hong Kong	HK\$2*	-	100%	Provision of telecommunications services
ComNet Telecom (M) Sdn. Bhd.	Malaysia	MYR700,000*	-	100%	Provision of telecommunications services
ComNet Telecom International Limited	Hong Kong	HK\$2*	-	100%	Provision of telecommunications services
ComNet (USA) LLC	United States of America	N/A***	-	100%	Provision of telecommunications services
Companhia de Telecomunicações de Macau, S.A.R.L.	Macau	MOP150,000,000*	99%	-	Provision of telecommunications services

NOTES TO THE FINANCIAL STATEMENTS

15 INTERESTS IN SUBSIDIARIES (CONTINUED)

(a) The following list contains only the particulars of principal subsidiaries of the Group: (continued)

Name of company	Place of incorporation/ operation	Particulars of issued and fully paid-up capital	Proportion of ownership interest		Principal activity
			Held by the Company	Held by subsidiaries	
Neostar Investment Limited	Hong Kong	HK\$2*	-	100%	Property holding
Pacific Internet (S) Pte. Ltd.	Republic of Singapore	SGD500,000*	-	100%	Provision of telecommunications services
Pacific Internet (Thailand) Limited	Thailand	Baht 188,176,100*	-	100%	Provision of telecommunications services
中信電訊(上海)科技有限公司	The People's Republic of China	RMB26,600,000	-	100%	Provision of telecommunications services

Notes:

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

* Represents ordinary shares.

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

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

*** Capital contribution for ComNet (USA) LLC amounted to US\$10,000.

(b) The Group had no subsidiaries which have material non-controlling interests for the years ended 31 December 2019 and 2018.

NOTES TO THE FINANCIAL STATEMENTS

16 INTEREST IN A JOINT VENTURE

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

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

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

The equity interest in Cheer Harvest Holdings Limited is accounted for as a joint venture in the consolidated financial statements under the equity method as the Group and the other shareholder of Cheer Harvest Holdings Limited share joint control over the entity and have rights to the net assets of the entity.

17 INVENTORIES

Inventories in the consolidated statement of financial position mainly comprise mobile handsets and equipment and business solutions projects' parts.

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2019 \$'000	2018 \$'000
Carrying amount of inventories sold	1,928,186	2,650,597
Write down of inventories	621	-
Reversal of write down of inventories	(23)	(380)
	1,928,784	2,650,217

NOTES TO THE FINANCIAL STATEMENTS

18 CONTRACT COSTS

Contract costs capitalised as at 31 December 2019 relate to the incremental sales commissions paid to employees or agents whose selling activities resulted in customers entering into contracts for the provision of telecommunications services. Contract costs are recognised as part of "costs of sales and services" in the consolidated income statement in the period in which revenue from the related contracts is recognised. The amount of capitalised costs recognised in profit or loss during the year was \$4,403,000 (2018: \$1,389,000). There was no impairment in relation to the costs capitalised during the year (2018: Nil).

The Group applies the practical expedient in paragraph 94 of HKFRS 15 and recognises the incremental costs of obtaining contracts as an expense when incurred if the amortisation period of the asset that the Group otherwise would have recognised is one year or less from the initial recognition of the asset.

19 CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	2019 \$'000	2018 \$'000
Arising from international telecommunications services	263,969	322,982
Arising from sale of mobile handsets and equipment bundled with services	148,778	165,797
Arising from business solution projects	97,490	82,919
	510,237	571,698
Represented by:		
Non-current portion	36,429	41,294
Current portion	473,808	530,404
	510,237	571,698
Receivables from contracts with customers within the scope of HKFRS 15 which are included in "trade and other receivables and deposits"	1,054,231	1,003,257

The carrying amount of contract assets is considered to be the same as its fair value.

NOTES TO THE FINANCIAL STATEMENTS

19 CONTRACT ASSETS AND CONTRACT LIABILITIES (CONTINUED)

(a) Contract assets (continued)

Typical payment terms which impact on the amount of contract assets recognised are as follows:

- International telecommunications services

The Group provides international telecommunications services to telecommunications operators. The Group and certain telecommunications operators enter into contracts with minimum commitments on either transaction amount or unit of traffic to be processed and contract term would usually last for over three months. Such contracts involve large amount of transactions and both parties are required to verify and reconcile the transactions details received from counter party against their own records. Once the verification and reconciliation work have been completed, the Group will issue an invoice to the telecommunications operator. The Group's right to the consideration is generally unconditional upon the completion of verification and reconciliation work from both parties as well as the issuance of invoice.

- Sale of mobile handsets and equipment bundled with services

The Group offers packages to the customer which include the bundle sale of mobile handsets and equipment and provision of services. In this situation, the customer pays to the Group in accordance with the pre-determined payment schedule. If the performance obligations fulfilled by the Group exceed the total payments received to date, a contract asset is recognised. The contract assets are transferred to receivables when the Group's rights to the contract consideration become unconditional.

- Business solution projects

Business solution project is one of the businesses of enterprise solutions. The Group's business solution projects include payment schedules which require stage payments over the project period once milestones are reached. This gives rise to contract assets when the revenue recognised on the project exceeds the amount of the payment made by customer.

NOTES TO THE FINANCIAL STATEMENTS

19 CONTRACT ASSETS AND CONTRACT LIABILITIES (CONTINUED)

(b) Contract liabilities

	2019 \$'000	2018 \$'000
Billings in advance of performance		
– Business solution projects	25,405	17,848
– Other telecommunications services	147,471	138,627
	172,876	156,475
Represented by:		
Non-current portion	1,920	–
Current portion	170,956	156,475
	172,876	156,475

The carrying amount of contract liabilities is considered to be the same as its fair value.

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

- Business solution projects

The Group's business solution projects include payment schedules which require advance payments from customers for the projects. This gives rise to contract liabilities when the amount of the payment made by customer exceeds the revenue recognised on the project.

- Other telecommunications services

The Group's telecommunications services normally include payment schedules which require advance payments from customers for the services. This gives rises to contract liabilities until revenue recognised on the services are provided.

Revenue which was included in the contract liabilities balance at the beginning of the year amounting to \$148,147,000 (2018: \$152,196,000), was recognised during the year ended 31 December 2019.

NOTES TO THE FINANCIAL STATEMENTS

20 TRADE AND OTHER RECEIVABLES AND DEPOSITS

	2019 \$'000	2018 \$'000
Trade debtors	1,089,748	1,030,206
Less: loss allowance	(35,517)	(26,949)
	1,054,231	1,003,257
Other receivables and deposits	396,342	492,030
	1,450,573	1,495,287
Represented by:		
Non-current portion	112,372	119,937
Current portion	1,338,201	1,375,350
	1,450,573	1,495,287

The carrying amount of trade and other receivables and deposits is considered to be the same as its fair value.

As at 31 December 2019 and 2018, included in other receivables and deposits were the following:

- (i) prepayment of \$38,710,000 (2018: \$45,280,000) for certain telecommunications services. Such costs are deferred and amortised on a straight-line basis over the underlying service period of 15 years; and
- (ii) an advance payment paid to the ultimate holding company for the acquisition of the remaining equity interest in a subsidiary of RMB61,987,000 (equivalent to approximately \$69,196,000) (2018: RMB61,987,000 (equivalent to approximately \$70,746,000)).

NOTES TO THE FINANCIAL STATEMENTS

20 TRADE AND OTHER RECEIVABLES AND DEPOSITS (CONTINUED)

Ageing analysis

At the end of the reporting period, the ageing analysis of trade debtors (which are included in trade and other receivables and deposits) based on the invoice date and net of loss allowance is as follows:

	2019 \$'000	2018 \$'000
Within 1 year	1,003,285	950,613
Over 1 year	50,946	52,644
	1,054,231	1,003,257

Trade debtors are due within 7 to 180 days from the date of billing. Further details on the Group's credit policy and credit risk arising from trade debtors are set out in note 28(a).

21 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	2019 \$'000	2018 \$'000
Cash at bank and in hand	1,058,868	894,344
Time deposits with banks	253,912	154,765
Cash and bank deposits in the consolidated statement of financial position (note (b))	1,312,780	1,049,109
Less: pledged deposits (note (c))	(8,364)	(11,323)
Cash and cash equivalents in the consolidated cash flow statement	1,304,416	1,037,786

The carrying amount of cash and bank deposits is considered to be the same as its fair value.

- (b) Included in cash and bank deposits were \$91,111,000 (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 31 December 2019, bank deposits of \$8,364,000 (2018: \$11,323,000) were pledged to secure parts of the banking facilities of the Group.

NOTES TO THE FINANCIAL STATEMENTS

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

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

	Note	2019 \$'000	2018 \$'000
Profit before taxation		1,249,226	1,141,284
Adjustments for:			
Depreciation and amortisation	6(d)	913,491	725,440
Valuation gain on investment property	11	(18,296)	(23,683)
Net loss on disposal of property, plant and equipment	5	1,448	2,790
Share of loss/(profit) of a joint venture		128	(3,100)
Finance costs	6(b)	341,371	337,067
Interest income	4	(10,522)	(11,498)
Equity-settled share-based payment expenses	6(c)	5,538	16,780
Foreign exchange loss/(gain)		3,506	(2,373)
		2,485,890	2,182,707
Changes in working capital:			
(Increase)/decrease in inventories		(49,269)	9,067
Increase in contract costs		(722)	(6,365)
Decrease/(increase) in trade and other receivables and deposits		30,022	(83,175)
Decrease in contract assets		61,461	3,839
Increase/(decrease) in trade and other payables		93,530	(65,755)
Increase/(decrease) in contract liabilities		16,401	(13,681)
Decrease in net defined benefit retirement obligation		(7,479)	(13,821)
Cash generated from operations		2,629,834	2,012,816

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances as at 1 January 2019 to recognise right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases. Previously, cash payments for rental charges made by the Group as a lessee of \$1,195,404,000 were classified as operating activities in the consolidated cash flow statement for the year ended 31 December 2018. Under HKFRS 16, except for short-term lease payments, payments for leases of low value assets and variable lease payments not included in the measurement of lease liabilities, all other rentals paid on leases are now split into capital element and interest element (see note 21(e)) and classified as financing cash outflows. Under the modified retrospective approach, the comparative information is not restated. Further details on the impact of the transition to HKFRS 16 are set out in note 1(c).

NOTES TO THE FINANCIAL STATEMENTS

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

(e) Reconciliation of liabilities arising from financing activities

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

	Bank and other borrowings \$'000 (Note 23)	Lease liabilities \$'000 (Note 24)	Total \$'000
As at 31 December 2018	6,857,476	1,847	6,859,323
Impact on initial application of HKFRS 16 (Note)	–	597,526	597,526
As at 1 January 2019	6,857,476	599,373	7,456,849
Changes from financing cash flows:			
Proceeds from new bank and other borrowings	2,436,409	–	2,436,409
Repayment of bank and other borrowings	(3,100,487)	–	(3,100,487)
Payment for transaction costs on bank borrowings	(12,704)	–	(12,704)
Capital element of lease rentals paid	–	(164,398)	(164,398)
Interest element of lease rentals paid	–	(16,044)	(16,044)
Other borrowing costs paid	(304,207)	–	(304,207)
Total changes from financing cash flows	(980,989)	(180,442)	(1,161,431)
Exchange adjustments	783	812	1,595
Other changes:			
Increase in lease liabilities from entering into new leases during the year	–	69,978	69,978
Interest on lease liabilities (note 6(b))	–	16,044	16,044
Interest expenses and other finance charges	322,532	–	322,532
Other non-cash items	78,104	–	78,104
Total other changes	400,636	86,022	486,658
As at 31 December 2019	6,277,906	505,765	6,783,671

Note: The Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances as at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. See notes 1(c) and 21(d).

NOTES TO THE FINANCIAL STATEMENTS

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

(e) Reconciliation of liabilities arising from financing activities (continued)

	Bank and other borrowings \$'000 (Note 23)	Leases liabilities \$'000 (Note 24)	Total \$'000
As at 1 January 2018	7,825,136	3,334	7,828,470
Changes from financing cash flows:			
Proceeds from new bank and other borrowings	400,316	–	400,316
Repayment of bank and other borrowings	(1,370,938)	–	(1,370,938)
Payment for transaction costs on bank borrowings	(309)	–	(309)
Capital element of lease rentals paid	–	(1,431)	(1,431)
Interest element of lease rentals paid	–	(120)	(120)
Other borrowing costs paid	(310,233)	–	(310,233)
Total changes from financing cash flows	(1,281,164)	(1,551)	(1,282,715)
Exchange adjustments	(15,747)	(56)	(15,803)
Other changes:			
Interest on lease liabilities (note 6(b))	–	120	120
Interest expenses and other finance charges	334,900	–	334,900
Other non-cash items	(5,649)	–	(5,649)
Total other changes	329,251	120	329,371
As at 31 December 2018	6,857,476	1,847	6,859,323

NOTES TO THE FINANCIAL STATEMENTS

21 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (CONTINUED)**(f) Total cash outflow for leases**

Amounts included in the consolidated cash flow statement for leases comprise the following:

	2019 \$'000
Within operating cash flows	207,516
Within financing cash flows	180,442
	387,958

These above amounts relate to lease rentals paid.

22 TRADE AND OTHER PAYABLES

	2019 \$'000	2018 \$'000
Trade creditors	946,357	849,349
Other payables and accruals	560,649	691,940
	1,507,006	1,541,289
Represented by:		
Non-current portion	37,509	44,487
Current portion	1,469,497	1,496,802
	1,507,006	1,541,289

The carrying amount of trade and other payables is considered to be the same as its fair value.

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:

	2019 \$'000	2018 \$'000
Within 1 year	716,627	594,552
Over 1 year	229,730	254,797
	946,357	849,349

NOTES TO THE FINANCIAL STATEMENTS

23 BANK AND OTHER BORROWINGS

	2019 \$'000	2018 \$'000
Bank loans	2,704,750	3,351,049
Guaranteed bonds at 6.1% due 2025 (note (b))	3,493,139	3,489,880
Other borrowings	80,017	16,547
	6,277,906	6,857,476

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

	2019 \$'000	2018 \$'000
Within 1 year or on demand	288,957	327,529
After 1 year but within 2 years	968,561	2,302,299
After 2 years but within 5 years	1,527,249	737,768
After 5 years	3,493,139	3,489,880
	5,988,949	6,529,947
	6,277,906	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 31 December 2019 and 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 USD and bore interest at 6.1% per annum payable semi-annually in arrears. The Guaranteed Bonds would become repayable on demand in case of an event of default.

NOTES TO THE FINANCIAL STATEMENTS

24 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods and at the date of transition to HKFRS 16:

	31 December 2019		1 January 2019 (Note)		31 December 2018 (Note)	
	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	Present value of the minimum lease payments \$'000	Total minimum lease payments \$'000
Within 1 year	126,226	142,156	154,575	164,934	952	990
After 1 year but within 2 years	83,814	92,995	103,936	116,186	895	907
After 2 years but within 5 years	100,258	126,465	122,502	147,901	–	–
After 5 years	195,467	216,573	218,360	249,722	–	–
	379,539	436,033	444,798	513,809	895	907
	505,765	578,189	599,373	678,743	1,847	1,897
Less: total future interest expenses		(72,424)		(79,370)		(50)
Present value of lease liabilities		505,765		599,373		1,847

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances as at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. These liabilities have been aggregated with the brought forward balances relating to leases previously classified as finance leases. Comparative information as at 31 December 2018 has not been restated and relates solely to leases previously classified as finance leases. Further details on the impact of the transition to HKFRS 16 are set out in note 1(c).

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.

NOTES TO THE FINANCIAL STATEMENTS

25 EMPLOYEE RETIREMENT BENEFITS

(a) Defined benefit retirement plan

A subsidiary of the Company, CTM, makes contributions to a defined benefit retirement plan, CTM Staff Provident Fund (the "Fund"). The Fund was established on 1 January 2003. The Fund is registered with Autoridade Monetária de Macau ("AMCM") and is under the management of Macau Pension Fund Management Co. Ltd.. The members of the Fund are all the employees who were members of the original staff provident fund. No new members joined the Fund after 1 May 2002. The members are required to make contributions to the Fund at 5% of their relevant income. CTM is required to make contributions to the Fund in accordance with an independent actuary's recommendation based on periodic actuarial valuations. CTM is also obliged to make any extraordinary contributions which may be deemed necessary by Macau Pension Fund Management Co. Ltd. when there are insufficient assets in the Fund to meet the liabilities of the Fund or when such insufficiency is anticipated. Upon retirement or resignation, each member is entitled to receive a lump sum payment calculated on the basis of a multiplying factor ranging from 0.6 to 2 times the final monthly salary and the number of service year that the member has served with CTM.

The latest independent actuarial valuation of the Fund was as at 31 December 2019 and was prepared by qualified staff of Willis Towers Watson, who are members of the Society of Actuaries of the United States of America, using the projected unit credit method. The actuarial valuation indicates that CTM's obligation under the Fund is 84% (2018: 74%) covered by the plan assets held by the trustees as at 31 December 2019. The Fund exposes the Group to actuarial risks, such as longevity risk, currency risk, interest rate risk, and market (investment) risk.

(i) The amounts recognised in the consolidated statement of financial position are as follows:

	2019 \$'000	2018 \$'000
Present value of plan obligations	378,291	388,122
Fair value of plan assets	(318,463)	(288,544)
	59,828	99,578

A portion of the above liability is expected to be settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The Group expects to pay \$14,561,000 in contributions to the Fund in 2020.

NOTES TO THE FINANCIAL STATEMENTS

25 EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

(a) Defined benefit retirement plan (continued)

(iii) Plan assets consist of the following:

	2019 \$'000	2018 \$'000
Cash and money market	19,690	20,605
Bonds		
– Government bonds	65,117	55,516
– Corporate bonds	72,142	66,032
	137,259	121,548
Equity securities		
– Asia	27,465	20,175
– North America	103,710	68,995
– Europe	27,956	49,399
– Other areas	2,383	7,822
	161,514	146,391
	318,463	288,544

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

At the end of each reporting period, a study is performed by the Fund's asset manager in which the consequences of the strategic investment policies are analysed. The strategic investment policy of the Fund can be summarised as follows:

- a strategic assets mix comprising 50% equity securities, 45% bonds and 5% other investments;
- interest rate risk is managed by duration limitation; and
- foreign currency risk is managed by allocation guideline.

NOTES TO THE FINANCIAL STATEMENTS

25 EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

(a) Defined benefit retirement plan (continued)

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

	2019 \$'000	2018 \$'000
As at 1 January	388,122	362,208
Remeasurements:		
– Experience adjustments	3,519	2,510
– Actuarial losses arising from changes in financial assumptions	2,160	18,299
	5,679	20,809
Benefits paid by the Fund	(40,689)	(22,089)
Employees' contributions	4,192	4,336
Current service cost	9,588	9,062
Interest cost	11,599	13,642
Exchange adjustments	(200)	154
As at 31 December	378,291	388,122

The weighted average duration of the defined benefit obligation is 6 years (2018: 6 years).

(iv) Movements in plan assets

	2019 \$'000	2018 \$'000
As at 1 January	288,544	293,905
Employer's and employees' contributions paid to the Fund	22,176	28,106
Benefits paid by the Fund	(40,689)	(22,089)
Administrative expenses	(917)	(887)
Interest income	8,804	11,595
Return on plan assets, excluding interest income	40,698	(22,206)
Exchange adjustments	(153)	120
As at 31 December	318,463	288,544

NOTES TO THE FINANCIAL STATEMENTS

25 EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

(a) Defined benefit retirement plan (continued)

(v) Amounts recognised in the consolidated income statement and consolidated statement of comprehensive income are as follows:

	2019 \$'000	2018 \$'000
Current service cost	9,588	9,062
Net interest on net defined benefit liability	2,795	2,047
Administrative expenses	917	887
Total amounts recognised in profit or loss	13,300	11,996
Actuarial losses	5,679	20,809
Return on plan assets, excluding interest income	(40,698)	22,206
Total amounts recognised in other comprehensive income	(35,019)	43,015
Net defined benefit (gain)/loss	(21,719)	55,011

The current service cost and the net interest on net defined benefit liability are recognised in the following line items in the consolidated income statement:

	2019 \$'000	2018 \$'000
Staff costs (note 6(c))	9,588	9,062
Other operating expenses	917	887
Finance costs (note 6(b))	2,795	2,047
	13,300	11,996

NOTES TO THE FINANCIAL STATEMENTS

25 EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

(a) Defined benefit retirement plan (continued)

(vi) Significant actuarial assumptions (expressed as weighted averages) and sensitivity analysis are as follows:

	2019 %	2018 %
Discount rate	3.0	3.1
Future salary growth	3.0	3.0

The below analysis shows how the defined benefit obligation as at 31 December 2019 would have increased/(decreased) as a result of a 0.25% (2018: 0.25%) change in the significant actuarial assumptions:

	2019		2018	
	Increase in 0.25% \$'000	Decrease in 0.25% \$'000	Increase in 0.25% \$'000	Decrease in 0.25% \$'000
Discount rate	(5,363)	5,494	(5,878)	6,027
Future salary growth	5,018	(4,924)	5,543	(5,434)

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

(b) Defined contribution retirement plans

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of \$30,000. Contributions to the plan vest immediately.

CTM also operates the Defined Contribution Fund which was set up under the terms of Decree Law 6/99/M and registered with AMCM. The Defined Contribution Fund is for all full time Macau employees who joined CTM after 1 May 2002. The Defined Contribution Fund is under the management of Macau Pension Fund Management Co. Ltd.. The employees and CTM are each required to make contributions to the Defined Contribution Fund at 5% of the employee's relevant income. Contributions to the Defined Contribution Fund vest immediately.

Employees employed by the Group outside Hong Kong and Macau are covered by the appropriate local defined contribution schemes pursuant to the local labour rules and regulations.

NOTES TO THE FINANCIAL STATEMENTS

26 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

(a) Share option plan of an intermediate holding company

CITIC Limited, an intermediate holding company of the Company, adopted the CITIC Pacific Share Incentive Plan 2000 (the "Plan 2000") on 31 May 2000 under which the board of directors of CITIC Limited may invite any director, executive or employee of CITIC Limited or any of its subsidiaries to subscribe for options over CITIC Limited's shares. The Plan 2000 ended on 30 May 2010 and a new plan, CITIC Pacific Share Incentive Plan 2011, was adopted by CITIC Limited on 12 May 2011. The options granted under these plans are exercisable till the end of exercise period. No option was granted to directors or employees of the Group for their services to the Group under these plans. None of the directors or employees of the Group had options subsisting at 31 December 2019 under these plans.

(b) Share option plan of the Company

The Company has a share option plan ("CITIC Telecom International Plan") which was adopted on 17 May 2007 whereby the directors of the Company are authorised, at their discretion, to offer any person employed by the Company or any of its subsidiaries and any person who is an officer or director (whether executive or non-executive) of the Company or any of its subsidiaries options to subscribe for shares in the Company to recognise their contributions to the growth of the Company. The CITIC Telecom International Plan was valid and effective for a period of ten years till 16 May 2017.

Since the adoption of the CITIC Telecom International Plan, the Company has granted the following share options to directors, officers and employees of the Company and its subsidiaries. Each option gives the holder the right to subscribe for one ordinary share of the Company.

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

NOTES TO THE FINANCIAL STATEMENTS

26 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

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

Notes:

- (i) The closing price of the Company's ordinary shares on the date of grant.
- (ii) The closing price of the Company's ordinary shares on the date of grant was \$1.48 per share.
- (iii) The closing price of the Company's ordinary shares on the date of grant was \$2.61 per share.
- (iv) The closing price of the Company's ordinary shares on the date of grant was \$2.37 per share.

The share options granted on 23 May 2007, 17 September 2009, 19 August 2011 and 26 June 2013 have expired.

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

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

NOTES TO THE FINANCIAL STATEMENTS

26 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

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

- (i) The terms and conditions of the options granted under the CITIC Telecom International Plan are as follows, whereby all options are settled by physical delivery of shares:

	Exercise price per share	Number of options	Vesting condition	Expiry date	Number of share options outstanding as at 31 December	
					2019 [△]	2018 [△]
Options granted to directors[△]:						
- on 23 May 2007	\$3.26	10,290,000	Fully vested on the date of grant	Expired at the close of business on 22 May 2012	-	-
- on 17 September 2009	\$2.10*	3,150,000	Fully vested on 17 September 2010	Expired at the close of business on 16 September 2015	-	-
- on 17 September 2009	\$2.10*	3,150,000	Fully vested on 17 September 2011	Expired at the close of business on 16 September 2016	-	-
- on 19 August 2011	\$1.54 [#]	3,750,000	Fully vested on 19 August 2012	Expired at the close of business on 18 August 2017	-	-
- on 19 August 2011	\$1.54 [#]	3,750,000	Fully vested on 19 August 2013	Expired at the close of business on 18 August 2018	-	-
- on 26 June 2013	\$2.25	11,038,000	Fully vested on the date of grant	Expired at the close of business on 25 June 2018	-	-
- on 24 March 2015	\$2.612	6,819,000	Fully vested on 24 March 2016	Expire at the close of business on 23 March 2021	3,109,500	5,419,000
- on 24 March 2015	\$2.612	6,819,000	Fully vested on 24 March 2017	Expire at the close of business on 23 March 2022	3,787,500	6,819,000
- on 24 March 2017	\$2.45	7,319,000	Fully vested on 24 March 2018	Expire at the close of business on 23 March 2023	3,860,500	5,819,000
- on 24 March 2017	\$2.45	7,319,000	Fully vested on 24 March 2019	Expire at the close of business on 23 March 2024	3,287,500	6,819,000

NOTES TO THE FINANCIAL STATEMENTS

26 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

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

- (i) The terms and conditions of the options granted under the CITIC Telecom International Plan are as follows, whereby all options are settled by physical delivery of shares: (continued)

	Exercise price per share	Number of options	Vesting condition	Expiry date	Number of share options outstanding as at 31 December	
					2019 ^{△△}	2018 ^{△△}
Options granted to officers and employees ^{△△} :						
– on 23 May 2007	\$3.26	8,430,000	Fully vested on the date of grant	Expired at the close of business on 22 May 2012	–	–
– on 17 September 2009	\$2.10*	14,762,500	Fully vested on 17 September 2010	Expired at the close of business on 16 September 2015	–	–
– on 17 September 2009	\$2.10*	14,762,500	Fully vested on 17 September 2011	Expired at the close of business on 16 September 2016	–	–
– on 19 August 2011	\$1.54 [#]	20,477,500	Fully vested on 19 August 2012	Expired at the close of business on 18 August 2017	–	–
– on 19 August 2011	\$1.54 [#]	20,477,500	Fully vested on 19 August 2013	Expired at the close of business on 18 August 2018	–	–
– on 26 June 2013	\$2.25	70,309,000	Fully vested on the date of grant	Expired at the close of business on 25 June 2018	–	–
– on 24 March 2015	\$2.612	36,937,250	Fully vested on 24 March 2016	Expire at the close of business on 23 March 2021	9,023,567	25,040,567
– on 24 March 2015	\$2.612	36,937,250	Fully vested on 24 March 2017	Expire at the close of business on 23 March 2022	13,375,750 [○]	28,361,250
– on 24 March 2017	\$2.45	38,020,500	Fully vested on 24 March 2018	Expire at the close of business on 23 March 2023	11,994,000	26,962,500
– on 24 March 2017	\$2.45	38,020,500	Fully vested on 24 March 2019	Expire at the close of business on 23 March 2024	16,445,500	33,251,000
Total number of share options		362,538,500			64,883,817	138,491,317

NOTES TO THE FINANCIAL STATEMENTS

26 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

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

(i) The terms and conditions of the options granted under the CITIC Telecom International Plan are as follows, whereby all options are settled by physical delivery of shares: (continued)

- * Exercise price per share has been adjusted to \$1.91 since 7 June 2013.
- # Exercise price per share has been adjusted to \$1.40 since 7 June 2013.
- △ Number of options granted to directors and number of options outstanding include those options granted to former director(s) of the Company who had resigned/retired.
- △△ Number of options granted to officers and employees and number of options outstanding include those granted to former employees of the Company who had resigned/retired/passed away.
- Number of options outstanding as at 31 December 2019 include those granted to an employee of the Company who was subsequently appointed as an executive director of the Company on 6 August 2019.

(ii) The number and weighted average exercise prices of share options are as follows:

	2019		2018	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	\$2.53	138,491,317	\$2.44	215,030,809
Exercised during the year (note 27(c))	\$2.53	(71,979,500)	\$2.26	(43,096,802)
Lapsed during the year	\$2.56	(1,628,000)	\$2.31	(33,442,690)
Outstanding at the end of the year	\$2.52	64,883,817	\$2.53	138,491,317
Exercisable at the end of the year	\$2.52	64,883,817	\$2.56	98,421,317

During the year ended 31 December 2019, options for 71,979,500 (2018: 43,096,802) shares were exercised, options for 1,628,000 (2018: 33,442,690) shares have lapsed but no option (2018: Nil) has been cancelled. The value of vested options lapsed during the year ended 31 December 2019 was \$919,000 (2018: \$17,127,000) and was released directly to retained profits.

The weighted average closing price at the date of exercise of share options exercised during the year was \$3.31 (2018: \$2.56). The options outstanding at 31 December 2019 had a weighted average exercise price of \$2.52 (2018: \$2.53) and a weighted average remaining contractual life of 2.89 years (2018: 3.76 years).

NOTES TO THE FINANCIAL STATEMENTS

26 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

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

(iii) Fair value of share options and assumptions

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

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

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

- ##### (iv)
- The total expense recognised in the consolidated income statement for the year ended 31 December 2019 in respect of the above grant of options was \$5,538,000 (2018: \$16,780,000).

NOTES TO THE FINANCIAL STATEMENTS

27 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Note	Share capital \$'000	Capital reserve \$'000	Retained profits \$'000	Total \$'000
Balance as at 1 January 2018		4,280,542	160,491	2,302,108	6,743,141
Changes in equity for 2018:					
Total comprehensive income for the year		–	–	800,036	800,036
Shares issued under share option plan	26(b)(ii)	121,846	(24,501)	–	97,345
Equity-settled share-based transactions	6(c)	–	16,780	–	16,780
Dividends approved in respect of the previous financial year	27(b)(ii)	–	–	(463,252)	(463,252)
Release upon lapse of share options	26(b)(ii)	–	(17,127)	17,127	–
Dividends declared in respect of the current financial year	27(b)(i)	–	–	(142,730)	(142,730)
Balance as at 31 December 2018 and 1 January 2019		4,402,388	135,643	2,513,289	7,051,320
Changes in equity for 2019:					
Total comprehensive income for the year		–	–	1,126,030	1,126,030
Shares issued under share option plan	26(b)(ii)	226,146	(44,096)	–	182,050
Equity-settled share-based transactions	6(c)	–	5,538	–	5,538
Dividends approved in respect of the previous financial year	27(b)(ii)	–	–	(511,306)	(511,306)
Release upon lapse of share options	26(b)(ii)	–	(919)	919	–
Dividends declared in respect of the current financial year	27(b)(i)	–	–	(182,831)	(182,831)
Balance as at 31 December 2019		4,628,534	96,166	2,946,101	7,670,801

NOTES TO THE FINANCIAL STATEMENTS

27 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(b) Dividends

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

	2019 \$'000	2018 \$'000
Interim dividend declared and paid of HK5.0 cents (2018: HK4.0 cents) per share	182,831	142,730
Final dividend proposed after the end of the reporting period of HK15.0 cents (2018: HK14.0 cents) per share	548,886	502,216
	731,717	644,946

For the interim dividend in respect of the period ended 30 June 2019, there was a difference of \$218,000 between the interim dividend disclosed in 2019 interim report and the amount paid during the year ended 31 December 2019, which represented dividends attributable to shares issued upon exercise of share options before the closing date of register of members.

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

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

	2019 \$'000	2018 \$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK14.0 cents (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 year ended 31 December 2019, which represented dividends attributable to shares issued upon exercise of share options before the closing date of register of members.

NOTES TO THE FINANCIAL STATEMENTS

27 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Share capital

	Note	2019		2018	
		No. of shares	Amount \$'000	No. 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)	71,979,500	226,146	43,096,802	121,846
As at 31 December	(i)	3,659,239,882	4,628,534	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 year ended 31 December 2019, 71,979,500 (2018: 43,096,802) ordinary shares were issued at a weighted average exercise price of \$2.53 (2018: \$2.26) per ordinary share to share option holders who had exercised their options. These new shares issued rank pari passu with the then existing ordinary shares in issue.

(d) Nature and purpose of reserves

(i) Capital reserve

The capital reserve represents the portion of the grant date fair value of unexercised share options granted to directors or employees of the Group under the Company's share option plan that has been recognised in accordance with the accounting policies adopted for share-based payments set out in note 1(u)(iii).

(ii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong. The reserve is dealt with in accordance with the accounting policies set out in note 1(y).

(iii) Property revaluation reserve

The property revaluation reserve represents the surplus on revaluation of land and buildings held for own use upon change of use to investment property and is dealt with in accordance with the accounting policies adopted for land and buildings held for own use in note 1(h).

NOTES TO THE FINANCIAL STATEMENTS

27 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(e) Distributability of reserves

As at 31 December 2019, the aggregate amount of reserves available for distribution to equity shareholders of the Company, as calculated under the provisions of Part 6 of the Hong Kong Companies Ordinance, was \$2,946,101,000 (2018: \$2,513,289,000). After the end of the reporting period, the directors proposed a final dividend of HK15.0 cents (2018: HK14.0 cents) per share, amounting to \$548,886,000 (2018: \$502,216,000). This dividend has not been recognised as a liability at the end of the reporting period.

(f) Capital management

The Group's primary objective on capital management is to safeguard the Group's ability to continue as a going concern, while at the same time continues to provide returns for shareholders.

The Group regularly reviews its capital structure to maintain a balance between the enhancement of shareholders' returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. Adjustments are made to the capital structure as necessary in response to changes in economic conditions.

The capital structure of the Group consists of its total equity attributable to equity shareholders of the Company, comprising share capital and reserves as disclosed in the consolidated financial statements. The Group's gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as total debt (which includes current and non-current bank and other borrowings), less cash and bank deposits. Total capital is total equity attributable to equity shareholders of the Company, as shown in the consolidated statement of financial position, plus net debt.

The Group's net gearing ratio as at 31 December 2019 and 2018 is as follows:

	2019 \$'000	2018 \$'000 (Restated)
Total debt (note)	6,277,906	6,857,476
Less: Cash and bank deposits	(1,312,780)	(1,049,109)
Net debt	4,965,126	5,808,367
Total equity attributable to equity shareholders of the Company	9,376,609	8,854,752
Total capital	14,341,735	14,663,119
Net gearing ratio	35%	40%

Note: The Group has initially applied HKFRS 16, Leases, using the modified retrospective approach 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".

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

NOTES TO THE FINANCIAL STATEMENTS

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade debtors and contract assets. The Group's exposure to credit risk arising from other receivables and deposits are considered to be low as the counterparty has capacity to meet its contractual cash flow obligation. Therefore, applying the expected credit risk model resulted in an immaterial impact on the provision for doubtful debts for other receivables and deposits. The Group's exposure to credit risk arising from cash and bank deposits is limited because the Group mainly deals with financial institutions which have good credit ratings with prestigious credit ratings companies (such as Moody's Investors Service, Standard & Poor's and Fitch Group), or the note issuing banks in Hong Kong, Macau and Mainland China, or its group companies, and the Group has a pre-defined policy and regular review on the rest of the cash portfolio, therefore, it is considered that the Group is exposed to a low credit risk in this respect.

Other than those disclosed in note 30, the Group does not provide any other guarantees which would expose the Group to credit risk. The maximum exposure to credit risk in respect of those financial guarantees at the end of the reporting period is disclosed in the note 30.

Trade debtors and contract assets

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 9.4% (2018: 7.8%) and 35.3% (2018: 32.9%) of the total trade debtors and contract assets was due from the Group's largest customer and the five largest customers respectively.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade debtors are due within 7 to 180 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade debtors and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix. The loss allowance based on past due status is further distinguished between the Group's different customer bases.

NOTES TO THE FINANCIAL STATEMENTS

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

(a) Credit risk (continued)

Trade debtors and contract assets (continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade debtors and contract assets:

	Expected loss rate %	2019 Gross carrying amount \$'000	Loss allowance \$'000	Expected loss rate %	2018 Gross carrying amount \$'000	Loss allowance \$'000
Within 1 year	0.8%	1,489,018	(11,925)	0.5%	1,458,175	(7,869)
Over 1 year	21.5%	111,290	(23,915)	13.4%	143,991	(19,342)
		1,600,308	(35,840)		1,602,166	(27,211)

Expected loss rates are based on actual loss experience over the past 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Movement in the loss allowance account in respect of trade debtors and contract assets during the year is as follows:

	2019 \$'000	2018 \$'000
Balance as at 1 January	27,211	22,480
Amounts written off	(4,438)	(6,127)
Impairment losses recognised	14,238	12,429
Exchange adjustments	(1,171)	(1,571)
Balance as at 31 December	35,840	27,211

NOTES TO THE FINANCIAL STATEMENTS

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

(b) Liquidity risk

Individual business units within the Group are responsible for their own cash management, including the short term investment of cash surpluses. The raising of loans to cover their expected cash demands must be approved by the finance committee or the board of directors of the Company. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table shows the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which is based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	2019						2018					
	Contractual undiscounted cash outflow					Carrying amount as at 31 December	Contractual undiscounted cash outflow					Carrying amount as at 31 December
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total contractual undiscounted cash flow		Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total contractual undiscounted cash flow	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Trade and other payables	1,463,502	-	-	-	1,463,502	1,463,502	1,490,401	-	-	-	1,490,401	1,490,401
Bank and other borrowings	289,617	-	-	-	289,617	288,957	327,723	-	-	-	327,723	327,529
Lease liabilities relating to leases previously classified under HKAS 17 as finance leases	919	-	-	-	919	906	990	907	-	-	1,897	1,847
Lease liabilities (note)	141,237	92,995	126,465	216,573	577,270	504,859	-	-	-	-	-	-
Non-current bank and other borrowings	213,036	1,258,156	2,277,300	3,617,055	7,365,547	5,988,949	225,543	2,617,658	1,404,257	3,831,165	8,078,623	6,529,947
	2,108,311	1,351,151	2,403,765	3,833,628	9,696,855	8,247,173	2,044,657	2,618,565	1,404,257	3,831,165	9,898,644	8,349,724

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Other lease liabilities include amounts recognised at the date of transition to HKFRS 16 in respect of leases previously classified as operating leases under HKAS 17 and amounts relating to new leases entered into during the year. Under this approach, the comparative information is not restated. See note 1(c).

NOTES TO THE FINANCIAL STATEMENTS

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

(c) Interest rate risk

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

(i) Interest rate profile

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period:

	2019		2018	
	Effective interest rate		Effective interest rate	
	%	\$'000	%	\$'000
Fixed rate borrowings:				
Guaranteed bonds	6.1	3,493,139	6.1	3,489,880
Bank and other borrowings	3.2	149,401	2.8	36,666
		3,642,540		3,526,546
Variable rate borrowings:				
Bank and other borrowings	3.0	2,635,366	3.1	3,330,930
Total borrowings	4.7	6,277,906	4.6	6,857,476
Fixed rate borrowings as a percentage of total borrowings		58.0%		51.4%

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances as at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Under this approach, the comparative information is not restated. See note 1(c).

NOTES TO THE FINANCIAL STATEMENTS

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)**(c) Interest rate risk (continued)***(ii) Sensitivity analysis*

As at 31 December 2019, it is estimated that a general increase/decrease of 50 (2018: increase of 50) basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit for the year and retained profits by approximately \$12,924,000 (2018: decrease of \$16,558,000). Other components of consolidated equity would not be affected (2018: Nil) by the changes in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit for the year and retained profits that would arise assuming that the change in interest rates had occurred at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit for the year and retained profits is estimated as an annualised impact on interest expenses of such a change in interest rates. The analysis is performed on the same basis for 2018.

(d) Currency risk

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

A substantial portion of the Group's revenue and cost of sales and services are denominated in USD, MOP, HKD, RMB and SGD. The majority of the Group's current assets, current liabilities and transactions are denominated in USD, MOP, HKD, RMB and SGD. As the HKD is linked to the USD and the MOP is pegged to the HKD, it will not pose significant foreign currency risk between HKD, MOP and USD to the Group. The Group will monitor closely all possible exchange rate risks and implement the necessary hedging arrangement to mitigate risk from any significant fluctuation in foreign exchange rates.

(iii) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in HKD, translated using the spot rate at the end of the reporting period. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

NOTES TO THE FINANCIAL STATEMENTS

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

(d) Currency risk (continued)

(ii) Exposure to currency risk (continued)

	Exposure to foreign currencies (expressed in HKD)			
	2019		2018	
	RMB \$'000	SGD \$'000	RMB \$'000	SGD \$'000
Trade and other receivables and deposits	67,861	211	77,013	188
Cash and bank deposits	84,658	36	81,950	18
Trade and other payables	(11,782)	(301)	(9,004)	(338)
	140,737	(54)	149,959	(132)

(iii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit for the year and retained profits that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. Other components of consolidated equity would not be affected (2018: Nil) by the changes in the foreign exchange rates.

	2019		2018	
	Increase/ (decrease) in foreign exchange rates	Effect on profit for the year and retained profits \$'000	Increase/ (decrease) in foreign exchange rates	Effect on profit for the year and retained profits \$'000
RMB	10% (10%)	13,148 (13,148)	10% (10%)	13,874 (13,874)
SGD	5% (5%)	(2) 2	5% (5%)	(5) 5

NOTES TO THE FINANCIAL STATEMENTS

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)**(d) Currency risk (continued)***(iii) Sensitivity analysis (continued)*

Results of the analysis as presented in the above table represented an aggregation of the instantaneous effects on each of the Group's entities' profit for the year and equity measured in the respective functional currencies, translated into HKD at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2018.

(e) Fair value measurement*Financial liabilities measured at fair value*

The fair value of the contingent consideration included in "trade and other payables" in prior year was measured at the end of the reporting period on a recurring basis and was categorised into Level 3 of the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

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

The contingent consideration was determined using discounted cash flows and the significant unobservable input used in the fair value measurement was expected future payment determined by considering the probability of the scenario that the acquired business would have achieved certain criteria during the designated period of time. As at 31 December 2018, as the acquired business failed to meet certain criteria during the designated period of time, all of the contingent consideration was remeasured. As a result, a gain of SGD1,750,000 (equivalent to approximately \$10,116,000) was recognised as other income during the year ended 31 December 2018.

NOTES TO THE FINANCIAL STATEMENTS

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

(e) Fair value measurement (continued)

Financial liabilities measured at fair value (continued)

During the year ended 31 December 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

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

	2018 \$'000
Contingent consideration:	
At 1 January	10,224
Change in fair value	(10,116)
Exchange adjustments	(108)
At 31 December	–
Total gain for the year included in profit or loss for liabilities held at the end of the reporting period	10,116

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

29 COMMITMENTS

(a) Capital commitments

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

	2019 \$'000	2018 \$'000
Contracted for	239,095	54,436
Authorised but not contracted for	57,640	88,349

NOTES TO THE FINANCIAL STATEMENTS

29 COMMITMENTS (CONTINUED)

(b) Commitments under operating leases

As at 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 \$'000
Land and buildings	
Within 1 year	144,815
After 1 year but within 5 years	226,123
Over 5 years	234,479
	605,417
Other assets	
Within 1 year	141,748
After 1 year but within 5 years	51,499
Over 5 years	8,317
	201,564

The Group is the lessee in respect of land and buildings and other assets held under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances as at 1 January 2019 to recognise lease liabilities relating to these leases (see note 1(c)). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 1(j), and the details regarding the Group's future lease payments are disclosed in note 24.

30 PERFORMANCE BONDS AND GUARANTEES

As at 31 December 2019, performance bonds provided to the Macau Government and other customers for which no provision has been made in the consolidated financial statements amounted to \$92,803,000 (2018: \$78,463,000). As at 31 December 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 the reporting period is the total amount guaranteed by the performance bonds of \$92,803,000 (2018: \$78,463,000).

NOTES TO THE FINANCIAL STATEMENTS

31 MATERIAL RELATED PARTY TRANSACTIONS

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

(i) Recurring transactions

	2019 \$'000	2018 \$'000
Internet data centre services fee received/receivable from fellow subsidiaries	10,398	8,904
Virtual private network services fee received/receivable from fellow subsidiaries	15,324	17,391
Internet access services fee received/receivable from fellow subsidiaries	7,279	8,064
Telecommunications services and related expenses paid/payable to		
– a fellow subsidiary	(29,106)	(34,550)
– an associate of the ultimate holding company	(10,109)	(9,493)
Professional fees paid/payable to a controlling shareholder for the provision of internal audit and company secretarial services	(5,420)	(5,420)
Interest on lease liabilities paid/payable to fellow subsidiaries	(900)	–
Operating lease charges paid/payable to fellow subsidiaries	–	(17,446)
Building management fees, water and electricity fees, air conditioning charges and car parking spaces rental paid/payable to fellow subsidiaries	(13,483)	(13,558)
Rental income and building management charges received/receivable from a fellow subsidiary	16,434	17,154

The directors are of the opinion that the above transactions with related parties were conducted on normal commercial terms in the ordinary course of business and the terms are fair and reasonable so far as the shareholders of the Company are concerned. The professional fees paid by the Group were reimbursement of costs incurred by the related party, the prices which the Group paid for the relevant services were fair and reasonable with reference to market price.

NOTES TO THE FINANCIAL STATEMENTS

31 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

	2019 \$'000	2018 \$'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	69,196	70,746
Amount due from/(to) a fellow subsidiary included in:		
– Trade and other receivables and deposits	22,789	31,859
– Trade and other payables	(6,819)	(8,002)
Lease liabilities due to fellow subsidiaries (note)	(17,569)	–

Note: The capital element and interest element of lease rentals payable to fellow subsidiaries for the year ended 31 December 2019 was \$15,522,000 (2018: Nil).

(iii) Commitments under operating leases payable to fellow subsidiaries

As at 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 \$'000
Within 1 year	16,428
After 1 year but within 5 years	21,229
	37,657

The Group is the lessee in respect of land and buildings and leased circuits and other assets held under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances as at 1 January 2019 to recognise lease liabilities relating to these leases (see note 1(c)). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 1(j).

The leases related to the fellow subsidiaries typically run for an initial period of 2 to 3 years and the related future lease payments are included in note 24.

NOTES TO THE FINANCIAL STATEMENTS

31 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

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

(iv) Assets leased out under operating leases to a fellow subsidiary

Undiscounted lease payments under non-cancellable operating leases in place at the reporting date will be receivable by the Group in future periods as follows:

	2019 \$'000	2018 \$'000
Within 1 year	14,136	14,149
After 1 year but within 2 years	5,890	20,026
	20,026	34,175

The leases related to a fellow subsidiary typically runs for an initial period of 3 years and the related commitments are included in note 11(d).

(b) Transactions with other government-related entities

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Transactions with other government-related entities (continued)

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

	2019 \$'000	2018 \$'000
Interest income from bank deposits	5,666	3,104
Finance costs on bank and other borrowings	(23,073)	(21,990)
Fees received/receivable from the provision of telecommunications services	1,305,422	1,125,968
Fees paid/payable for network, operations and support services	(1,246,851)	(898,141)
Purchase of property, plant and equipment	(557)	(10,505)

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

	2019 \$'000	2018 \$'000
Bank deposits	389,534	281,429
Trade debtors	217,118	266,267
Contract assets	289,474	315,602
Trade and other payables	(355,168)	(259,399)
Bank and other borrowings	(703,654)	(732,286)

The bank and other borrowings from state-controlled banks as at 31 December 2019 bore interest at the prevailing market rates.

NOTES TO THE FINANCIAL STATEMENTS

31 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Transactions with other government-related entities (continued)

(iii) Commitments under operating leases payable to other government-related entities in the PRC

As at 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 \$'000
Within 1 year	52,049
After 1 year but within 5 years	10,800
	62,849

The Group is the lessee in respect of land and buildings and leased circuits and other assets held under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances as at 1 January 2019 to recognise lease liabilities relating to these leases (see note 1(c)). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 1(j).

The leases related to the other government-related entities typically run for an initial period of 1 to 5 years and the related future lease payments are included in note 24.

(c) Key management personnel emoluments

Emoluments for key management personnel of the Group, including amounts paid/payable to the Company's directors as disclosed in note 8 and certain of the highest paid/payable employees as disclosed in note 9, are as follows:

	2019 \$'000	2018 \$'000
Short-term employee benefits	56,626	52,602
Share-based payments	698	4,631
Post-employment benefits	786	740
	58,110	57,973

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

NOTES TO THE FINANCIAL STATEMENTS

32 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	Note	2019 \$'000	2018 \$'000
Non-current assets			
Property, plant and equipment		2,135	2,411
Investments in subsidiaries		11,155,844	11,155,844
Deferred tax assets		6,299	3,597
		11,164,278	11,161,852
Current assets			
Trade and other receivables and deposits		2,031,080	2,049,348
Cash and bank deposits		215,324	273,411
Tax recoverable		4,662	–
		2,251,066	2,322,759
Current liabilities			
Trade and other payables		184,244	229,735
Current tax payable		2,150	4,237
Bank and other borrowings		10,288	–
		196,682	233,972
Net current assets		2,054,384	2,088,787
Total assets less current liabilities		13,218,662	13,250,639
Non-current liabilities			
Amount due to a subsidiary		3,448,529	3,500,276
Non-current bank and other borrowings		2,099,332	2,699,043
		5,547,861	6,199,319
NET ASSETS		7,670,801	7,051,320
CAPITAL AND RESERVES	27(a)		
Share capital		4,628,534	4,402,388
Reserves		3,042,267	2,648,932
TOTAL EQUITY		7,670,801	7,051,320

Approved and authorised for issue by the board of directors on 3 March 2020.

Xin Yue Jiang
Director

Cai Dawei
Director

NOTES TO THE FINANCIAL STATEMENTS

33 NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

After the end of the reporting period, the directors proposed a final dividend. Further details are disclosed in note 27(b)(i).

34 COMPARATIVE FIGURES

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

35 IMMEDIATE PARENT AND ULTIMATE CONTROLLING PARTY

As at 31 December 2019, the directors consider the immediate parent and the ultimate controlling party of the Group to be Ease Action Investments Corp., which is incorporated in the British Virgin Islands, and CITIC Group Corporation, which is a wholly state-owned company in the PRC, respectively. The intermediate holding company, CITIC Limited, which is incorporated and listed in Hong Kong, produces financial statements available for public use.

36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, <i>Definition of a business</i>	1 January 2020
Amendments to HKAS 1 and HKAS 8, <i>Definition of material</i>	1 January 2020
Conceptual Framework for Financial Reporting 2018, <i>Revised Conceptual Framework for Financial Reporting</i>	1 January 2020
Amendments to HKFRS 10 and HKAS 28, <i>Sale or contribution of assets between an investor and its associate or joint venture</i>	To be determined

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.

PROPERTY

PROPERTY HELD FOR INVESTMENT

Location	Existing use	Term of lease
4 Lorry Parking Spaces on 1st Floor, 2 Lorry Parking Spaces on 2nd Floor, 1 Lorry Parking Space on 3rd Floor, 19th Floor, Units 2101 to 2104, 2107 and 2108 on 21st Floor and 22nd Floor, CITIC Telecom Tower, 93 Kwai Fuk Road, Kwai Chung, New Territories, Hong Kong	Lorry Parking Space and Ancillary Office	Medium
5th to 11th Floors, CITIC Telecom Tower, 93 Kwai Fuk Road, Kwai Chung, New Territories, Hong Kong	Industrial	Medium

GLOSSARY

4G	4G is the fourth generation of broadband cellular network technology, succeeding 3G
5G	5th generation mobile networks
AI	Artificial Intelligence
Big Data	Big data refer to the use of predictive analytics, user behavior analytics, or certain other advanced data analytics methods that extract value from data
Cloud/Cloud computing	Cloud/Cloud computing is a model for enabling ubiquitous, convenient, on-demand network access to a shared pool of configurable computing resources (e.g. networks, servers, storage, applications and services etc.) that can be rapidly provisioned and released with minimal management effort or service provider interaction
EPL	Ethernet private line (EPL) provides a point-to-point high transparency Ethernet connection between two sites
eSIM	Embedded-SIM
ICT	Information and Communications Technology (ICT), an umbrella term that includes any communication device or application, encompassing: radio, television, cellular phones, computer and network hardware and software, satellite systems etc., as well as the various services and applications associated with them
IDC	Internet Data Centre
Internet of Things	The Internet of Things (IoT) is the network of physical devices, vehicles, home appliances and other items embedded with electronics, software, sensors, actuators, and connectivity which enables these objects to connect and exchange data
MESH Wi-Fi	Mesh Wi-Fi is a communications network made up of Wi-Fi nodes organized in a mesh topology
mobile App	Mobile application
OTT	Over-the-top (OTT) refers to the delivery of content and/or services over an infrastructure that is not under the same administrative control as the content or service provider

GLOSSARY

POP(s)	Point(s)-of-Presence, connection facilities co-located in the data centres of other telecoms operators that consist primarily of transmission equipment with which calls and data are routed to and from the Group's hub
SIMN	Single IMSI Multiple Number (SIMN) service, a Mobile VAS which allows mobile operators' subscribers to hold multiple overseas mobile phone numbers on their existing SIM cards, providing frequent travelers and mobile roamers the choice of saving roaming charges in SIMN-enabled regions
SMS	Short Message Service (SMS), a service available on most digital mobile phones that permits the sending of short messages between mobile phones, other handheld devices and even landline telephones
SoftSIM	'Soft SIM' is a solution with no SIM hardware and where all SIM functionality is carried out by a software layer
WiFi/Wi-Fi	WiFi/Wi-Fi is a popular technology that allows an electronic device to exchange data wirelessly (using radio waves) over a computer network, including high-speed Internet connections. The Wi-Fi Alliance defines Wi-Fi as any "wireless local area network (WLAN) products that are based on the Institute of Electrical and Electronics Engineers' (IEEE) 802.11 standards"

CORPORATE INFORMATION

HEADQUARTERS AND REGISTERED OFFICE

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

Tel: 2377 8888
Fax: 2376 2063

WEBSITE

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

STOCK CODES

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

SHARE REGISTRAR

Shareholders should contact our Registrar, Tricor Investor Services Limited, Level 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.

FINANCIAL CALENDAR

Closure of Register: 8 May 2020 to 13 May 2020 and
19 May 2020 to 21 May 2020

Annual General Meeting: 13 May 2020, 10:30 a.m.
JW Marriott Ballroom, Level 3
JW Marriott Hotel Hong Kong
Pacific Place, 88 Queensway
Hong Kong

Final Dividend Payable: 2 June 2020

ANNUAL REPORT 2019

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

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

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



中信國際電訊
CITIC TELECOM INTERNATIONAL

WWW.CITICTEL.COM