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If you have sold or transferred all your shares in CITIC Telecom International Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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**中信國際電訊集團有限公司**

**CITIC TELECOM INTERNATIONAL HOLDINGS LIMITED**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 01883)**

**VERY SUBSTANTIAL ACQUISITION  
ACQUISITION OF A 79% INTEREST IN  
COMPANHIA DE TELECOMUNICAÇÕES DE MACAU, S.A.R.L.  
AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**



*Lead Financial Adviser to the Company*



*Financial Adviser to the Company*

A letter from the Board is set out on pages 5 to 18 of this circular.

A notice convening the EGM to be held at Salon 6, JW Marriott Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Friday, 12 April 2013 at 11:00 a.m. (or immediately after the conclusion or the adjournment of the annual general meeting of the Company to be held at the same venue and on the same day) is set out on pages EGM-1 to EGM-2 of this circular. Form of proxy for use in the EGM is enclosed. Whether or not you propose to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the registered office of the Company at 25th Floor, CITIC Telecom Tower, 93 Kwai Fuk Road, Kwai Chung, New Territories, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM and any adjournment thereof, should you so desire.

21 March 2013

## CONTENTS

	<i>Page</i>
<b>Definitions</b> .....	<b>1</b>
<b>Letter from the Board</b> .....	<b>5</b>
<b>General Information on CTM Group</b> .....	<b>19</b>
<b>Risk Factors</b> .....	<b>31</b>
<b>Appendix I – Financial Information of the Group</b> .....	<b>I-1</b>
<b>Appendix II – Financial Information of CTM Group</b> .....	<b>II-1</b>
<b>Appendix III – Unaudited Pro Forma Financial Information of the Enlarged Group</b> .....	<b>III-1</b>
<b>Appendix IV – General Information</b> .....	<b>IV-1</b>
<b>Notice of EGM</b> .....	<b>EGM-1</b>

## DEFINITIONS

*In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:*

“Acquisitions”	the PT Acquisition and the Sable Acquisition;
“Adjusted EBITDA”	earnings before interest, tax, depreciation, amortisation, gain or loss on disposal of property, plant and equipment, and share of profits of an associate and jointly controlled entity;
“associate(s)”, “connected person(s)”, “subsidiary(ies)”	each has the meaning ascribed to it by the Listing Rules;
“Board”	the board of Directors;
“Bond Issue”	the issue of US\$450.0 million 6.1% guaranteed bonds due 2025 by CITIC Telecom International Finance Limited, a wholly-owned subsidiary of the Company, guaranteed by the Company as described in the Company’s announcement dated 27 February 2013;
“CAGR”	compound annual growth rate;
“CIS”	customer information system;
“CITIC Group”	中國中信集團有限公司 (CITIC Group Corporation), the ultimate holding company of the Company and CITIC Pacific;
“CITIC Group Entities”	CITIC Group and one of its subsidiaries incorporated in Hong Kong;
“CITIC Pacific”	CITIC Pacific Limited (中信泰富有限公司), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange (stock code: 00267);
“Company”	CITIC Telecom International Holdings Limited (中國國際電訊集團有限公司), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange (stock code: 01883);
“CRM”	customer relationship management;
“CTM”	Companhia de Telecomunicações de Macau, S.A.R.L., a company incorporated in Macau;
“CTM Group”	CTM and its subsidiaries;

## DEFINITIONS

“CWC”	Cable & Wireless Communications Plc, a company incorporated in England and Wales;
“Director(s)”	director(s) of the Company;
“DSRT”	Direcção dos Serviços de Regulação de Telecomunicações (Bureau of Telecommunications Regulation of Macau);
“EGM”	the extraordinary general meeting of the Company to be convened at Salon 6, JW Marriott Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Friday, 12 April 2013 at 11:00 a.m. (or immediately after the conclusion or the adjournment of the annual general meeting of the Company to be held at the same venue and on the same day) for the purpose of considering and, if thought fit, approving the Acquisitions;
“Enlarged Group”	the Group immediately after completion of the Acquisitions;
“Greater China”	China, Hong Kong, Macau and Taiwan;
“GDP”	gross domestic product;
“Group”	the Company and its subsidiaries;
“GSM”	Global System for Mobile Communications;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“ICT”	information and communication technology;
“KPMG”	auditors of the Company’s financial statements for the years ended 31 December 2011 and 2012;
“KPMG Macau”	auditors of CTM’s financial statements for the years ended 31 December 2011 and 2012;
“Latest Practicable Date”	15 March 2013, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;

## DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Macau”	the Macau Special Administrative Region of the PRC;
“Macau Concession”	the Concession Agreement of the Public Telecommunications Service dated 20 August 1981 as revised on 6 December 1999 and on 6 November 2009;
“Macau Government”	the Government of the Macau Special Administrative Region of the PRC (including, for the purpose of this circular, the Chief Executive of Macau and Macau Post);
“Macau Post”	Macau Postal Services – Direcção dos Serviços de Correios de Macau;
“Mbps”	megabits per second;
“MOP”	Pataca, the lawful currency of Macau;
“PRC” or “China”	the People’s Republic of China;
“PT”	Portugal Telecom, SGPS, S.A. (“Portugal Telecom”), PT Participações SGPS, S.A. and PT Comunicações, S.A., which are companies established under the laws of Portugal;
“PT Acquisition”	the acquisition of the PT Sale Shares by the Company from PT as contemplated under the PT Sale and Purchase Agreement, the details of which are mentioned in the section headed “Letter from the Board” contained in this circular;
“PT Sale and Purchase Agreement”	the agreement dated 13 January 2013 between the Company (as purchaser) and PT (as sellers) in relation to the sale and purchase of the PT Sale Shares;
“PT Sale Shares”	42,000 shares of MOP1,000 each in CTM currently held by PT, representing a 28% interest in the share capital of CTM;
“Sable”	Sable Holding Limited, a company incorporated in England and Wales, which is a wholly-owned subsidiary of CWC;

## DEFINITIONS

“Sable Acquisition”	the acquisition of the Sable Sale Shares by the Company from Sable as contemplated under the Sable Sale and Purchase Agreement, the details of which are mentioned in the section headed “Letter from the Board” contained in this circular;
“Sable Sale and Purchase Agreement”	the agreement dated 13 January 2013 between the Company (as purchaser) and Sable (as seller) in relation to the sale and purchase of the Sable Sale Shares;
“Sable Sale Shares”	76,500 shares of MOP1,000 each in CTM currently held by Sable, representing a 51% interest in the share capital of CTM;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Share(s)”	share(s) of HK\$0.10 each in the capital of the Company;
“Shareholder(s)”	holder(s) of the Share(s);
“SMS”	short message service;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Strategic Alliance Agreement”	a strategic alliance agreement dated 13 January 2013 between the Company and Portugal Telecom in relation to a three-year term strategic alliance between the Company and Portugal Telecom after completion of the PT Acquisition;
“Three-party Agreement”	a three-party agreement dated 13 January 2013 between the Company, Sable and PT incidental to the Acquisitions;
“US\$”	United States dollars, the lawful currency of the United States of America;
“VAS”	value added service;
“VoIP”	Voice over Internet Protocol;
“VPN”	virtual private network(s); and
“WCDMA”	Wideband Code Division Multiple Access.

*For illustration purposes in this circular, the conversion rates of MOP1.00 = HK\$0.9635 and US\$1.00 = HK\$7.80 are adopted.*



**中信國際電訊集團有限公司**

**CITIC TELECOM INTERNATIONAL HOLDINGS LIMITED**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 01883)**

*Directors:*

Xin Yue Jiang (*Chairman*)

Yuen Kee Tong (*Chief Executive Officer*)

Chan Tin Wai, David (*Chief Financial Officer*)

Liu Jifu\*

Luo Ning\*

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Hong Kong

\* *Non-executive Director*

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21 March 2013

*To the Shareholders,*

Dear Sir or Madam,

**VERY SUBSTANTIAL ACQUISITION  
ACQUISITION OF A 79% INTEREST IN  
COMPANHIA DE TELECOMUNICAÇÕES DE MACAU, S.A.R.L.  
AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**INTRODUCTION**

Reference is made to the joint announcements of the Company and CITIC Pacific dated 17 October 2012 and 13 January 2013 and the Company's further announcement dated 18 February 2013.

On 13 January 2013 (Hong Kong time), the Company signed two sale and purchase agreements with Sable (a wholly-owned subsidiary of CWC) and PT respectively to acquire their entire interests in CTM (being a total of 79% interest), for a total cash consideration of US\$1,161.3 million (approximately HK\$9,058.1 million), subject to adjustments described below.

CTM is principally engaged in mobile, fixed line and broadband services in Macau and is a major supplier of enterprise telecom services to corporate customers in Macau. The Company currently holds a 20% interest in CTM. Upon completion of the Acquisitions, the Company will hold a 99% interest in CTM, which will then become a subsidiary of the Company.

## LETTER FROM THE BOARD

This circular provides you with, among other things, (i) further information on the Acquisitions; (ii) financial information of the Group; (iii) financial information of CTM Group; (iv) unaudited pro forma financial information of the Enlarged Group; and (v) a notice of the EGM.

### ACQUISITION OF A 51% INTEREST IN CTM FROM SABLE

On 13 January 2013, the Company and Sable entered into the Sable Sale and Purchase Agreement, pursuant to which the Company conditionally agreed to acquire, and Sable conditionally agreed to sell, a 51% interest in CTM, representing the entire interest in CTM held by Sable.

#### Sable Sale and Purchase Agreement

##### *Date*

13 January 2013

##### *Parties*

- (1) The Company, as purchaser
- (2) Sable (being a wholly-owned subsidiary of CWC), as seller

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiry, Sable and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

##### *Assets to be acquired*

The Sable Sale Shares, representing a 51% interest in the share capital of CTM.

##### *Consideration*

The consideration for the Sable Sale Shares shall be US\$749.7 million (approximately HK\$5,847.6 million).

The consideration for the Acquisitions was determined after arm's length negotiations between the Company, CWC and PT. The Company took into account the following valuation methodologies in undertaking such negotiations:

- i) Comparable Transaction Multiple Analysis

This methodology refers to the use of valuation multiples implied in other recent acquisitions in the telecom industry in the Asia Pacific region which involved a change of control. Transactions considered included CVC Capital Partners' acquisition of Hong Kong Broadband Network Limited in April 2012, The Philippine Long Distance Telephone Company's acquisition of Digital



## LETTER FROM THE BOARD

Telecommunications Philippines, Inc. in March 2011 and Qatar Telecom (Qtel) Q.S.C.'s acquisition of PT Indosat Tbk in June 2008. The valuation multiple is calculated by dividing the agreed enterprise value of the relevant target at the time of acquisition by the target's then last twelve months earnings before interest, tax, depreciation and amortisation ("EBITDA"). The midpoint of a range of such valuation multiples is 9.0x.

### ii) Comparable Trading Multiple Analysis

This methodology refers to multiples of net income ("P/E") and EBITDA of listed companies which are comparable to CTM in terms of lines of business (mainly fixed-line, mobile and broadband services) and operate in a similar market environment. Such relevant companies included HKT Trust and Hutchison Telecommunications Hong Kong Limited. This comparable trading multiple analysis implied P/E multiples in the range of 14.0x to 16.0x and EV/EBITDA multiples in the range of 7.5x to 8.5x.

It must be emphasised however that no valuation methodology can be precise, and it is therefore necessary to consider such methodologies in that light and also to consider other relevant factors. Therefore, in addition to applying the comparable transaction and trading multiples to CTM's annualised EBITDA and net income for the first half of 2012, the Company also took into account the opportunity to acquire a majority stake in CTM (which was not reflected in the comparable trading multiple analysis described above), and CTM's financial performance relative to the comparable companies.

On the basis of the arm's length negotiations between the Company, CWC and PT, and taking into account the various valuation ranges and other factors described above, the Company agreed on the enterprise value of US\$1,470.0 million for CTM on a cash free and debt free basis.

It was agreed that any net cash accumulated by CTM from the date of signing until completion shall belong to the shareholders of CTM on a pro-rata basis. If and to the extent distribution are not made by CTM before completion to return such net cash, 51% of any remaining amount as at completion will be included in the consideration. It was further agreed that CTM shall maintain a level of sufficient working capital (excluding the above net cash) at completion for CTM's operation and this amount was agreed to be US\$(50.0 million) (approximately HK\$(390.0 million)), being a net deficit. If CTM's working capital (excluding the net cash mentioned above) at completion is higher or lower than this level, the consideration will be adjusted accordingly by adding 51% of the excess (or deducting the shortfall, as the case may be). The above adjustments will first be estimated and paid (or, if applicable, deducted from the consideration) at completion of the Sable Acquisition, and subject to confirmation by reference to completion accounts to be prepared after completion of the Sable Acquisition. For the purpose of the above adjustments, "net cash" means the aggregated amount of cash minus the aggregated amount of borrowings; and "working capital" means current assets (excluding cash and cash equivalents and loans to related parties) minus current liabilities.

## LETTER FROM THE BOARD

### *Conditions*

Completion of the Sable Acquisition is conditional upon the following:

- (a) ***CWC shareholder consent:*** the passing at a duly convened and held general meeting of CWC of a resolution to approve the arrangements described in the Sable Sale and Purchase Agreement;
- (b) ***Company shareholder consent:*** the passing at a duly convened and held general meeting of the Company of a resolution to approve the arrangements described in the Sable Sale and Purchase Agreement;
- (c) ***Macau Government approval:*** the Macau Government granting approval for the Sable Acquisition;
- (d) ***PRC Government approval:*** the relevant PRC governmental and regulatory authorities having granted approvals, clearances, consents, authorisations and (if applicable) waivers as may be necessary for the arrangements described in the Sable Sale and Purchase Agreement;
- (e) ***Warranties remaining true and accurate:*** warranties given by Sable relating to Sable's clean title to the Sable Sale Shares and its capacity to effect the Sable Acquisition under the Sable Sale and Purchase Agreement remaining true and accurate in all material aspects and not misleading in any material respect at all times before the date on which completion of the Sable Acquisition would otherwise have taken place if it were not for this condition; and the other warranties relating to CTM being true and accurate in all material aspects and not misleading in any material respect as at the date of the Sable Sale and Purchase Agreement by reference to the facts and circumstances subsisting at the date thereof; and
- (f) ***No material adverse change:*** no material adverse change having occurred and continuing as at the date on which completion of the Sable Acquisition would otherwise have taken place if it were not for this condition and "material adverse change" means: (A) CTM no longer holding the Macau Concession necessary to conduct its business in Macau or the mobile phone services licence; or (B) any natural catastrophe, act of God, outbreak of war, armed conflict, armed hostilities, civil commotion, revolution, act of terrorism, public disorder, outbreaks of diseases or epidemics and/or riots in Macau of a nature that fundamentally and permanently restricts or impairs the ability of CTM to carry on business in Macau or would directly cause CTM to cease to hold the Macau Concession within the period of three months following the date on which completion of the Sable Acquisition would otherwise have occurred. For the avoidance of doubt, any adverse change in the business, assets and liabilities, profits and losses, financial condition or prospects, of CTM and/or any of its subsidiaries whether or not resulting from a general global economic downturn or an economic downturn that affects only Macau and/or the telecommunications industry or any other matter or circumstance

## LETTER FROM THE BOARD

which falls outside of (A) and (B) above (whether or not directly impacting on CTM and/or its subsidiaries) shall not constitute a “material adverse change”.

In addition, as agreed in the Three-party Agreement, completion of the Sable Acquisition is also conditional upon completion of the PT Acquisition taking place together.

Sable has agreed to use its reasonable endeavours to fulfil or procure the fulfilment of the condition set out in paragraph (a) above. The Company has agreed to use its reasonable endeavours to fulfil or procure the fulfilment of the conditions set out in paragraphs (b) and (d). Both parties agreed to procure CTM to take all steps reasonably necessary or desirable to fulfil or procure the fulfilment of the condition set out in paragraph (c). The Sable Sale and Purchase Agreement provides that the Company may, to such extent as it thinks fit, waive the condition set out in paragraph (e), and as at the Latest Practicable Date, the Company did not have any intention to waive such condition. As at the Latest Practicable Date, the condition set out in paragraph (a) above has been fulfilled while the rest of the conditions set out above are still outstanding.

The long stop date for fulfilment or waiver of the conditions is 13 July 2013, which will automatically be postponed for another 90 days (or a longer period as may be agreed by the parties) if the only conditions not yet fulfilled are those relating to the relevant governmental approvals (i.e. those referred to in paragraphs (c) and (d) above) and the Company has made or procured to be made all relevant filings to the relevant PRC governmental authorities by 13 July 2013.

### *Completion*

Completion of the Sable Acquisition shall take place within 90 days after the first date on which the conditions set out in paragraphs (a) to (d) above are satisfied or waived but in any event shall not take place after 10 business days of the postponed long stop date as mentioned above.

### *Provision of CIS software and related services by Sable's affiliate*

Sable has agreed to provide and/or procure that CWC's subsidiaries shall provide the customer information system services to CTM Group in the same manner and on substantially the same terms and conditions as has been provided to CTM Group in the 12 months immediately prior to the date of the Sable Sale and Purchase Agreement for a minimum of six months from the date of completion (or such longer period as agreed by the parties).

## **ACQUISITION OF A 28% INTEREST IN CTM FROM PT**

On 13 January 2013, the Company and PT entered into the PT Sale and Purchase Agreement, pursuant to which the Company conditionally agreed to acquire, and PT conditionally agreed to sell, a 28% interest in CTM, representing the entire interest in CTM held by PT.

## LETTER FROM THE BOARD

### PT Sale and Purchase Agreement

#### *Date*

13 January 2013

#### *Parties*

- (1) The Company, as purchaser
- (2) Portugal Telecom, SGPS, S.A., PT Participações SGPS, S.A. and PT Comunicações, S.A., as sellers

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiry, PT and their ultimate beneficial owners are third parties independent of the Company and its connected persons.

#### *Assets to be acquired*

The PT Sale Shares, representing a 28% interest in the share capital of CTM.

#### *Consideration*

The consideration for the PT Sale Shares shall be US\$411.6 million (approximately HK\$3,210.5 million), which was determined on the same basis as the consideration for the Sable Sale Shares and subject to the same adjustments as the Sable Acquisition, such that any consideration amount(s) to be received or receivable by PT under the PT Sale and Purchase Agreement shall equal the consideration amount(s) to be received or receivable by Sable under the Sable Sale and Purchase Agreement as prorated with reference to the respective holdings of PT (28%) and Sable (51%) in CTM.

#### *Conditions*

Completion of the PT Acquisition is conditional upon the following:

- (a) ***Company shareholder consent:*** the passing at a duly convened and held general meeting of the Company of a resolution to approve the arrangements described in the PT Sale and Purchase Agreement;
- (b) ***Macau Government approval:*** the Macau Government granting approval for the PT Acquisition;
- (c) ***PRC Government approval:*** the relevant PRC governmental and regulatory authorities having granted approvals, clearances, consents, authorisations and (if applicable) waivers as may be necessary for the arrangements described in the PT Sale and Purchase Agreement; and

## LETTER FROM THE BOARD

- (d) *Warranties remaining true and accurate:* certain warranties given by PT relating to PT's clean title to the PT Sale Shares and its capacity to effect the PT Acquisition and the Company's warranties relating to its capacity to effect the PT Acquisition under the PT Sale and Purchase Agreement remaining true and accurate in all material aspects and not misleading in any material respect at all times before the date on which completion of the PT Acquisition would otherwise have taken place if it were not for this condition.

The Company has agreed to use its reasonable endeavours to fulfil or procure the fulfilment of the conditions set out in paragraphs (a) to (c). The PT Sale and Purchase Agreement does not provide whether or not any of the conditions set out in the preceding paragraph may be waived. As at the Latest Practicable Date, such conditions have not been fulfilled.

### *Completion*

As mentioned above, completion of the PT Acquisition is also conditional upon completion of the Sable Acquisition taking place together.

### *Strategic Alliance with PT*

The Company and Portugal Telecom also entered into the Strategic Alliance Agreement on 13 January 2013, which sets out the terms and conditions for a three-year term strategic alliance between the Company and Portugal Telecom after completion of the PT Acquisition for capitalising their respective expertises in certain areas of collaboration in the telecom sector and in the identification of ICT investment opportunities in order to create value for their respective shareholders. During the term of the Strategic Alliance Agreement, each of Portugal Telecom and the Company will provide certain telecom services to each other, on a best-effort and priority basis, at competitive commercial rates and as the other party may request from time to time. They also agreed to select new ICT investment opportunities mainly within the Asian geographical region, including Southeast Asia and China. Pursuant to the Strategic Alliance Agreement, the Company will also select Portugal Telecom as the Group's strategic ICT service provider.

## INTER-CONDITIONALITY OF THE ACQUISITIONS

The constitutional documents of CTM require that transfer of shares of CTM be subject to the consent of the Chief Executive of Macau and of the founder members of CTM, and the waiver of the other shareholders of CTM of their pre-emption rights over any of the shares of CTM. The Macau Concession also requires the consent of the Chief Executive of Macau for any change in ownership of CTM. Macau Post has provided a conditional waiver in respect of the Acquisitions subject to the approval of the Chief Executive of Macau.

## LETTER FROM THE BOARD

Sable, PT and the Company entered into the Three-party Agreement on 13 January 2013 to record, among other things, their respective consents and waivers to the Acquisitions subject to completion of the Acquisitions taking place together and that completion of the Sable Acquisition and the PT Acquisition are conditional upon each other.

### FUNDING FOR THE ACQUISITIONS

The Company has already obtained commitments on a certain funds basis for short and long-term loan facilities from a group of banks and other financial institutions (including an affiliate of one of the joint bookrunners and joint lead managers of the Bond Issue) to cover all of its funding requirements in relation to the Acquisitions. The disbursement of funds under these facilities is conditional on satisfactory completion of the loan documentation and satisfaction of certain conditions to completion of the Acquisitions. Funds drawn under the facilities may be applied solely towards financing the Acquisitions. The Company may consider reducing the amount to be drawdown under such facilities through a combination of equity issuance (including via a rights issue) and/or bond issuance. In this connection, the net proceeds of the Bond Issue will be used towards financing the consideration payable by the Company in respect of the Acquisitions, and the amount of funds to be drawn down under the aforesaid facilities may be reduced accordingly.

### REASONS FOR AND BENEFITS OF THE ACQUISITIONS

The Company acquired its current 20% interest in CTM from CITIC Pacific in May 2010. Upon completion of the Acquisitions, the Company will hold a 99% interest in CTM, which will then become a subsidiary of the Company. The business strategy for the Company has been to expand its telecommunications businesses in Greater China and to diversify its customer and services profile from a wholesale-dominated services provider to a more end-user focused services provider. The increase in the Company's stake in CTM from 20% to 99% provides the Company with an opportunity to take control of Macau's leading integrated telecoms services provider and improve its performance, leveraging on the Company's experience in the sector as well as its knowledge of CTM developed as a minority shareholder. The Acquisitions will transform the financial and operational profile of the Company, creating enhanced scale and a more balanced revenue mix.

Upon completion of the Acquisitions, CTM will immediately be a strong anchor carrier customer for the Company providing the Company with an in-the-field customer for all its new offerings of products, services and technologies. Furthermore, CTM will be a customer who can provide a clear endorsement and validation of such new offerings as the Company continues to enhance its service platform.

CTM also maintains strong relationships with carriers in China and with carriers in various parts of the world as the customers of such carriers travel to Macau generating roaming revenue and other commercial interactions for CTM. As carriers represent a critical customer segment for the Company, these enhanced and embedded relationships of CTM will provide the Company with greater access to those carriers and an enhanced ability to continue to expand the Company's carrier business.

## LETTER FROM THE BOARD

The Company's enterprise solution services (data services, cloud computing, etc) can supplement CTM's enterprise solution services to domestic enterprises and multinational companies with a presence in Macau. Given the importance of this segment to CTM, the Company's enhanced product and service offering will allow CTM to further drive this business which, in turn, will generate increased cash flow for the Company.

CTM also enjoys strong and stable cash flows. CTM Group generated Adjusted EBITDA of MOP1,193.8 million, MOP1,311.8 million, MOP1,359.1 million and net profit after taxation of MOP813.5 million, MOP932.2 million and MOP969.3 million respectively in the years ended 31 December 2010, 2011 and 2012. For further details, please refer to the section headed "General Information on CTM Group" in this circular.

The Directors (including the independent non-executive Directors) consider that the terms of the Acquisitions are fair and reasonable and in the interests of the Company and its Shareholders as a whole. None of the Directors has a material interest in the Acquisitions and thus no one has abstained from voting on the board resolutions in respect of the Acquisitions.

### SUPPORT FROM CITIC GROUP

CITIC Group has undertaken that it will procure its subsidiaries and CITIC Pacific (together with its subsidiaries) to approve the Acquisitions as Shareholders (including but not limited to voting in favour of any resolution that will be put forward for the consideration of the Shareholders at any general meeting of the Company or by way of written resolution(s) or in any other manner otherwise acceptable to the Stock Exchange).

CITIC Group has also agreed to take such steps and provide all such information and documentation and make such filings as the relevant regulatory or governmental bodies may reasonably require for CITIC Group to obtain all the necessary regulatory and other approvals in the PRC or elsewhere as may be reasonably required for the furtherance of the Acquisitions. The CITIC Group Entities may also provide such other shareholders' support as may be required for the furtherance of the Acquisitions, including the provision of financial support to the Company which may include the subscription of rights shares (in the event of a rights issue) and the provision of subordinated loans.

### INFORMATION ON CTM GROUP

For details of the general information of CTM Group, please refer to the section headed "General Information on CTM Group" in this circular.

The net asset value of CTM Group as at 31 December 2012 amounted to approximately MOP1,780.0 million (equivalent to approximately HK\$1,715.0 million).



## LETTER FROM THE BOARD

The Adjusted EBITDA of CTM Group for each of the two financial years ended 31 December 2010 and 2011, and the first half of 2012 and the full year of 2012 are set out below:

	<b>Adjusted EBITDA*</b>			
		<b>First half of 2012 (unaudited)</b>	<b>2011</b>	<b>2010</b>
MOP 'million	1,359.1	651.7	1,311.8	1,193.8
HK\$ 'million	(approx. 1,309.5)	(approx. 627.9)	(approx. 1,263.9)	(approx. 1,150.2)

\* Adjusted EBITDA is calculated as follows:

	<b>2012 (MOP'000)</b>	<b>First half of 2012 (MOP'000)</b>	<b>2011 (MOP'000)</b>	<b>2010 (MOP'000)</b>
Profit before taxation	1,101,101	526,987	1,057,375	925,565
Add/(deduct):				
Interest income	(12,035)	(5,019)	(5,850)	(1,436)
Net gain on disposal of property, plant and equipment	(481)	(382)	(375)	(363)
Depreciation and amortisation	<u>270,518</u>	<u>130,119</u>	<u>260,605</u>	<u>269,997</u>
Adjusted EBITDA	<u><u>1,359,103</u></u>	<u><u>651,705</u></u>	<u><u>1,311,755</u></u>	<u><u>1,193,763</u></u>

The profit before and after taxation of CTM Group for the two financial years ended 31 December 2012 are set out below:

	<b>Profit before taxation</b>		<b>Profit after taxation</b>	
	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>
MOP 'million	1,057.4	1,101.1	932.2	969.3
HK\$ 'million	(approx. 1,018.8)	(approx. 1,060.9)	(approx. 898.2)	(approx. 933.9)

For further details of the financial information of CTM Group, please refer to Appendix II of this circular.



## LETTER FROM THE BOARD

### INFORMATION ON THE PARTIES

#### Sable

Sable is a wholly-owned subsidiary of CWC. CWC is an international full service telecommunications business provider of mobile, broadband and domestic and international fixed line services, and enterprise and managed service solutions. CWC is headquartered in London and its shares are admitted to trading on the Main Market of the London Stock Exchange.

#### PT

PT is an international operator, with reportedly over 100 million customers worldwide, and is present in three strategic markets, Portugal, Brazil and Africa. In Portugal, PT is the leading integrated telecommunications operator, serving all customer segments with a complete range of telecommunications, IT/IS and outsourcing solutions. In Brazil, PT is a joint controlling shareholder and technological partner of the leading integrated operator in the market, Oi. In Africa and Asia, Portugal Telecom is shareholder in a number of integrated and mobile operators, and also owns a directories business present in several markets. PT has significant experience in the ICT industry.

#### The Company

The Group is one of Asia's leading telecoms service providers specialising in hub-based services. In addition to serving its key markets in China and Hong Kong, the Group is actively expanding its business to international telecoms operators. The Group has four main types of business, namely voice services, SMS services, mobile VAS and data services. Its independent hub connects with over 650 telecoms operators in 75 countries or regions.

### FINANCIAL EFFECTS OF THE ACQUISITIONS ON THE GROUP

Appendix III to this circular presents the unaudited pro forma financial information of the Enlarged Group and describes the basis of preparation thereof.

#### Earnings

The Company currently holds a 20% in CTM. Upon completion of the Acquisitions, the Company will hold a 99% interest in CTM, which will then become a subsidiary of the Company. The results of CTM Group will be consolidated into the financial statements of the Group. As stated in the unaudited pro forma consolidated income statement of the Enlarged Group set out in Appendix III to this circular, the profit attributable to equity shareholders of the Company for the year ended 31 December 2012 would have been increased from approximately HK\$461.3 million to approximately HK\$1,853.0 million as if the Acquisitions had taken place at 1 January 2012.

## LETTER FROM THE BOARD

### **Assets and Liabilities**

As set out in Appendix III to this circular, the unaudited pro forma consolidated balance sheet of the Enlarged Group illustrates the effect of the completion of the Acquisitions on the Group, assuming that the Acquisitions had taken place on 31 December 2012. If the Acquisitions had been completed on 31 December 2012, the total assets of the Enlarged Group as at 31 December 2012 would have been increased from approximately HK\$4,680.4 million to approximately HK\$6,822.8 million. The total liabilities of the Enlarged Group as at 31 December 2012 would have been increased from approximately HK\$1,259.3 million to approximately HK\$2,507.5 million.

### **Liquidity**

The Company expects to fund the Acquisitions with its existing cash resources and new bank loan facilities. If the Acquisitions had been completed on 31 December 2012, the net cash balance position of approximately HK\$254.8 million of the Enlarged Group as at 31 December 2012 would have changed to the net debt balance position of approximately HK\$8,758.0 million.

### **FINANCIAL AND TRADING PROSPECTS**

The Board believes that the Acquisitions will reinforce the Group as one of the Asia's leading telecoms service providers. In addition, it will further strengthen the existing business relationship between the Group and CTM with clear synergies in the following areas:

#### **(a) Enhanced International Traffic Business**

Following the Acquisitions, the Group will be able to further expand its wholesale IDD services in Macau as it becomes the preferred services provider for CTM's inbound and outbound roaming voice and SMS traffic.

#### **(b) Business Diversification**

The Acquisitions will allow the Group to diversify its business from a wholesale-dominated service provider into more end-user focused services/markets. At the same time, CTM can leverage on the Group's experience in the international wholesale hubbing market and expand its service offerings and geographical scope.

#### **(c) Market Position**

The Acquisitions will allow the Group to re-position itself as not just an international hubbing service provider but as an operator with worldwide connectivity through the Group's hubbing platform. This will strengthen the Group's bargaining power in the market.

## LETTER FROM THE BOARD

### **(d) Increase Financial Return**

As CTM is a profitable, debt free and cash rich company, the Board believes that the Acquisitions will improve top line growth and margins. It will also help to strengthen the Group's overall financial performance.

### **LISTING RULES IMPLICATIONS**

The Acquisitions together constitute a very substantial acquisition for the Company under Chapter 14 of the Listing Rules. The EGM will be convened to consider and, if thought fit, to approve the Acquisitions.

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, no Shareholder has any material interest in the Acquisitions and therefore no Shareholder is required to abstain from voting on the resolution to be proposed at the EGM.

### **THE EGM**

Set out on pages EGM-1 to EGM-2 of this circular is a notice convening the EGM. A form of proxy for use at the EGM is enclosed. Whether or not you intend to be present at the EGM, you are requested to complete the form of proxy and return it to the registered office of the Company in Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting if you so wish.

In accordance with Rule 13.39(4) of the Listing Rules, the voting of shareholders at the EGM will be taken by poll. The chairman of the EGM will demand a poll for the resolution to be proposed at the EGM in accordance with the Company's Articles of Association.

### **RECOMMENDATION**

The Directors consider that the terms of the Acquisitions are normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend that all the Shareholders should vote in favour of the proposed ordinary resolution set out in the notice of the EGM to approve the Acquisitions.

<b>LETTER FROM THE BOARD</b>
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**ADDITIONAL INFORMATION**

Your attention is also drawn to the “Risk Factors” section regarding risk factors associated with the Acquisitions, CTM Group and the operations and the telecom industry in Macau and the additional information set out in the appendices to this circular.

Yours faithfully,  
By Order of the Board  
**CITIC Telecom International Holdings Limited**  
**Xin Yue Jiang**  
*Chairman*

## GENERAL INFORMATION ON CTM GROUP

*This section contains information about CTM in which the Company is interested as to 20%. Accordingly, CTM is not a subsidiary of the Company as at the date of this circular. The information set out in this section (a) has been extracted from various sources which are not controlled or compiled by the Company and (b) is presented based on the best knowledge, after reasonable enquiries, of the Directors.*

### OVERVIEW

CTM is principally engaged in mobile, fixed line and broadband services in Macau and is a major supplier of enterprise telecoms services to corporate customers in Macau.

Established in 1981 under the laws of Macau, CTM is currently held as to 51% by Sable, 28% by PT, 20% by the Company and 1% by Macau Post, being an entity controlled by the Macau Government. Upon completion of the Acquisitions, the Company will hold a 99% interest in CTM, which will then become a subsidiary of the Company.

Macau's telecoms industry was once a monopoly market with CTM being the sole and fully-integrated operator across the mobile, fixed line and broadband segments. The industry dynamics began to change when mobile service licences were given to three additional operators since 2001 and subsequently in 2012 when the fixed line market was liberalised. With a over 30-year track record of keeping pace with advances in technology, CTM was well prepared to address the challenges and opportunities of full liberalisation of the telecoms market in Macau. CTM remains as the leading and incumbent player in all three of these segments due to its long-established operations, extensive network coverage, trusted services, strong brand and innovative products.

CTM Group's turnover for the year ended 31 December 2012 reached MOP4,922.2 million, representing a 23.6% increase from the preceding year of MOP3,981.9 million. This growth in turnover was mainly attributable to sales of goods (primarily due to the increasing popularity of smartphones), reflecting a growth of 65.1% (MOP999.3 million) against the previous year. Excluding sales of goods, turnover decreased by 2.4% (MOP59.0 million) in 2012, mainly driven by the decrease in business solutions for enterprise customers as a result of the cyclical nature of casino/hotel developments in Macau. The drop in gross margin of business solutions was compensated by the growth in mobile services and leased lines which led to a growth of overall gross margin of 3% (MOP58 million). As a result, CTM Group's profit for the year increased by 4.0% from MOP932.2 million in 2011 to MOP969.3 million in 2012.

CTM's overriding strategy is aligned with the Macau Government's strategy of network convergence with a long-term vision of transforming Macau into a digital city. CTM strives to meet the changing needs of customers in Macau by offering a range of advanced telecom services at affordable prices while fulfilling its responsibilities as a corporate citizen.

## GENERAL INFORMATION ON CTM GROUP

### STRENGTHS

CTM's principal strengths include the following:

#### **CTM is the beneficiary of attractive macro and industry economic trends in Macau**

The Macau economy experienced GDP growth of 19% CAGR in the five years to September 2012. This growth resulted in an 8% increase in Macau's household disposable incomes between 2009 and September 2012. The tourism and gaming industries have been the key drivers of growth in Macau and visitor numbers reached 28 million in 2012. Visitors and workers from other countries benefit telecoms operators such as CTM as they boost roaming and call traffic. Macau's GDP is heavily skewed by visitors and the gaming and tourism industries, which stimulate the development of the telecoms market. The casino/hotel telecoms facilities and infrastructures are also key revenue drivers for CTM's enterprise solution services. Macau's relatively young population distribution provides a growth driver for technology adoption in the telecoms market and data demand as well as economic growth.

#### **CTM is the market leader in Macau across all telecommunications services and is the only integrated telecoms operator in Macau**

CTM is the only fully integrated telecoms operator in Macau. New operators have entered individual market segments, such as mobile, but only one operator bid for the new fixed line licence of the market and to date none have entered the broadband market. Such an integrated offering provides CTM with a stronger market position than its competitors, as well as cross selling opportunities. As the incumbent telecoms operator in Macau, CTM has a strong track record of successful project execution and service delivery. This is in part due to the established nature of CTM's operations and its management team's deep experience of the Macau market. As a result, CTM has maintained a dominant market share in each of the three market segments — 100% in fixed line, 100% in broadband and 46.2% in mobile (source: DSRT) in December 2012.

#### **CTM has the most extensive network infrastructure in Macau which may be upgraded with relatively limited incremental cost**

With a track record of building its network infrastructure in excess of 30 years, CTM has the most extensive network infrastructure in Macau which may be upgraded with relatively limited incremental cost. For the three years ended 31 December 2012, CTM Group's capital expenditure amounted to a total of approximately MOP832 million, including MOP339 million expended in 2012. This expenditure was for projects such as the expansion of the WCDMA 3G mobile network, the expansion of the international network, the expansion of the leased line and fixed local networks and the expansion of broadband internet network. CTM is well positioned to capture the strong growth in the mobile and broadband data markets by providing increasingly high speeds and stable mobile connectivity to meet customer needs. CTM currently offers an extensive selection of speeds and mobility options to its customers. Specifically, it offers ADSL (asymmetric digital subscriber line), VDSL (very-high-bit-rate digital subscriber line), and FTTx (fiber to the x) technologies to support speeds ranging from 1 Mbps to over 250 Mbps. CTM also offers home wireless and Wi-Fi services.

## GENERAL INFORMATION ON CTM GROUP

### **CTM has a solid financial position with a strong track record of cash generation and dividend payout**

CTM undertakes prudent capital management and had no outstanding borrowings as at 31 December 2012. CTM focuses on cost management by reducing costs, optimising efficiency and increasing productivity across its businesses such as by engaging in dialogue with its suppliers to revisit maintenance contracts to reduce costs. CTM also enjoys strong and stable cash flows. CTM Group generated Adjusted EBITDA of MOP1,193.8 million, MOP1,311.8 million, MOP1,359.1 million and net profit after taxation of MOP813.5 million, MOP932.2 million and MOP969.3 million respectively in the years ended 31 December 2010, 2011 and 2012. CTM's strong cash flow position is also supported by (i) the fact that the expenditure requirements in expanding its infrastructure to support additional users is generally driven by demand for its services; and (ii) the increased availability of new smartphone devices and the increased popularity of such devices boosts the demand for mobile data services.

### **CTM has an experienced senior management team with extensive experience in the telecoms industry**

CTM has an experienced, professional team of senior managers, who have significant experience in the telecoms industry and have in-depth knowledge of various aspects of telecoms business development. The good relationships that its directors and its senior management have with regulators, other industry participants and its customers have assisted CTM in developing new services, securing new businesses and contributed significantly to the success of its operations.

## **BUSINESS STRATEGIES**

CTM's overriding strategy is aligned with the Macau Government's strategy of network convergence with a long-term vision of transforming Macau into a digital city. CTM strives to meet the changing needs of customers in Macau by offering a range of advanced telecoms services at affordable prices while fulfilling its responsibilities as a corporate citizen. The specific strategies for each of CTM's four business segments are as follows:

### **Mobile services**

As the trend towards convergence of mobile devices and fixed broadband is expected to drive the development of personal broadband products, depending on the needs of different types of customers, CTM intends to offer or promote different services to cater for their specific needs. For example, for high-end users, CTM is planning to promote the business use of mobile centrex and tablet applications supported by the cloud environment. For the youth and immigrant worker segments, CTM intends to focus on prepaid offers, including IDD plans and data applications. CTM plans to strengthen partnerships further with regional operators to maintain market share in the roaming market and enable joint promotions for roaming data. CTM also intends to expand its retail network and implement a convergent real time rating, billing and mediation system to enhance billing flexibility.

## GENERAL INFORMATION ON CTM GROUP

### **Internet services**

In view of the demand for high speed Internet access and mobile and fixed broadband convergence, CTM intends to continue to develop and adopt new technologies, and invest to enhance its network coverage and broadband speeds. CTM is expected to continue to upgrade the bandwidth packages to improve customer experience.

### **Fixed line services**

In light of the development in the mobile market and advancement in technology, the fixed line market has been relatively stagnant. CTM intends to re-price and repackage IDD services to retain the levels of traffic and market share. CTM also intends to focus on the business market and introduce new integrated calling and contact solutions for businesses to enhance current product offerings.

### **Enterprise solution services**

CTM intends to continue to focus on the provision of one-stop shop services to its corporate customers and the government sector. By reviewing its pricing and product range, CTM intends to refine further the scope of its services to ensure provision of quality managed services and integrated solutions. The wholesale market is expected to be analysed further to address new potential business opportunities, and the product range will include wholesale leased lines, IP backhaul, broadband wholesale and IP transit resell. One-stop shop business solutions for enterprise customers in different sectors, including Macau governmental departments, educational institutions, hospitals and the gaming industry, as well as for major civil infrastructure construction and development projects are expected to remain a key focus.

## **HISTORY**

In the early 1980s, the Macau Government realised a revolutionary change was needed to enhance the efficiency of telecoms services, as residents had then to wait many months to have a telephone connected. Direct dialling was not an option and a telephone call to nearby Hong Kong was a lengthy procedure and had to be placed through an operator.

An agreement was reached in October 1981 with Cable and Wireless plc, one of the largest telecoms operators in the UK, and others to form CTM which was entrusted with the responsibility of providing telecoms services to the Macau community.

As the only full telecoms service provider in Macau, CTM has maintained a leadership role in providing world-class telecoms services to Macau's residents and visitors and it continues to play a major role in the ongoing development of Macau's infrastructure.



## GENERAL INFORMATION ON CTM GROUP

In the face of intense competition which has come with the gradual liberalisation of the telecoms market in Macau since 2000, CTM continued to invest to improve its network quality and customer service levels to further strengthen its position as Macau's telecommunications provider of choice.

In 2007, CTM was awarded "The Best Brand Enterprise Award 2007" by the Hong Kong Productivity Council (HKPC) for the Greater China region.

In 2011, CTM was awarded a "Corporate Strategy Excellence Award 2011" by East Week magazine. CTM has been awarded "The Quality and Integrity Merchants" and "My Most Favourite Top Ten Brands in Hong Kong and Macau" awards by the Guangzhou Daily for five consecutive years (2007–2011).

### BUSINESS SEGMENTS

The consolidated turnover from CTM Group's different business segments for the years ended 31 December 2010, 2011 and 2012 were as follows:

	<b>Year ended 31 December</b>		
	<b>2010</b>	<b>2011</b>	<b>2012</b>
	<i>(MOP'000)</i>	<i>(MOP'000)</i>	<i>(MOP'000)</i>
Telecommunications services	2,000,927	2,074,966	2,165,106
Enterprise solution services	251,629	372,554	223,378
Sales of goods	507,597	1,534,412	2,533,708
	<u>2,760,153</u>	<u>3,981,932</u>	<u>4,922,192</u>

### Telecommunications services

CTM provides mobile, local telephony services, local data and broadband services, and international telecommunications services.

Mobile services consist of local and international voice and data services, outbound and inbound roaming and other value added services.

Local telephony services consist of fixed-line local telecommunications services, multimedia services and wholesale interconnection services provided to other telecommunications carriers and service providers.

Local data services consist primarily of data transmission services such as private or virtual private IP network services for private and public sector organisations, and business and residential local broadband services in Macau. CTM offers commercial customers a broad portfolio of data connectivity services addressing the requirements of each enterprise's business applications.

## GENERAL INFORMATION ON CTM GROUP

The broadband services provide users with a choice of Internet access speeds, with additional value-added services. Broadband users can also stay connected to the Internet at anytime and anywhere via Home Wireless and Wi-Fi hotspots throughout Macau via an integrated wireless solution interconnecting Wi-Fi and mobile broadband networks.

International telecommunications services consist primarily of wholesale and retail international voice, data and leased line services to multinational enterprises and telecommunications service providers.

With worldwide business partnerships and network interconnection relationships, CTM's network provides connectivity to many countries and serves enterprises and wholesale markets in Europe, the Americas, Africa, the Middle East and Asia. CTM also provides IDD calling services, operator assisted overseas calls and calling card services to both business and residential customers in Macau.

### **Number of users**

The table below sets out the number of users in relation to mobile phones, mobile broadband, the Internet and fixed lines as at the dates indicated:

	<b>As at 31 December</b>		
	<b>2010</b>	<b>2011</b>	<b>2012</b>
Mobile phone users	513,866	633,936	745,460
Mobile broadband users	60,246	123,079	165,512
Internet users	132,757	138,222	145,120
Fixed lines	168,374	166,310	162,533

### **Mobile services**

CTM provides both 2G and 3G mobile services in Macau. The mobile penetration rate reached 279.8% as at 31 December 2012. CTM's mobile customer base increased by over 17.6% for the year 2012, and attained a market share in December 2012 of approximately 46.2%. CTM provides various services including inbound and outbound roaming services, sales of mobile equipment, different subscriber plans for post-paid customers and prepaid services.

The increased availability of smartphones and other wireless devices has had a positive impact on the demand for mobile data services. CTM has actively developed a suite of applications for smartphones to enhance user experience. CTM provides support for a broad spectrum of smartphones and has introduced tariff plans to drive continued growth of its 3G customer base.

As the trend towards convergence of mobile devices and fixed broadband is expected to drive the development of personal broadband products, depending on the needs of different types of customers, CTM is expected to offer or promote different services to cater for their specific needs. For example, for high-end users, CTM will promote the business use of mobile centrex and tablet applications supported by the cloud

## GENERAL INFORMATION ON CTM GROUP

environment. For the youth and immigrant worker segments, CTM is expected to focus on prepaid offers, including IDD plans and data applications. CTM is expected to strengthen partnerships further with regional operators to maintain market share in the roaming market and enable joint promotions for roaming data. CTM is also expected to expand its retail network and to implement a convergent real time rating, billing and mediation system to enhance billing flexibility.

### **Internet services**

The Internet household penetration in Macau was 84.1% as at 31 December 2012 (source: DSRT). CTM's Internet subscribers increased by approximately 5.0% in 2012. CTM provides Internet services to both commercial sector and the residential sector. CTM is expected to continue to upgrade its broadband network and extend its fiber-optic broadband network.

In view of the demand for high speed Internet access and mobile and fixed broadband convergence, CTM is expected to continue to develop and adopt new technologies, and invest to enhance its network coverage and broadband speeds. CTM is expected to continue to upgrade the bandwidth packages to improve customer experience.

### **Fixed line services**

CTM provides both local and international fixed line services and enables the Macau residents to enjoy unlimited local voice calls and fax services. CTM has an extended IDD service to more than 235 destinations.

In light of the development in the mobile market and advancement in technology, the fixed line market has been relatively stagnant. CTM is expected to re-price and repackaged IDD services to retain the levels of traffic and market share. CTM is also expected to focus on the business market and introduce new integrated calling and contact solutions for the business market to enhance current product offerings.

### **Enterprise solution services**

CTM provides one-stop shop business solutions for enterprise customers in different sectors, including Macau Government departments, educational institutions, hospitals and the gaming industry, as well as the major civil infrastructure constructions and development projects. CTM also provides leased circuit services to the governmental and business sectors.

CTM has built a profitable and sustainable business by winning large-scale, long-term projects and ensuring stable recurring revenue streams. Aside from its deep long-term relationships with its customers, CTM has also cultivated solid relationships with its network of software and hardware partners, leaders in their own respective fields, enabling CTM to effectively tailor solutions for its customers and manage its costs.

With extensive experience in a wide range of services and impressive project credentials, CTM is a trusted partner to blue-chip private sector and public sector customers.

## GENERAL INFORMATION ON CTM GROUP

A complete range of managed services and data centre services is offered spanning from data centre hosting and management to cloud computing services.

CTM is expected to continue to focus on the provision of one-stop shop services to its corporate customers and the government sector. By reviewing its pricing and product range, CTM is expected to refine further the scope of services provided to ensure quality managed services and integrated solutions are provided. The wholesale market is expected to be analysed further to address new potential business opportunities, and the product range is expected to include wholesale leased lines, IP backhaul, broadband wholesale and IP transit resell. CTM is expected to also focus on high value segments including casinos, hotels, banks and the government and provide services including facility management, video conferencing, surveillance network, IT security, disaster recovery, cloud applications and data centre.

### **Sales of goods**

CTM offers a range of Apple, Blackberry, HTC, LG, Nokia, Samsung and other brands of smartphones, tablets and notebooks, as well as Panasonic and other brands of residential phones, some of which are only sold with a service plan contract for a specified period. These products may be purchased online or at any of CTM's retail outlets.

Handset sales increased from MOP1,515.5 million in 2011 by 66.3% to MOP2,519.8 million in 2012. The increase was mainly driven by the increasing popularity of smartphones which have a higher selling price per unit.

### **SALES AND MARKETING**

CTM markets its services through its sales and marketing team as well as via its website and retail outlets. Dedicated sales units address CTM's businesses in the consumer and corporate segments of the market. A team of professional sales consultants in the corporate segment rely on CTM's CRM capabilities system to target different customer groups with new products and services, and cross-sell CTM's services to the customers of its other divisions. The CRM system collects information about customer usage patterns, which can be used for market segmentation and to enable CTM to market on a targeted basis. Industry specialisation and individual focus on larger customers allows for solutions tailored to a customer's special needs.

CTM has a customer loyalty programme whereby customers are awarded credits known as "Bonus points" entitling customers to redeem cash coupons and gifts.

As CTM's retail outlets are all located in major residential, business or tourist areas, CTM provides convenient, high-quality services and products to both residents and visitors. CTM is expected to continue to improve the standard of its retail customer services by expanding its retail shops network and extending the opening hours of the retail shops.

## **COMPETITION**

The implementation of the Macau Government's policy to liberalise the telecommunications industry has resulted in intense competition in the markets for local and international services. Macau's telecoms industry was once a monopoly market with CTM being the sole and fully-integrated operator across the mobile, fixed line and broadband segments. The industry dynamics began to change when mobile service licences were given to three additional operators since 2001 and subsequently in 2012 when the fixed line market was liberalised. CTM remains as the leading and incumbent player in all three segments due to its long-established operations, extensive network coverage, trusted services, strong brand and innovative products.

## **REGULATION**

Macau's Basic Telecommunications Law (Law no. 14/2001) provides the basis for the telecommunications policy of the Macau Government as well as a broad regulatory framework, which is administered by the DSRT, for the establishment, management and development of telecommunications networks and telecommunications services.

The Macau Government's telecommunications policy aims to:

- 1) liberalise the installation of public telecommunications networks and the public telecommunications services, increase the public benefit and create opportunities for investment, in order to reinforce competitiveness and continuous social and economic development;
- 2) guarantee access to telecommunications, with reasonable tariffs/prices and efficiency in a non discriminatory manner, for the social and economic activities of Macau's population;
- 3) ensure the existence and availability of a universal telecommunications service;
- 4) ensure the equality and transparency of the conditions of competition and promote diversified services corresponding to the demands of users;
- 5) ensure the interoperability of public telecommunications networks, as well as number portability;
- 6) promote the utilisation of telecommunications networks and services by public administrations, public institutes and other public entities, in a way that elevates the equality and efficiency of the services rendered;
- 7) promote scientific and technological development.

## GENERAL INFORMATION ON CTM GROUP

Operators of public telecommunications services such as CTM are required to allow other telecommunications operators to use their network equally under the conditions of competition and permit the interconnection of telecommunications networks used by other operators, so as to guarantee the access and communications among the users of the services provided by different operators. The following anti-competitive practices are prohibited: discriminatory practices impacting other telecommunications operators and with the public in general; agreements or practices reached among telecommunications operators or enterprise associations, in whatever form, which distort, restrict and impede competition; and cross subventions or other practices that subvert competition or choice.

Any telecommunications operator who is not subject to significant competition coming from other operators is considered to have a dominant position. The main criteria to determine whether a telecommunications operator is subject to significant competition in a certain market, are the market share, the ability to influence prices and access to the market by other operators, the control of the media for accessing to the services by the users, the financial resources and profitability and the degree of diversity of products and services offered.

CTM currently has the right granted by the Macau Government to provide local and international switched fixed voice and data services on a non-exclusive basis, without interruption, for a period of five years from 1 January 2012 until 31 December 2016, automatically renewable for another five-year period until 31 December 2021 except in the case of a serious breach by CTM of the relevant laws and regulations or for reasons of public interest.

CTM also operates under a licence from the Macau Government to provide mobile services in competition with other operators in Macau, both for GSM 2G and WCDMA 3G mobile services, which expires in June 2015 and is renewable for a period of up to eight years. CTM is also licensed to operate internet services. CTM has applied for renewal of its internet licence for a five-year period and the application for renewal is being processed by the Macau Government.

On 31 December 2011, the Administrative Regulation no. 41/2011, which liberalised the fixed telecoms market in Macau and established the regime for the deployment and operation of public fixed telecommunications networks and the licensing framework for new fixed line operators.

### INSURANCE

CTM has insurance policies providing coverage for its assets and operations including loss of or damage to its properties and assets, loss of profit and additional costs of working arising from loss or damage to its properties or assets, public liability, contractual liability, employment liability, errors and omissions, amongst others.

## GENERAL INFORMATION ON CTM GROUP

CTM's properties are covered with adequate insurance provided through a combination of direct insurance or reinsurance policies with insurance companies and with commercially prudent deductibles and limits on coverage. Notwithstanding CTM's insurance provisions, CTM could nevertheless experience a material loss as a result of an unforeseeable series of catastrophic events, systemic adverse circumstances, or other adverse occurrences not currently foreseeable and/or not commercially insurable.

### DIRECTORS AND MANAGEMENT

#### Board of Directors

The board of directors of CTM is as follows:

William Anthony Rice <sup>(1)</sup>	Chairman
Poon Fuk Hei	Managing Director
Timothy Lincoln Pennington <sup>(1)</sup>	Director
Ip Ming Wong	Director
Nicholas Ian Cooper <sup>(1)</sup>	Director
Luiz Filipe Saraiva Castel-Branco Avelar <sup>(1)</sup>	Director
Carlos Manuel Mendes Fidalgo Moreira da Cruz <sup>(1)</sup>	Director
Yuen Kee Tong	Director
Lau Wai Meng	Director

*Note:*

(1) These persons will resign after the completion of the Acquisitions.

#### Supervisory Board

The supervisory board of CTM is as follows:

Belinda Holly Yvette Bradberry <sup>(1)</sup>	President
Maria Teresa Jordão Pereira Neves <sup>(1)</sup>	Member
Chong Yun Leng	Member
Ian James Lawson <sup>(1)</sup>	Member
David Chan Tin Wai	Member

*Note:*

(1) These persons will resign after the completion of the Acquisitions.

## GENERAL INFORMATION ON CTM GROUP

### Executive Committee

The executive committee of CTM is as follows:

Poon Fuk Hei	Chief Executive Officer
Ip Ming Wong	Chief Financial Officer
Aguinaldo Wahnon	Vice President, Legal & Regulatory, General Counsel
Donald Shaw	Vice President, Strategy and Business Performance
Declan Leong	Vice President, Enterprise Business
Ebel Cham	Vice President, Consumer Market
Gloria Silva	Vice President, Corporate Communications, Human Resources and Administration
Thomas Lei	Vice President, Network Services



## RISK FACTORS

### A. RISKS ASSOCIATED WITH THE ACQUISITIONS

- **The Acquisitions may not complete**

Completion of the Acquisitions is subject to certain conditions, details of which are set out in the paragraphs headed “Acquisition of a 51% interest in CTM from Sable – Sable Sale and Purchase Agreement – Conditions” and “Acquisition of a 28% interest in CTM from PT – PT Sale and Purchase Agreement – Conditions” in the section headed “Letter from the Board” in this circular. If the Shareholders do not approve the Acquisitions, or other conditions, including receipt of all required regulatory approvals, are not satisfied or waived by the long stop date, completion of the Acquisitions may not proceed.

In addition, as agreed in the Three-party Agreement (details of which are set out in the paragraph headed “Inter-conditionality of the Acquisitions” in the section headed “Letter from the Board” in this circular), completion of the Sable Acquisition and the PT Acquisition are conditional upon each other.

There can be no assurance that the conditions will be fulfilled (or waived, where applicable of being waived) or that the Sable Acquisition and the PT Acquisition will be completed. If completion of the Acquisitions do not proceed, the Company will not be able to realise the benefits envisaged for the Acquisitions, and it may create uncertainty for the Group’s business planning and development.

- **Governmental and regulatory approvals from the Macau Government and the PRC government may take a longer period of time than expected to obtain and may result in new or more stringent conditions being imposed on the Enlarged Group**

The Company is seeking certain governmental and regulatory approvals and to receive confirmations for the Acquisitions from the relevant authorities in Macau and the PRC. These merger clearance processes may take a longer period of time than expected to obtain, which could delay completion of the Acquisitions. Furthermore, the relevant authorities may, as a condition to granting their approval or confirmation, impose requirements or limitations, require divestitures or place restrictions on the conduct of the Enlarged Group’s business. Any such requirements, limitations, divestitures or restrictions could delay or jeopardise completion of the Acquisitions, prove costly to comply with or implement, reduce the anticipated benefits of the Acquisitions or result in an adverse effect on the business and results of operations of the Enlarged Group.

- **The Group’s indebtedness may limit the Group’s ability to obtain additional financing in the future**

The Company expects to fund the Acquisitions with its existing cash resources and new bank facilities. Commitments on a certain funds basis for short and long-term loan facilities have been obtained from a group of banks and other

## RISK FACTORS

financial institutions. The disbursement of the funds under such facilities is conditional on satisfactory completion of the loan documentation and satisfaction of certain conditions to completion of the Acquisitions. If the Company is unable to obtain funding from such facilities it may not be able to complete the Acquisitions. The Company may consider refinancing part or all of such facilities at a later date through a combination of equity issuance (including via a rights issue) and/or bond issuance. As the Group has committed a significant amount of financial resources for the Acquisitions, the Group's indebtedness and related obligations could have important future consequences on the Group, such as potentially limiting the Group's ability to obtain additional financing, exposing the Group to the risk of increased interest costs as a result of any interest rates rise, and potential restrictions on the Group's ability to make distributions to the Shareholders.

In addition, the Group may require additional capital in the future to fund its operations, finance investments in equipment or infrastructure, or respond to competitive pressures or strategic opportunities. The Group cannot be certain that additional financing will be available on terms favourable to it, or at all, for its future operations, capital expenditures and expansion. If the Group is unable to secure additional financing on acceptable terms to meet its operational and expansion needs, its business and trading position, as well as its financial results and conditions, may be adversely affected.

- **Company's ability to pay dividends and meet other obligations**

Following completion of the Acquisitions, CTM Group will represent a substantial part of the assets of the Company. The Company's ability to pay dividends, if any, may be dependent on the flow of funds it receives from CTM Group. The Company cannot assure the Shareholders and prospective investors of the Company that CTM Group will be able to make distributions and payments to the Company in an amount sufficient, or at all, to meet the Company's cash and reserve requirements and enable the Company to pay any dividends.

The Company cannot assure the Shareholders and prospective investors of the Company that CTM Group will generate sufficient earnings and cash flow to pay dividends or otherwise distribute sufficient funds to enable it to meet its obligations or pay dividends. Restrictions on the ability of CTM Group to pay dividends and make other distributions and payments to the Company could have an adverse effect on the Company's ability to pay dividends and expenses and future ability to repay debt, if any.

- **The Enlarged Group faces challenges in executing its growth strategy**

In recent years, the Company has completed a number of strategic acquisitions and investments to complement its businesses and expects to complete the Acquisitions in 2013. Although the Company conducts due diligence in connection with its acquisitions and investments, it may not be aware of all the risks associated with the acquired businesses at the time of purchase. Any discovery of adverse information concerning the acquired businesses after the completion of the

## RISK FACTORS

acquisitions could materially and adversely affect the Group's business, financial condition and results of operations. Furthermore, the acquired companies may not perform to the Company's expectations for various reasons, including legislative or regulatory changes that affect the products and services in which the acquired companies specialise, and the loss of key customers and personnel. If the Group is not able to realise the benefits envisioned for such acquisitions and investments, the Group's overall profitability and growth plans may be adversely affected.

The Enlarged Group's business strategy is to focus on developing its telecoms businesses, both organically and through new business combinations, strategic investments and acquisitions. However, the Enlarged Group may face challenges in executing such strategy, including:

- availability and pricing of capital raising on suitable terms;
- competition in its markets and challenges in maintaining customers and enhancing its services;
- the existence of regulatory requirements and barriers;
- the difficulty of integrating the operations and personnel of the acquired companies;
- the potential disruption to the Enlarged Group's ongoing business and the diversion of management's time, attention and resources;
- the difficulty of incorporating acquired technology and rights into the Enlarged Group's products and services;
- the impairment of relationships with employees and customers as a result of integration of new management and personnel;
- potential unknown liabilities associated with acquired businesses; and
- adverse effects on the Enlarged Group's reported operating results due to the amortisation of and potential impairment provision for goodwill and other intangible assets associated with acquisitions and losses sustained by acquired companies after the date of acquisitions.

There is no assurance that the Enlarged Group will be able to implement its growth strategies successfully or that it will be able to expand the Enlarged Group's activities or portfolio at any specified rate or to any specified size. The Enlarged Group may not be able to complete its plans on schedule or without incurring additional expenditures or at all. If market conditions change and operations do not generate sufficient funds or for any other reason, the Enlarged Group may decide to delay, modify or forego some aspects of its growth strategies. The Enlarged Group's future results of operations may be adversely affected if it is unable to implement growth strategies successfully.

## RISK FACTORS

### B. RISKS RELATING TO CTM GROUP AND ITS OPERATIONS

- **The business of CTM Group may entail significant competition as a result of the liberalisation of the Macau telecoms market and rapid technological changes**

The telecoms market is extremely competitive and rapidly changing. In addition, the fixed telecoms market in Macau is in the process of liberalisation, and it is expected that competition may increase from both existing market players and new market players. Increased competition may have adverse effect on the operating performance of CTM Group and hence affect the value of the business.

The telecoms industry is subject to rapid and significant changes in technology, frequent new service introductions and evolving industry standards. Such changes may adversely affect CTM Group's revenue. In the event that CTM Group is not in a position to cope with emerging and future technological changes, CTM Group's operations or its competitiveness will be adversely affected. There can be no assurance that CTM Group can improve the features, functionality, reliability and responsiveness of its interoperability, infrastructure and other services to meet the changing demands of its customers towards new communication technologies.

Similarly, the technologies that CTM Group employs may become obsolete or subject to intense competition from new technologies in the future. If CTM Group fails to develop, or obtain timely access to, new technologies, or if it fails to obtain the necessary licences for the provision of services using these new technologies, CTM Group may lose its customers and market share, and its results of operations would be adversely affected.

- **CTM Group may not be able to enhance its existing products or services to match the rapid pace of technological development**

The rapid pace of the high technology industry requires the constant development of existing products or the invention of substitutes and some of its products or services may be rendered uncompetitive or obsolete if CTM Group fails to respond to new technology development. There can be no assurance that CTM Group can meet the evolving demands of its customers for new technologies in timely manner.

The performance of CTM Group depends on its ability to continually upgrade its existing products and technical knowhow, the timely recruitment of necessary skilled personnel and its deployment of new facilities to develop new products and technologies, all of which enable CTM Group to keep up with the latest technological trends.

The inability to respond to these and other technological developments in the market may lead to the loss of its customers, hence adversely affecting its business operations and profitability. If CTM Group is not able to respond to these new

## RISK FACTORS

developments successfully or in a cost-effective way, or fails to obtain the necessary licences for the provision of services using new technologies, its operations and financial results may be materially and adversely affected.

- **CTM Group may not be able to adapt to its customers' varying requirements and its products or services may not gain market acceptance and may not achieve commercial success**

The success of CTM Group's business depends on its ability to enhance its existing products and services and to develop new products and services which are compatible to industry requirements of its targeted customers which may have different needs. Such development process is complex, uncertain and time-consuming. Even if CTM Group successfully develops and launches a new product or service, there is no assurance that it will be commercially accepted by its targeted customers in the market. The success of the new products or services of CTM Group depends on its ability to anticipate and adjust its products or services, compatibility with changing needs, preferences and technological requirements of its customers as well as the perceived advantages and disadvantages of its products or services relative to competitive products or services. If CTM Group fails to gain market acceptance of its new products or services by its targeted customers, it may not recover the research, development, production and marketing costs for such new products or services, and CTM Group's business, financial condition, results of operations and prospects may be adversely affected.

- **The business operations of CTM Group depend on recruitment and retention of key management personnel and qualified employees**

The past success of CTM Group has been largely dependent on its key management personnel. Most of them have significant experience in the telecoms markets with in-depth knowledge of various aspects of telecoms business development. In addition, the relationships and reputation that members of CTM Group's management team have established and maintained with its customers contribute to CTM Group's ability to maintain good customer relations, which is important to the direct selling strategy that CTM Group adopts.

The continual growth of the business of CTM Group depends on the retention of its existing key management personnel and the recruitment of additional key personnel. It cannot be assured that its key management personnel will remain employed within CTM Group. Although CTM Group has entered into employment contracts with all its senior management, such contracts cannot prevent its senior management from terminating their employment. Additionally CTM Group does not maintain any 'key person' insurance nor have in place a succession plan. Hence, the loss of the services of a key member of the senior management team either by resignation or retirement may impair CTM Group's ability to identify and secure new contracts with customers or otherwise to manage its business effectively.

## RISK FACTORS

CTM Group believes that an integral part of its success relies on its ability to recruit and retain employees who have advanced skills in the services that CTM Group provides. In particular, CTM Group must hire and retain employees with the technical expertise and industry knowledge necessary to maintain and continue to develop CTM Group's operations. Additionally, its past technological advancement and ability to remain competitive is significantly dependent on the technical expertise of its research and development team. There can be no assurance that CTM Group will be able to recruit and/or retain suitable employees in the future. CTM Group must also effectively manage the growth of its sales and marketing team to ensure the growth of its business. CTM Group's business depends on, to a considerable extent, the ability of its sales and marketing team to establish direct sales channels. CTM Group's success also depends on its application development team to improve and develop its services. Employees with the skills that CTM Group requires are in great demand and are likely to remain a limited resource in the foreseeable future. If CTM Group is unable to recruit and retain a sufficient number of these employees at all levels, its ability in maintaining and growing its business may be adversely affected.

- **Uncertainty in the business relationship of CTM Group**

The business relationship with the customers of CTM Group is established based on contracts with such customers. In light of the contract-based business, there is no assurance that the customers will continue to retain services provided by CTM Group or that they will not choose other services providers. Should CTM Group fail to maintain business with these customers, its business operations and financial performance may be adversely affected.

- **Uncertainty in the business plan of CTM Group**

The business plan of CTM Group is dependent upon certain assumptions on future events and on the assumption that it will possess the adequate skills, knowledge, expertise and access to resources and facilities for production and marketing of such products, and good business relationships with customers. By nature, these assumptions are subject to uncertainty and therefore it cannot be assured that CTM Group will be able to successfully expand its business or that CTM Group will be successful in achieving the planned business operation and profits. If any of its business plan does not materialise as planned or delayed, its business operations may be adversely affected, which could result in a decrease in profits.

- **Systems failures, delays and other problems could harm CTM Group's reputation and business, and cause CTM Group to lose customers and be exposed to customer liability**

CTM provides mobile, fixed line and broadband services that are dependent on the performance of its network. CTM 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:

## RISK FACTORS

- 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, intentional acts of vandalism and similar events; and
- the failure to adapt to rapid technological changes in the telecoms industry.

In December 2012, CTM experienced a system failure as a result of a software update. The issue was resolved and measures were implemented to ensure that similar issues did not arise again. If CTM 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 CTM 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 be subject to penalties imposed by the Macau Government;
- 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 CTM Group's revenues and performance.

- **The damage to CTM's data centre or other network infrastructure may interrupt CTM Group's operations and adversely affect its business**

The integrity of CTM's data centre and its infrastructure, in particular in relation to CTM Group's POPs (points of presence), submarine cable connections, international private lease lines, local lease lines, switches or other circuits connecting CTM Group with its customers, are important to CTM's provision of



## RISK FACTORS

services. CTM may not have sufficient backup systems or facilities to allow it to receive, process and/or transmit data in the event of a damage to its data centre or its infrastructure. Such damage may be caused by power loss, natural disasters or telecom failures such as transmission cable disruptions or other similar events that could adversely affect its customers' ability to access CTM Group's hub. For instance, in July 2011, one of CTM's switch rooms was damaged as a result of an explosion at a restaurant located at the "Centro Internacional de Macau" building complex, leading to an interruption in CTM's services. CTM also experienced several network incidents in February, May and December 2012 which caused services disruption in some parts of CTM's mobile network, fixed network and internet network. Damages to CTM's network infrastructure may require CTM to make significant expenditures to repair or replace its data centre or other infrastructure. Any interruption to CTM's services could harm CTM's reputation and cause its customers to reduce their use of CTM's services, which could harm CTM Group's revenues and business prospectus.

CTM Group's business model depends on the availability of telecoms networks and infrastructure maintained by third parties to transmit and terminate voice and/or data traffic. In the event that any of these third parties fails to provide their telecoms networks, infrastructure or other facilities to CTM Group for whatever reason, for instance, due to natural disasters or problems with, or scheduled or unscheduled maintenance activities upon, any of their telecoms networks, infrastructure or other facilities, CTM Group's ability to complete calls or provide other services to its customers may be materially disrupted or suspended which could in turn discourage its customers from using CTM Group's services.

- **Security or privacy breaches may result in an interruption of service or a reduced quality of service, which could increase CTM Group's costs or result in a reduction in the use of CTM Group's services by its customers**

CTM 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 CTM Group's databases, they may be able to steal, publish, delete or modify sensitive information that is stored or transmitted on CTM Group's networks and which CTM 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 information internal to CTM Group may also be disclosed to unauthorised personnel who may use such information in a manner adverse to the interests of CTM Group. Hackers may attempt to "flood" the network, thereby preventing legitimate network traffic or to disrupt connections between two machines, thereby preventing access to a service or preventing a particular individual from accessing a service. CTM Group's VoIP network may also be exposed to intruders' attacks or other unauthorised access, resulting in call hijacking, eavesdropping, resource exhaustion and making of free telephone calls. CTM 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 CTM Group's reputation and cause its customers to reduce their use of such services, which could harm CTM Group's revenues and business prospects.



## RISK FACTORS

In addition, CTM Group's revenue may be adversely affected by un-captured usage, in the event that CTM 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 CTM Group's transmission networks, thereby adversely affecting the overall quality of services which CTM Group provides to its paying customers.

CTM Group's exposure to telecoms security concerns is heightened as Macau laws relating to liability under such circumstances are relatively new. In addition, CTM Group does not carry "errors and omissions" or other insurance covering losses or liabilities caused by computer viruses or security breaches, which under such circumstances could mitigate damages that CTM Group may suffer. If CTM Group incurs any such losses or liabilities, its operating results, financial condition, business and prospects may be adversely affected.

- **The failure of third-party software and equipment which CTM Group uses in its systems may cause interruptions or failures of its systems**

In addition to the use of the Internet and certain telecoms networks maintained by broker carriers and other third parties for the transmission of voice and/or data traffic, CTM Group also incorporates hardware, software and equipment developed by third parties into its systems. As a result, CTM Group's ability to provide its services depends in part on the continued performance and support of these third-party products. If these products experience failures or contain defects, and the third parties supplying these products fail to provide adequate remedial support, this may result in the interruption or unsatisfactory performance of CTM Group's systems or services.

- **Inadequate network resilience and diversity and backup systems may result in service disruptions**

Any failure of CTM Group's backup systems or any insufficiency in CTM Group's redundancy capacity may disrupt CTM Group's operations. There can be no assurance that CTM Group's existing alternative routes, cable diversity or backup systems will provide adequate backup for all kinds of service interruptions that may occur.

Moreover, even with these contingency measures, service disruptions could last for a considerable period of time before complete service can be restored. This may cause customers to reduce their use of CTM Group's services, which could harm CTM Group's revenues and business prospects.

- **Loss of significant information may adversely affect CTM Group's business**

In cases of a failure of CTM Group's data storage system, CTM Group may lose mission critical network or billing data, source codes, proprietary production system designs or important email correspondences with its customers and suppliers. Though CTM Group has its own disaster recovery system to replicate all

## RISK FACTORS

its mission critical data at pre-determined intervals and performs periodic offline backups of its important data, mission critical data stored in its data centre may still be lost if there is a lapse or failure of the disaster recovery system in backing up these data, or if the periodic offline backup is not frequent or sufficient enough. In such circumstances or in the case of loss of data by CTM, the business and reputation of CTM Group may be materially adversely affected.

- **Capacity limits on CTM Group's network and application platforms may be difficult to project and CTM Group may not be able to expand or upgrade its systems to meet increasing demand**

CTM Group's business requires it to handle a large number of calls and other data simultaneously. In order to manage growth in the number of such calls and other data successfully, CTM Group needs to enhance its operational, management, financial, and information systems and controls continuously and effectively. It is difficult to predict when the capacity limits on CTM Group's network and application platforms will be reached, given that the usage requirement of CTM Group's services depends on the demand from subscribers. If CTM Group does not expand or upgrade its hardware and software quickly enough, it may not have sufficient capacity to handle the increasing demand and this would limit the growth of its operation and improvement of its performance. Even with sufficient expansion, CTM Group may fail to manage its deployments of the latest technology or utilise it in a cost-effective manner. In addition to potential losses of growth opportunities, any such failure could adversely affect customer confidence in CTM Group's capability and could result in the loss of businesses outright.

- **CTM Group's ability to maintain and expand its telecoms services may be affected by disruption of supplies from its major suppliers**

A significant portion of CTM Group's supplies is expected to be, derived from a limited number of suppliers. For the years ended 31 December 2010, 2011 and 2012, the five largest suppliers of CTM Group accounted for approximately 37%, 40% and 44% respectively of CTM Group's purchases (calculated by reference to network system costs, as determined by CTM's management, including plant and machinery, repairs and maintenance and other network system support expenses). During the same periods, the largest supplier accounted for approximately 28%, 30% and 29% respectively of CTM Group's purchases.

CTM Group has not entered into long-term supply contracts with many of its major suppliers, save in respect of certain undersea cables. As such, there can be no assurance that CTM Group's major suppliers will continue to provide the relevant technical support and services to CTM Group. In the event that any of these suppliers cease to provide their services to CTM Group, and CTM Group fails to replace such suppliers, or if there are significant increases in the cost of these supplies, CTM Group's business and financial position may be materially and adversely affected.

## RISK FACTORS

- **CTM Group's failure to achieve or sustain market acceptance at desired pricing levels may impact its ability to maintain profitability or positive cash flow**

CTM Group's competitors and customers may cause CTM Group to reduce the prices it charges for its services which in turn could adversely affect CTM Group's profitability and cash flow. The primary sources of pricing pressure include:

- competitors offering competing services at reduced prices, or bundling and pricing services in a manner which makes it difficult for CTM Group to compete;
  - customers with a significant volume of transactions may have enhanced leverage in pricing negotiations with CTM Group; and
  - if the prices of CTM Group's services are too high, potential customers may find it economically more advantageous to handle certain functions in-house instead of using CTM Group's services.
- **CTM Group may need additional capital in the future which may not be available on acceptable terms**

CTM Group may require additional capital in the future to fund its operations, finance investments in equipment or infrastructure, or respond to competitive pressures or strategic opportunities. If CTM Group does not have sufficient internal resources to fund its operations, capital expenditures and expansion, it will have to rely on external equity and debt financing. CTM Group cannot be certain that additional financing will be available on terms favorable to it, or at all. Further, the terms of available debt financing may place limits on CTM Group's financial and operating flexibility. If CTM Group is unable to obtain sufficient capital in the future, CTM Group may face the following risks:

- not being able to continue to meet customers' demands for service quality, capacity and competitive pricing;
- not being able to expand its capacity or operations or acquire complementary businesses;
- not being able to develop new services or otherwise respond competitively to changing business conditions; and
- being forced to reduce its operations.

## RISK FACTORS

- **CTM Group is subject to credit risk in respect of its account receivables**

CTM Group provides credit periods to its customers, which are calculated from the dates the invoices are issued by CTM Group to the dates of payment by the customers. Such credit periods generally range from 20 to 30 days depending on the credit status of the customers. CTM Group has a concentration of credit risk of trade and other receivables due from CTM Group's largest customers. Should such customers fail to settle such receivables in full, CTM Group's financial conditions and profitability could be adversely affected.

Although CTM Group implements credit control policies and measures, CTM Group cannot assure that these measures are adequate in protecting CTM Group against material credit risks. CTM Group may provide services to customers who do not provide sufficient deposits, advance payments or bank guarantees for CTM Group's services. Moreover, should CTM Group's customers be unable to pay in full for any reason, CTM Group's profit and cashflow will be adversely affected. Any delay in the payment by customers may also adversely affect CTM Group's operation and financial position. CTM Group may have to sustain legal costs in pursuing unsettled invoices, a process that is time-consuming and may be affected by a variety of factors including any counterclaim from such non-paying customers. Even if CTM Group obtains favourable judgements, enforcement of such judgements may take time and may not always be successful.

- **CTM Group relies on sophisticated billing and credit control systems, and any problems with these systems could interrupt CTM Group's operations**

Sophisticated billing and credit control systems are critical to CTM Group's ability to increase revenue streams, avoid revenue loss and potential credit problems, and bill customers properly and in a timely manner. If adequate billing and credit control systems and software programmes are unavailable, or if upgrades are delayed or not introduced in a timely manner, or if CTM Group is unable to integrate such systems and software programmes into its billing and credit systems, CTM Group may experience delayed billing which may negatively affect CTM Group's cash flow and other aspects of its operations.

CTM Group will need to expand and adapt its billing and credit control systems to capture revenue streams as its businesses continue to grow. Failure by CTM Group to do so could adversely affect its business, prospects, financial condition and results of operations. Moreover, CTM Group may decide to launch certain services and products even though its billing and control systems are not yet able to fully track and bill for these services and products at the time of their launch.

## RISK FACTORS

- **CTM Group's ability to provide commercially viable telecoms services depends, in part, upon various intellectual property rights owned by CTM Group and those licensed from third parties**

CTM Group currently licenses certain technologies and other intellectual property rights from third parties. As CTM Group continues to introduce new services requiring new technologies, it may need to obtain licences to use additional third-party technologies. If CTM Group is unable to obtain or renew these technology licences on commercially acceptable terms, its new product and service launches could be severely compromised. Moreover, it is possible that in the course of using existing or new technologies, CTM Group may inadvertently breach the intellectual property rights of others and liabilities may ensue, which may materially affect CTM Group's business and financial condition.

The intellectual property rights developed or owned by or licensed to CTM Group may be challenged or circumvented by competitors or other third parties, or the relevant intellectual property rights may be invalid, unenforceable or insufficiently broad to protect CTM Group's interests or to provide CTM Group with any competitive advantage. Any loss or withdrawal of intellectual property rights may affect CTM Group's ability to provide its services and may adversely affect CTM Group's financial condition, results of operations and prospects.

- **CTM Group has not registered all the intellectual property rights in its technologies, and any unauthorised use, infringement or misappropriation of such rights by third parties may adversely affect CTM Group's business**

CTM Group has developed a number of trademarks, copyrights, domain names, software applications and technologies. While under applicable law, copyright arises without the need of its owner to register its copyright first, intellectual property rights such as patents and trademarks must be registered with the relevant governmental authority before a person or entity can become its registered owner, and hence be protected by the relevant intellectual property laws. The registration of trademarks, domain names, software applications and technologies is necessary before CTM Group can enforce its intellectual property rights against unauthorised use, infringement or misappropriation of such rights. Although CTM Group has registered a number of its domain names and trademarks in jurisdictions that are essential to its operations, the absence of registration for the intellectual property rights that CTM Group may have over its software applications and technologies exposes CTM Group to the possible unauthorised use, infringement or misappropriation of its marks and technologies to which CTM Group cannot effectively enforce its rights. This may result in the revenue-generating intellectual property rights being used and developed by third parties for their own business purposes and CTM Group's business may therefore be adversely affected.

## RISK FACTORS

- **Insurance does not cover cyber risks and data loss**

The insurance taken out by CTM Group does not cover certain damages or losses, and contain a number of liability exclusion clauses, including exclusions for:

- damage or loss relating to the use or misuse of the Internet or similar facility, such as;
  - unauthorised access;
  - unauthorised use;
- damage to or loss of data or software, in particular any detrimental change in data, software or computer programs that is caused by a deletion, corruption or deformation of the original structure, and any business interruption losses resulting from such damage or loss; and
- damage or loss resulting from an impairment in the function, availability, range of use or accessibility of data software or computer programs, and any business interruption loss resulting from such damage or loss.

As such, CTM Group may not be adequately indemnified or compensated if it sustains any such loss or damage, which in turn may adversely affect the financial position of CTM Group.

- **CTM Group may not be able to sustain its existing sales margins**

For the years ended 31 December 2010, 2011 and 2012, CTM Group achieved sales margins (meaning, in the context of CTM Group turnover minus direct cost of sales, as a percentage of turnover.) of approximately 58.5%, 44.8% and 37.4% respectively. However, there can be no assurance that CTM Group will be able to sustain these sales margins in the future due to the likelihood of rapid changes in the telecoms industry and the keen competition in the industry. In the event that CTM Group is unable to develop new services with high sales margins or if its services are substituted or are otherwise adversely affected by similar or superior services developed by its competitors, CTM Group may not be able to sustain its existing sales margins.

- **Risk of upward adjustments to royalty payments made by CTM under the Macau Concession**

DSRT is reviewing CTM's royalty payment under the Macau Concession and other licences back from 2001, alleging that payments that have been made by CTM were only on a provisional basis and subject to final approval. No provisions have been made in CTM Group's accounts for such adjustment. In addition, DSRT is proposing to apply royalty on the services included in the new fixed network licence

## RISK FACTORS

which will likely be issued in 2013. There is a potential risk that the historic and future royalty payments may be adjusted upwards by the Macau Government and CTM Group's financial performance may be adversely affected.

- **Significant decline in handset sales may impact CTM's sales and its cashflow and working capital**

CTM presently relies on the sale of handsets to generate a significant portion of its revenue, representing 17.8%, 38.1% and 51.2% of its consolidated revenue for the years ended 31 December 2010, 2011 and 2012, respectively. The sale of handsets also provides CTM with an opportunity to cross-sell complementarily carrier services to new customers. As such, any circumstance, including any slowdown in the introduction of new smartphones, that results in a significant decline in handset sales may adversely affect the revenue generated by CTM and negatively impact its cashflow and working capital.

- **CTM Group relies heavily on the Macau market and may be adversely affected by changes in Macau and the PRC's economic, political and social conditions**

CTM Group's primary facilities and operations are located in Macau. Macau is a special administrative region of the PRC with its own government and legislature. There is no assurance that Macau will continue to enjoy its current level of autonomy from the PRC. If it does not, this could have a material adverse effect on CTM Group's business, results of operations and financial condition.

As CTM Group's operations are principally conducted in Macau, its financial position and results of operations are and will be affected by changes in political, economic and social conditions in Macau or the relevant policies of the Macau Government, which are beyond the control of the Group.

In particular, the economy of Macau is significantly affected by the developments in China and the Asia-Pacific region. China's economy may experience negative economic developments, and other regional economies may also deteriorate. In such circumstances, Macau's economy and hence CTM Group's operating results, financial condition, business and prospects would be adversely affected.



## RISK FACTORS

### C. RISKS RELATING TO THE INDUSTRY

- **Regulatory changes for the telecoms industry in Macau may adversely affect CTM Group's business**

The operation of CTM's businesses requires licences from the Macau Government, without which CTM would be unable to operate.

CTM is subject to the rules and regulations applicable to the telecom industry in Macau. If CTM has violated Macau's telecom laws or regulations or the conditions of its licences, the Macau Government may suspend or revoke CTM's licences or take other action detrimental to CTM. In particular, the Macau Government may have an unilateral right to terminate under the Macau Concession if CTM incurs a total cumulative fine of MOP1,500,000 for outages of the fixed services. As at the Latest Practicable Date, an aggregate fine of MOP300,000 applied under the Macau Concession was incurred by CTM.

In the event that the Macau Government refuses to renew any of the existing licences of CTM (details of which are set out in the paragraph headed "Regulation" in the section headed "General Information on CTM Group" in this circular) when they expire, CTM's ability to offer its services will be adversely affected.

Moreover, if the Macau Government changes its existing regulations or policies such as those governing interconnection or competition, including the requirement on CTM to obtain separate or further licences for its existing operations or services, or to obtain licences in respect of its future operations or services based on new communication technologies, CTM Group's results of operations, financial condition, business and prospects could be adversely affected. CTM Group may also incur extra costs in order to comply with technical specifications or other conditions resulting from any enacted or proposed changes in the applicable laws and regulations. As a result, CTM Group's business, financial condition, results of operations and/or prospects may be adversely affected. The business of the CTM Group's customers is also subject to regulations. As a result, such regulations could indirectly affect the CTM Group's business. As communications technologies and the telecoms industry continue to evolve, regulations governing the telecoms industry may change. If this were to occur, the demand for CTM Group's services could change in ways that CTM Group cannot easily predict and may result in a decline in CTM Group's revenues.



**A. AUDITED CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP FOR THE THREE YEARS ENDED 31 DECEMBER 2012**

Financial information of the Group for each of the three years ended 31 December 2010, 2011 and 2012 is disclosed on pages 62 to 122 of the annual report of the Company for the year ended 31 December 2010 published on 15 March 2011, pages 62 to 131 of the annual report of the Company for the year ended 31 December 2011 published on 13 March 2012 and pages 70 to 141 of the annual report of the Company for the year ended 31 December 2012 published on 17 February 2013, respectively, which are available on the website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) and the website of the Company ([www.citictel.com](http://www.citictel.com)).

**B. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP**

Set out below is the management discussion and analysis of the Group's results of operation for each of the three years ended 31 December 2010, 2011 and 2012.

**1. Operational Review*****For the year ended 31 December 2012 compared to the year ended 31 December 2011***

During 2012, the adverse sentiment from the European debt crisis continued to affect the world economy, and the emerging economies around the globe registered only mild growth. As for the telecommunications market, competition remained intense with increasing new challenges. Facing such a complicated and fast-changing market, the Group has proactively taken measures to bolster its capability in addressing multiple challenges. Through allocating more internal resources to expand market coverage, the Group has strived to mitigate the negative effect of unfavourable market forces and has achieved stable growth in the overall business. Total turnover of the Group for 2012 amounted to HK\$3,609.8 million, an increase of 12.9% compared with the previous year. Profit attributable to equity shareholders of the Company grew 0.7% year-on-year to HK\$461.3 million.

***Voice Services***

Voice services turnover has grown by HK\$140.5 million, or a year-on-year increase of 7.2% to HK\$2,079.6 million. The Group handled 8.7 billion minutes in total traffic in 2012, a 4.9% reduction when compared with 2011. Total China inbound and outbound traffic for the year dropped 15.4%, but was partially offset by the growth of international traffic, which increased by 36.8% when compared to 2011. The increase in international traffic was due to the Group's ability to cover new destinations. As a result of the change in service mix, overall revenue per minute has increased by 12.8% year-on-year.

*SMS Services*

SMS services sustained stable growth during 2012, with turnover rising by HK\$28.3 million to HK\$375.5 million, or up 8.2% when compared with 2011. Although the number of messages handled by the Group has dropped by 5.7% to 1,849.7 million messages compared to 2011, average revenue per SMS increased by 14.7% due to the change in sales mix. In addition, international SMS has continued to maintain stable growth. However, owing to the rising popularity of social networking applications, the number of Hong Kong domestic SMS messages dropped by 23.4% during the year. The increase in international traffic was partly offset by the decrease in local domestic SMS messaging. During the year, total China inbound and outbound traffic rose by 5.3% as the Group was able to secure additional China traffic by expanding its international network and enhancing management capabilities. The Group's international traffic has also grown by 4.5% over the past year as it further advanced its leading market position, through the provision of higher quality services and the adoption of an effective pricing strategy.

*Mobile VAS*

Mobile VAS registered steady growth in 2012 with turnover rising by 15.0% year-on-year to HK\$202.7 million. The growth was driven by the Group's strategy to customise existing products to address changing market needs and by providing bundled services that have been well received by operators in China.

*Data Services*

In respect of data services, which consist of managed VPN services, cloud computing services and data centre services, among others, a notable business improvement was achieved during 2012. Owing to the rise in demand for VPN services coupled with the launch of the Group's cloud services, as well as the first time inclusion of revenue from China Enterprise Communications Ltd. ("CEC-BJ"), turnover from data services increased by 29.7% to HK\$952.0 million compared to HK\$734.2 million in 2011.

*For the year ended 31 December 2011 compared to the year ended 31 December 2010*

The Group recorded stable growth in its operating results during 2011 as it proactively responded to challenges with strong market development efforts amidst a testing international economic environment and more intense competition in the telecommunications market. Total turnover of the Group for 2011 amounted to HK\$3,196.8 million, a rise of 7.8% compared with 2010. Net profit amounted to HK\$458.2 million, a 14.2% increase from the previous year.

#### *Voice Services*

Voice services turnover increased by HK\$33.5 million or 1.8% compared to 2010, to HK\$1,939.1 million for 2011. The decline in the annual growth rate as compared to the growth rate for the first six months was due to the more evenly distributed revenue between the first and second halves of 2011, as opposed to 2010 where turnover from voice services for the first half of the year was 29.2% lower than that reported for the second half. During the year, the Group managed to handle total traffic of over 9.10 billion minutes, a decrease of 11.0% compared with last year. The decrease was mainly caused by a 16.0% drop in China inbound traffic to 6.36 billion minutes resulting from adverse economic conditions. To compensate for the decrease, the Group continued to increase its resources to the higher yield international routes. As a result, the Group's average rate per minute in 2011 increased by 14.3%. For 2011, the Group carried 0.91 billion China outbound minutes, an increase of 6.2% compared with 2010. The Group's efforts to strengthen its cooperation with China telecoms operators and the Group's focus on enhancing quality of service continued to secure the Group's leading position in the China market. The international traffic carried by the Group remained at a similar level to that of 2010.

#### *SMS Services*

SMS services sustained stable growth during 2011 with turnover increasing by HK\$31.5 million to HK\$347.2 million, a 10.0% climb compared to 2010. During the year, the Group handled 1,961.8 million messages, an increase of 5.9% compared to 2010. China inbound and outbound traffic expanded by 12.4% and 11.1% respectively in 2011 mainly resulting from the Group's continued international network coverage expansion and enhanced quality management enabling the Group to secure additional China inbound traffic. For the international market, the Group recorded a 5.5% increase in traffic during 2011. The Group continued to advance its leading market position by enhancing quality of service and implementing an effective pricing strategy.

*Mobile VAS*

Mobile VAS registered strong growth in 2011 with turnover increasing 25.4% to HK\$176.3 million over 2010. The Group's strategy to customise existing products to address changing market needs and its strategy to provide bundled services continued to be well-accepted by customers.

*Data Services*

During 2011, turnover from data services increased by 21.4% to HK\$734.2 million compared with HK\$604.6 million for 2010. Turnover from VPN services rose by 22.4% to HK\$547.8 million in 2011. The increase comprised turnover contribution of HK\$77.9 million from China Enterprise Netcom Corporation Limited ("CEC-HK") after the completion of acquisition on 29 July 2011. If the impact of CEC-HK is excluded, the turnover from VPN services increased by 5.0% to HK\$469.9 million. Other data services also recorded satisfactory growth with turnover rising 18.7% over 2010. The increase was mainly resulting from the completion of the first phase renovation of the new data centre at CITIC Telecom Tower.

**2. Group Liquidity and Capital Resources**

The Group manages its exposure to liquidity risk by reviewing the cash resources required to meet its business objectives.

*For the year ended 31 December 2012 compared to the year ended 31 December 2011*

At 31 December 2012, the Group's cash and cash equivalents was at HK\$351 million (31 December 2011: HK\$253.3 million). The Group had net operating cash inflow plus dividend received from an associate totalling HK\$471.9 million for the year ended 31 December 2012, a decrease of HK\$35.2 million when compared with 2011. The decrease was mainly due to timing differences in the settlement of trade receivables by certain customers in December 2012. The Group raised loans of HK\$100.0 million. This loan was used to complete its acquisition of CEC-BJ upon obtaining approval from the PRC Government. In addition, the Group received HK\$180.7 million in dividend from an associate and the Group paid dividends of HK\$229.1 million for return of profits to its shareholders during the year ended 31 December 2012. The loans from its associate in 2011, which amounted to HK\$124.1 million, were fully settled during the year. At 31 December 2012, the loan due to its associate amounted to HK\$161.9 million. At 31 December 2012 and 2011, the Group had a net cash balance of HK\$254.8 million and HK\$257.0 million respectively.

*For the year ended 31 December 2011 compared to the year ended 31 December 2010*

During the year, the Group's cash and cash equivalents decreased by HK\$72.2 million to HK\$253.3 million at 31 December 2011 as compared to HK\$325.5 million at 31 December 2010. The decrease was mainly due to HK\$122.6 million and HK\$299.1 million spent on investing and financing activities respectively, which was offset by HK\$349.5 million generated from operating activities during the year. The investment was mainly used for the capital expenditure of HK\$221.4 million and the acquisition of a jointly controlled entity of HK\$42.8 million, partially offset by the final dividend received from CTM for 2010 amounting to HK\$157.6 million. For financing activities during the year, the Group paid dividends of HK\$226.7 million, repaid a loan of HK\$96.9 million to CTM, settled a bank loan of HK\$30.0 million and repaid a loan due to a previous shareholder of CEC-HK of HK\$70.8 million. In the meantime, the Group received HK\$124.1 million from CTM for a short-term loan during the year. At 31 December 2011 and 31 December 2010, the Group maintained a net cash position of HK\$257.0 million and HK\$327.0 million respectively.

*a. Currency Portfolio*

At 31 December 2010, the Group's cash and bank deposits were 27.1% denominated in Hong Kong dollars, 45.0% denominated in United States dollars, 11.9% denominated in Renminbi and the remaining 16.0% in other currencies. The Group maintained Renminbi balance with Hong Kong dollars equivalent 38.9 million in order to support the operating needs of settlements in Renminbi in the future. The Group maintained currencies other than Hong Kong dollars and United States dollars at the balance sheet date to meet the business needs in different regions.

At 31 December 2011, the Group's cash and bank deposits were 32.3% denominated in Hong Kong dollars, 50.5% denominated in United States dollars and the remaining 17.2% denominated in other currencies. The Group maintained currencies other than the Hong Kong dollars and United States dollars at the balance sheet date to meet the business needs in different regions.

At 31 December 2012, the Group's cash and bank deposits were 42.8% denominated in Hong Kong dollars, 41.8% denominated in United States dollars and the remaining 15.4% denominated in other currencies. The Group maintained currencies other than the Hong Kong dollars and United States dollars at the balance sheet date to meet the business needs in different regions.

*b. Bank Borrowings and Banking Facilities*

At 31 December 2010, the Group had available banking facilities of approximately HK\$134.2 million. About HK\$4.2 million of these facilities was required to be secured by pledged deposits. Of the total banking facilities, approximately HK\$11.0 million was utilised as guarantees for the Group's costs payable to telecoms operators, performance to customers, and rental deposits. At 31 December 2010, the Group had no bank borrowings.

At 31 December 2011, the Group had available banking facilities of approximately HK\$136.7 million. About HK\$6.7 million of these facilities was required to be secured by pledged deposits. Of the total banking facilities, approximately HK\$12.9 million was utilised as guarantees for the Group's costs payable to telecoms operators, performance to customers, and rental deposits. At 31 December 2011, the Group had no bank borrowings.

At 31 December 2012, the Group had available banking facilities of approximately HK\$337.0 million. A total of HK\$100.0 million was drawn as uncommitted revolving loans that were unsecured and bore interest at prevailing market rates. Approximately HK\$13.0 million was utilised as guarantees for the Group's procurement of services from telecoms operators, performance to customers and rental deposits. Around HK\$7.0 million of these facilities was required to be secured by pledged deposits.

*c. Capital Commitments*

At 31 December 2010, the Group had outstanding capital commitments (excluding investment in subsidiary) of HK\$94.4 million, mainly for the acquisition of network equipment which had yet to be delivered to the Group and the new data centre renovation cost, of which HK\$48.8 million were outstanding contractual capital commitments and HK\$45.6 million were capital commitments authorised but for which contracts had yet to be entered into.

At 31 December 2010, the Group had outstanding capital commitments of HK\$67.2 million in investment in subsidiary.

At 31 December 2011, the Group had outstanding capital commitments (excluding investment in subsidiary) of HK\$110.2 million, mainly for the acquisition of network equipment which had yet to be delivered to the Group and the fitting-out cost of the new data centre, of which HK\$43.8 million were outstanding contractual capital commitments and HK\$66.4 million were capital commitments authorised but for which contracts had yet to be entered into.

At 31 December 2011, the Group had outstanding capital commitments of HK\$21.1 million in investment in subsidiary.

At 31 December 2012, the Group had outstanding capital commitments (excluding investment in subsidiary) of HK\$56.4 million, mainly for the acquisition of telecommunications equipment which had yet to be delivered to the Group, and fitting out costs associated with the new data centre in Ap Lei Chau, Hong Kong. Of these commitments, HK\$21.0 million were outstanding contractual capital commitments and HK\$35.4 million were capital commitments authorised but for which contracts had yet to be entered into.

At 31 December 2012, the Group had no significant capital commitment in investment in subsidiary.

*d. Gearing Ratio*

The Group's gearing ratio is calculated based on total liabilities divided by total assets. At 31 December 2010, 2011 and 2012, the Group's gearing ratio was approximately 0.28, 0.27 and 0.27, respectively.

*e. Securities and Guarantees*

At 31 December 2010, the Group pledged approximately HK\$1.5 million of bank deposits to secure its banking facilities. The Group had not created any other security over its assets and had not provided any corporate guarantee to third parties.

At 31 December 2011, the Group pledged approximately HK\$3.7 million of bank deposits to secure its banking facilities. The Group had not created any other security over its assets and had not provided any corporate guarantee to third parties.

At 31 December 2012, the Group pledged approximately HK\$3.8 million of bank deposits to secure its banking facilities. The Group had not created any other security over its assets nor had it provided any corporate guarantee to third parties.

**3. Contingent Liabilities**

At 31 December 2010, included in other receivables was a cash balance of US\$1.2 million (equivalent to HK\$9.5 million) seized and held under foreign government custody pending a law enforcement investigation against a customer of the Group. On 1 October 2010, one of the Company's overseas subsidiaries was informed by its bank that funds held in one of its local accounts, which were allegedly associated with one of its customer under investigation, were seized by a local government agency under warrant. As the said subsidiary had only used the bank account to collect service fee for telecommunications services provided to such customer, the management believed that it had grounds to refute such seizure and had sought legal assistance in this regard. Lawyers engaged in the matter also took the view that there was a good chance of recovering the full amount should it be



proved with adequate evidence that the seized funds were from legitimate business activities. At 31 December 2010, such investigation was still on ongoing, it was too early to assess the ultimate outcome of the investigation. Accordingly, no provision had been made against the balance at 31 December 2010.

At 31 December 2011, the Group did not have any contingent liability.

At 31 December 2012, the Group did not have any contingent liability.

#### **4. Treasury Policy and Risk Management**

##### *a. General*

Managing financial risks to which the Group is exposed is one of the primary responsibilities of the Group's treasury. Financing and cash management activities are centralised to maintain a high degree of financial control and strengthen the Group's risk management.

##### *b. Exchange Rate Risk*

A substantial portion of the Group's sales turnover and network, operations and support expenses are denominated in the United States dollars, to which the Hong Kong dollars are pegged. In addition, the Group's financial assets, financial liabilities and transactions are mainly denominated either in Hong Kong dollars or United States dollars. Although the 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 when necessary.

##### *c. Credit Risk*

Credit evaluations are performed on all customers with a credit level exceeding a certain amount. Trade receivables are due within 7 to 180 days from the date of billing. The Group also assigns an officer who is responsible for devising a settlement plan with those debtors who have balances due over one year so as to reduce the outstanding balances within a reasonable period of time.

The Group has certain concentration risk in respect of trade receivables due from its five largest customers who accounted for approximately 43%, 54% and 57% of the Group's total trade receivables as at 31 December 2010, 2011 and 2012 respectively. Credit risk exposure to trade receivables balance has been and will continue to be monitored by the Group on an ongoing basis. Impairment loss on doubtful debts remains within management's expectations.



## 5. Capital Expenditure

Capital expenditure was HK\$158.8 million for 2010, representing a decrease of 39.9% as compared to 2009. During the year, the Group incurred HK\$46.3 million renovation cost for the new data centre at CITIC Telecom Tower. If the capital expenditure of 2010 and 2009 on CITIC Telecom Tower was excluded, capital expenditure for 2010 amounted to HK\$92.7 million, a decrease of 13.4% as compared to 2009.

Capital expenditure during 2011 was HK\$186.5 million, representing an increase of 17.4% as compared to 2010. During the year, the Group incurred HK\$40.6 million for the fitting out of new data centre at CITIC Telecom Tower and HK\$31.9 million one-off asset transfer in relation to the acquisition of CEC-HK. If the impact of these was excluded, capital expenditure for 2011 amounted to HK\$114.0 million, an increase of 23.0% over 2010.

Capital expenditure of HK\$173.1 million was recorded for 2012, representing a decrease of 7.2% as compared to 2011. As the new data centre in 2011 has proven to be highly popular with customers, the Group has sought to expand its data centre at CITIC Telecom Tower. Consequently, fitting-out costs of HK\$43.3 million were incurred during the year. Excluding the capital expenditure on the data centre, the capital expenditure for 2012 amounted to HK\$129.8 million, a year-on-year decline of 11.0%. The decrease in capital expenditure was in line with the comparatively slower pace of business growth.

## 6. Significant Investments, Material Acquisitions and Disposals

The Group acquired 20% interest in CTM from CITIC Pacific for a total consideration of HK\$1,396.4 million on 5 May 2010. The total consideration was satisfied with HK\$406.2 million in cash and HK\$990.2 million by the issuance of new shares at fair value.

On 29 July 2011, the Group acquired the entire equity interest of CEC-HK for a consideration of HK\$114.1 million. CEC-HK is engaged in the provision of telecommunications leasing and technology services.

On 30 November 2011, the Group acquired 85% equity interest in Cheer Harvest Holdings Limited (“Cheer Harvest”) for a consideration of HK\$41.1 million. As the Group and the other shareholder of Cheer Harvest share joint control over the economic activities of the entity, the equity interest in Cheer Harvest is treated as a jointly controlled entity of the Group. Cheer Harvest is engaged in the provision of telecommunications services.

In line with the Group's strategy to strengthen its market position and to extend its international market out-reach, it completed the acquisition of CEC-BJ on 6 September 2012 for a consideration of RMB17.1 million (approximately HK\$20.8 million). CEC-BJ is engaged in the provision of value-added telecommunications services in China.

#### **7. Human Resources**

At 31 December 2010, 2011 and 2012, the Group employed a total of 517, 554 and 900 employees, respectively in Hong Kong and at its principal subsidiaries. As at the 31 December 2010, 2011 and 2012, employees in overseas and China totalled 100, 109 and 432, respectively. Staff costs for the year ended 31 December 2010, 2011 and 2012 amounted to HK\$262.8 million, HK\$300.2 million and HK\$353.0 million, respectively. The increase in total employees and related staff costs in 2012 was the result of completion of the acquisition of CEC-BJ.

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

#### **8. Dividends**

An interim dividend and final dividend of HK2.4 cents per share and HK7.1 cents per share respectively were proposed for 2010. Total dividends per share amounted to HK9.5 cents for 2010.

An interim dividend and final dividend of HK2.4 cents per share and HK7.2 cents per share respectively were proposed for 2011. Total dividends per share amounted to HK9.6 cents for 2011.

An interim dividend and final dividend of HK2.4 cents per share and HK7.2 cents per share respectively were proposed for 2012. Total dividends per share will therefore amount to HK9.6 cents for 2012.

### **C. PROSPECTS AND FUTURE PLANS**

Global economic condition remains uncertain for 2013 which will definitely affect the telecommunications market. The operating environment for the Group's traditional business remains challenging. Management will continue to increase its effort to explore the emerging market and to launch new product offerings so as to strengthen its competitiveness and to improve room for growth. With the continued support from shareholders and dedication of the team, management is confident that the Group can overcome these challenges, as it has during the past few years.

The Group's strategy is to maintain the stable growth of its voice, SMS and mobile VAS businesses, and to allocate more resources in order to develop the established data business in cloud computing, VPN, data centre and Internet access services. The Group will execute the smooth completion of the acquisition of a 79% equity interest in CTM, integrating CTM into the Group and maintaining that enterprise's growth. The Group will also leverage the operations of each of its overseas subsidiaries to penetrate the local telecommunications market.

**Strengthen partnerships with telecom operators and maintain stable business growth**

The Group will continue to deploy more resources to the development of new products. Through continued improvement of its quality of service, the Group will enhance its collaboration with its telecoms operator customers and strive to maintain stable business growth. CITIC Telecom International CPC Limited will also provide VPN and other telecommunications services to domestic SMEs engaged in overseas expansion in close alignment with China's economic development.

**Secure new customers, expand market coverage and broaden the scope of business cooperation with third-world nations**

Leveraging on its global marketing reach and telecommunications network, the Group will continue to conduct timely analysis on market changes and customer demands of emerging markets such as Africa, Central Asia, the Middle East and South America. The Group plans to engage business partners in these new markets through the formulation and execution of effective marketing initiatives.

The Group will continue to collaborate with China's telecommunications operators to identify new opportunities for cooperation within new market situations and geographies. The overseas operations experience of the Group place it in an advantageous position to engage proactively and effectively in mutually beneficial business ventures with Chinese operators in developing countries.

**Enhance management and competitive advantages of overseas offices in their local markets**

The Group will continue to deploy more resources to expand the operations of its overseas offices. Through strengthening the business capability of its overseas offices, the Group aim to create new growth drivers through enhancing the management of overseas offices and boosting their competitive advantages within their respective markets.

**Strengthen development of new businesses such as VoIP, cloud computing and 4G (LTE), enabling a faster time-to-market for new products**

The Group will continue to develop and deploy new technologies and applications to meet market demand and trends. In particular, it will enhance ours efforts in the application of VoIP services, cloud computing services, mobile security

services and 4G (LTE) technology with the intention to launch new products in a timely manner. The emphasis will be on 4G (LTE) technology applications, so that the Group can provide customers with high quality next-generation 4G (LTE) solutions.

**Construction and marketing of data centres to enhance their business development potential**

The Phase II of the Data Centre located at CITIC Telecom Tower in Hong Kong has commenced service. Detailed planning is also underway for the construction of the data centre in Ap Lei Chau to ensure the quality of its implementation. The construction of the data centre in Ap Lei Chau will further strengthen the competitiveness and resilience of the Group's data centre service.

**D. INDEBTEDNESS STATEMENT**

**Bank Borrowings and Banking Facilities**

At the close of business on 31 January 2013, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Enlarged Group had available banking facilities of approximately HK\$530.40 million. Around HK\$7.7 million of these facilities were required to be secured by pledged deposits. A total of HK\$100 million was drawn as uncommitted revolving loans that were unsecured and bore interest at prevailing market rates. Approximately HK\$79.5 million was utilised as guarantees for costs payable to telecom operators and performance to customers/the Macau Government. The Group pledged approximately HK\$3.8 million of bank deposits to secure the utilised banking facilities.

**Contingent Liabilities**

At the close of business on 31 January 2013, the Enlarged Group did not have any material contingent liability:

Save as aforesaid, and apart from intra-group liabilities and normal accounts payable in the ordinary course of business, as at the close of business on 31 January 2013, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Enlarged Group did not have any outstanding mortgages, charges, debentures or other loan capital, bank overdrafts, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities.

**E. WORKING CAPITAL**

The Directors are of the opinion that, after taking into account completion of the Acquisitions and the present financial resources available to the Enlarged Group, including internally generated revenue and funds and other available banking facilities, the Enlarged Group will have sufficient working capital to meet its present requirements for at least 12 months from the date of this circular.

*The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.*



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

21 March 2013

The Directors  
CITIC Telecom International Holdings Limited

Dear Sirs,

## INTRODUCTION

We set out below our report on the financial information relating to Companhia de Telecomunicações de Macau, S.A.R.L. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), including the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Group, for each of the years ended 31 December 2010, 2011 and 2012 (the "Relevant Period"), and the consolidated statements of financial position of the Group and the statements of financial position of the Company as at 31 December 2010, 2011 and 2012, together with the explanatory notes thereto (the "Financial Information"), for inclusion in the Circular for CITIC Telecom International Holdings Limited ("CITIC Telecom") dated 21 March 2013 (the "Circular") in connection with the proposed acquisition of the Group by CITIC Telecom.

The Company was incorporated in Macau on 15 August 1981 with limited liability under Macau Commercial Code issued by the Government of Macau Special Administrative Region.

Except for CTM (HK) Limited and TeleOne (Singapore) Pte Ltd., all companies comprising the Group have adopted 31 December as their financial year end date. Details of the companies comprising the Group that are subject to audit during the Relevant Period and the names of respective auditors are set out in Note 24 of Section B. The statutory financial statements of these companies were prepared in accordance with International Financial Reporting Standards ("IFRSs"), Hong Kong Financial Reporting Standards ("HKFRSs"), Singapore Financial Reporting Standards ("SFRS") or the relevant requirements of the Accounting Standards for Business Enterprises and Accounting Regulations for Business Enterprises (the "PRC GAAP") issued by the Ministry of Finance of the People's Republic of China (the "PRC").

The directors of the Company have prepared the consolidated financial statements of the Group for the Relevant Period in accordance with the accounting policies set out in

Section B below which are in accordance with IFRSs issued by the International Accounting Standards Board (the “IASB”) (the “Underlying Financial Statements”). The Underlying Financial Statements for each of the years ended 31 December 2010, 2011 and 2012 were audited by KPMG Macau in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board (the “IAASB”).

The Financial Information has been prepared by the directors of the Company based on the Underlying Financial Statements, with no adjustments made thereon.

#### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS**

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with IFRSs issued by the IASB and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

Our responsibility is to form an opinion on the Financial Information based on our procedures.

#### **BASIS OF OPINION**

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have examined the Underlying Financial Statements and have carried out such appropriate procedures as we considered necessary in accordance with Auditing Guideline “Prospectuses and the Reporting Accountant” (Statement 3.340) issued by the HKICPA.

We have not audited any financial statements of the Company, its subsidiaries or the Group in respect of any period subsequent to 31 December 2012.

#### **OPINION**

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the Group’s consolidated results and cash flows for the Relevant Period, and the state of affairs of the Group and the Company as at 31 December 2010, 2011 and 2012.

## A. FINANCIAL INFORMATION

## 1. CONSOLIDATED INCOME STATEMENTS

	<i>Section B Note</i>	<b>Year ended 31 December</b>		
		<b>2010</b> <i>MOP'000</i>	<b>2011</b> <i>MOP'000</i>	<b>2012</b> <i>MOP'000</i>
<b>Turnover</b>	3	2,760,153	3,981,932	4,922,192
Other revenue	4	1,436	5,850	12,035
Other net (loss)/gain	4	374	(794)	(1,643)
		<u>2,761,963</u>	<u>3,986,988</u>	<u>4,932,584</u>
Cost of sales	5(a)	(1,146,785)	(2,197,085)	(3,079,177)
Depreciation and amortisation		(269,997)	(260,605)	(270,518)
Staff costs	5(b)	(187,410)	(204,380)	(211,341)
Other operating expenses		<u>(232,206)</u>	<u>(267,543)</u>	<u>(270,447)</u>
<b>Profit before taxation</b>	5	925,565	1,057,375	1,101,101
Income tax	6(a)	<u>(112,087)</u>	<u>(125,148)</u>	<u>(131,838)</u>
<b>Profit for the year</b>		<u>813,478</u>	<u>932,227</u>	<u>969,263</u>

The accompanying notes form part of the Financial Information.



## 2. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	<i>Section B Note</i>	<b>Year ended 31 December</b>		
		<b>2010</b>	<b>2011</b>	<b>2012</b>
		<i>MOP'000</i>	<i>MOP'000</i>	<i>MOP'000</i>
<b>Profit for the year</b>		813,478	932,227	969,263
		-----	-----	-----
<b>Other comprehensive income for the year</b>				
Defined benefit retirement plan:				
Actuarial loss	15(a)(vi)	(1,307)	(53,498)	(6,932)
Deferred tax assets recognised on the actuarial loss	6(d)	652	6,419	833
		-----	-----	-----
		(655)	(47,079)	(6,099)
		-----	-----	-----
<b>Total comprehensive income for the year</b>		812,823	885,148	963,164
		=====	=====	=====

The accompanying notes form part of the Financial Information.

## 3. CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	<i>Section B Note</i>	<b>At 31 December</b>		
		<b>2010</b>	<b>2011</b>	<b>2012</b>
		<i>MOP'000</i>	<i>MOP'000</i>	<i>MOP'000</i>
<b>Non-current assets</b>				
Property, plant and equipment	7	806,689	827,187	896,286
Intangible assets	8	3,148	6,872	6,275
Deferred tax assets	6(d)	4,262	10,321	10,790
Other non-current assets		750	750	750
		<u>814,849</u>	<u>845,130</u>	<u>914,101</u>
<b>Current assets</b>				
Inventories	10	102,463	128,745	124,505
Trade and other receivables	11	350,431	390,336	399,476
Loans to related parties	12	495,000	633,600	831,600
Cash and cash equivalents	13(a)	627,342	738,678	561,574
		<u>1,575,236</u>	<u>1,891,359</u>	<u>1,917,155</u>
<b>Current liabilities</b>				
Trade and other payables	14	566,236	776,258	831,090
Current taxation	6(c)	116,807	130,546	135,403
		<u>683,043</u>	<u>906,804</u>	<u>966,493</u>
<b>Net current assets</b>		<u>892,193</u>	<u>984,555</u>	<u>950,662</u>
<b>Total assets less current liabilities</b>		1,707,042	1,829,685	1,864,763
<b>Non-current liabilities</b>				
Net defined benefit retirement obligation	15(a)(i)	30,352	80,847	84,761
<b>NET ASSETS</b>		<u>1,676,690</u>	<u>1,748,838</u>	<u>1,780,002</u>
<b>CAPITAL AND RESERVES</b>				
Share capital	17(c)	150,000	150,000	150,000
Reserves		1,526,690	1,598,838	1,630,002
<b>TOTAL EQUITY</b>		<u>1,676,690</u>	<u>1,748,838</u>	<u>1,780,002</u>

The accompanying notes form part of the Financial Information.

## 4. STATEMENTS OF FINANCIAL POSITION

	<i>Section B Note</i>	<b>At 31 December</b>		
		<b>2010</b>	<b>2011</b>	<b>2012</b>
		<i>MOP'000</i>	<i>MOP'000</i>	<i>MOP'000</i>
<b>Non-current assets</b>				
Property, plant and equipment	7	806,728	827,226	896,347
Intangible assets	8	3,148	6,872	6,275
Investments in subsidiaries	9	10	10	10
Deferred tax assets	6(d)	4,262	10,321	10,790
Other non-current assets		750	750	750
		<u>814,898</u>	<u>845,179</u>	<u>914,172</u>
<b>Current assets</b>				
Inventories	10	102,463	128,745	124,505
Trade and other receivables	11	360,355	401,608	409,131
Loans to related parties	12	501,116	639,719	838,134
Cash and cash equivalents	13(a)	621,303	733,216	557,057
		<u>1,585,237</u>	<u>1,903,288</u>	<u>1,928,827</u>
<b>Current liabilities</b>				
Trade and other payables	14	575,961	786,559	841,114
Current taxation	6(c)	116,781	130,505	135,338
		<u>692,742</u>	<u>917,064</u>	<u>976,452</u>
<b>Net current assets</b>		<u>892,495</u>	<u>986,224</u>	<u>952,375</u>
<b>Total assets less current liabilities</b>		1,707,393	1,831,403	1,866,547
<b>Non-current liabilities</b>				
Net defined benefit retirement obligation	15(a)(i)	30,352	80,847	84,761
<b>NET ASSETS</b>		<u>1,677,041</u>	<u>1,750,556</u>	<u>1,781,786</u>
<b>CAPITAL AND RESERVES</b>				
Share capital	17(c)	150,000	150,000	150,000
Reserves		<u>1,527,041</u>	<u>1,600,556</u>	<u>1,631,786</u>
<b>TOTAL EQUITY</b>		<u>1,677,041</u>	<u>1,750,556</u>	<u>1,781,786</u>

The accompanying notes form part of the Financial Information.

## 5. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Section B Note	Share capital MOP'000	Legal reserve MOP'000 (Note 17(d)(i))	Capital contribution reserve MOP'000 (Note 17(d)(ii))	Retained profits MOP'000	Total MOP'000
At 1 January 2010		150,000	37,500	11,225	988,142	1,186,867
Changes in equity for 2010:						
Profit for the year		-	-	-	813,478	813,478
Other comprehensive income		-	-	-	(655)	(655)
Total comprehensive income		-	-	-	812,823	812,823
Dividend approved in respect of the previous year	17(b)(ii)	-	-	-	(323,000)	(323,000)
At 31 December 2010		150,000	37,500	11,225	1,477,965	1,676,690
At 1 January 2011		150,000	37,500	11,225	1,477,965	1,676,690
Changes in equity for 2011:						
Profit for the year		-	-	-	932,227	932,227
Other comprehensive income		-	-	-	(47,079)	(47,079)
Total comprehensive income		-	-	-	885,148	885,148
Dividend approved in respect of the previous year	17(b)(ii)	-	-	-	(813,000)	(813,000)
At 31 December 2011		150,000	37,500	11,225	1,550,113	1,748,838
At 1 January 2012		150,000	37,500	11,225	1,550,113	1,748,838
Changes in equity for 2012:						
Profit for the year		-	-	-	969,263	969,263
Other comprehensive income		-	-	-	(6,099)	(6,099)
Total comprehensive income		-	-	-	963,164	963,164
Dividend approved in respect of the previous year	17(b)(ii)	-	-	-	(932,000)	(932,000)
At 31 December 2012		150,000	37,500	11,225	1,581,277	1,780,002

The accompanying notes form part of the Financial Information.

## 6. CONSOLIDATED CASH FLOW STATEMENTS

		Year ended 31 December		
	Section B	2010	2011	2012
	Note	MOP'000	MOP'000	MOP'000
<b>Operating activities</b>				
Cash generated from operations	13(b)	1,163,614	1,454,609	1,411,294
Tax paid:				
– Macau income tax paid		(100,580)	(111,064)	(126,602)
– Overseas income tax (paid)/refunded		88	15	(15)
Income tax paid		(100,492)	(111,049)	(126,617)
<b>Net cash generated from operating activities</b>		1,063,122	1,343,560	1,284,677
<b>Investing activities</b>				
Purchase of property, plant and equipment		(206,219)	(285,943)	(339,024)
Purchase of intangible assets		–	(800)	–
Proceeds from sale of property, plant and equipment		363	2,291	485
New loans to affiliates of the shareholders		(495,000)	(633,600)	(831,600)
Interest received		258	3,828	6,758
<b>Net cash used in investing activities</b>		(700,598)	(914,224)	(1,163,381)
<b>Financing activities</b>				
Dividends paid to equity shareholders of the Company		(323,000)	(318,000)	(298,400)
<b>Net cash used in financing activities</b>		(323,000)	(318,000)	(298,400)
<b>Net (decrease)/increase in cash and cash equivalents</b>		39,524	111,336	(177,104)
<b>Cash and cash equivalents at 1 January</b>		587,818	627,342	738,678
<b>Cash and cash equivalents at 31 December</b>	13(a)	627,342	738,678	561,574

The accompanying notes form part of the Financial Information.

**B. NOTES TO THE FINANCIAL INFORMATION****1. SIGNIFICANT ACCOUNTING POLICIES****(a) Statement of compliance**

The Financial Information set out in this report has been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which collective term includes International Accounting Standards ("IAS") and related interpretations, promulgated by the International Accounting Standards Board (the "IASB"). Further details of the significant accounting policies adopted are set out below.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Financial Information, the Group has adopted all these new and revised IFRSs to the Relevant Period, except for any new standards or interpretations that are not yet effective for the accounting period ended 31 December 2012. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year beginning 1 January 2012 are set out in note 23.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

**(b) Basis of measurement**

The Financial Information is presented in Macau Patacas, rounded to the nearest thousand. It is prepared on the historical cost basis except for the following items in the statements of financial position:

- liabilities for cash settled share based payment arrangements are measured at fair value; and
- the defined benefit retirement obligation is recognised as the net total of the present value of the defined benefit obligation, less the fair value of plan assets.

**(c) Use of estimates and judgments**

The preparation of financial statements in conformity with IFRSs 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 IFRSs that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in note 2.

**(d) Subsidiaries and non-controlling interests**

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

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 and transactions 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 their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position depending on the nature of the liability.

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 jointly controlled entity.

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

**(e) Property, plant and equipment**

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

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. Capital projects in progress are not depreciated until they are ready for service.

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.

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:

	<b>Estimated useful lives</b>
– Land and buildings	40 years
– Plant and equipment	2-20 years
– Furniture, fixtures and fittings	2-5 years
– Motor vehicles	4-5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost 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.

**(f) Intangible assets**

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 1(h)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other 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(h)).

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:

	<b>Estimated useful lives</b>
Computer software	3 years

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.



(g) **Leased assets**

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

(i) *Classification of assets leased to the Group*

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

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

(ii) *Assets acquired under finance leases*

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

(iii) *Operating lease charges*

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

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

**(h) Impairment of assets***(i) Impairment of investments in subsidiaries and trade and other receivables*

Investments in subsidiaries and current and non-current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in a subsidiary below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investments in subsidiaries, the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(h)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(h)(ii).
- For current and non-current receivables, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) *Impairment of other assets*

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

- property, plant and equipment; and
- intangible assets.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, 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 to sell 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 to reduce the carrying amount of the 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 to sell, or value in use, if determinable.

- Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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/periods. Reversals of impairment losses are credited to profit or loss in the year/period in which the reversals are recognised.

**(i) Inventories****(i) Sales of goods**

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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

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

**(ii) Business solution projects**

The accounting policy for business solution project revenue is set out in note 1(p)(iii). When the outcome of a project can be estimated reliably, project costs are recognised as an expense by reference to the stage of completion of the project at the end of the reporting period. When it is probable that total project costs will exceed total project revenue, the expected loss is recognised as an expense immediately. When the outcome of a project cannot be estimated reliably, project costs are recognised as an expense in the period in which they are incurred.

Business solution projects at the end of the reporting period are recorded in the statement of financial position at the net amount of costs incurred plus recognised profit less recognised losses and progress billings. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customers.

**(j) Trade and other receivables**

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(h)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

**(k) Trade and other payables**

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(o), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

**(l) 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.

**(m) Employee benefits***(i) Short term employee benefits and contributions to defined contribution retirement plan*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plan 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 discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. 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 total of any unrecognised past service costs and 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. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to the plan. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities. When the benefits of a plan are improved, the portion of the increased benefit related to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. If the benefits vest immediately, the expense is recognised immediately in profit or loss.

The Group recognises all actuarial gains and losses arising from defined benefit retirement plan immediately in other comprehensive income and all expenses related to defined benefit retirement plan in personnel expenses in profit or loss.

The Group recognises gains and losses on the curtailment or settlement of a defined benefit retirement plan when the curtailment or settlement occurs. The gain or loss on curtailment or settlement comprises any resulting change in the fair value of plan assets, any change in the present value of the defined benefit obligation, any related actuarial gains and losses and past service cost that had not previously been recognised.

*(iii) Share based payments transactions*

The grant-date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For shared-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period that the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expenses in profit or loss.

(iv) *Termination benefits*

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(n) **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 date, 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.

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 the 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.

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 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 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.

**(o) Financial guarantees issued, provisions and contingent liabilities**

*(i) Financial guarantees issued*

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group’s policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with 1(o)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

*(ii) Other provisions and contingent liabilities*

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation 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.

**(p) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

*(i) Telecommunications services revenue*

Revenue from telecommunications services is recognised on the basis of minutes of traffic processed and/or contracted fees for telecommunications services that have been provided and based on the relative fair value of the services rendered and bonus points issued under customer loyalty programme.

*(ii) Sale of goods*

Revenue from the sale of goods is recognised when the goods are delivered to the customers which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

*(iii) Business solution project revenue*

Revenue from business solution projects is recognised in proportion to the stage of completion of the projects at the end of the reporting date. The stage of completion is assessed by reference to the surveys of work performed. When the outcome of a project cannot be estimated reliably, project revenue is recognised only to the extent of project costs incurred that it is probable will be recoverable.

*(iv) Customer loyalty programme*

The Group has a customer loyalty programme whereby customers are awarded credits known as “bonus point” entitling customers to redeem cash coupons and gifts. The fair value of the consideration received or receivable in respect of the initial sale is allocated between the bonus point and the other components of the sale. The amount allocated to the bonus points is estimated by reference to the fair value of the cash coupons and gifts. The fair value of the cash coupons and gifts is estimated based on the amount of the face value, adjusted to take into account the expected forfeiture rate. Such amount is deferred and revenue is recognised when the bonus points are redeemed and the Group has fulfilled its obligations to supply the cash coupons and gifts. The amount of revenue recognised in those circumstances is based on the number of bonus points that have been redeemed in exchange for the cash coupons and gifts, relative to the total number of bonus



points that is expected to be redeemed. Deferred revenue is also released to revenue when it is no longer considered probable that the bonus points will be redeemed.

(v) *Interest income*

Interest income is recognised as it accrues using the effective interest method.

(q) **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. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at the exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Macau Patacas at exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items of foreign operations are translated into Macau Patacas at the closing exchange rates at the end of the reporting date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

(r) **Related parties**

(a) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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.

**(s) Segment reporting**

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's business and geographical locations classified by the location of assets.

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.

**2. ACCOUNTING JUDGEMENTS AND ESTIMATES**

Notes 15 and 18 contain information about the assumptions and their risk factors relating to valuation of defined benefit retirement obligation and financial instruments. Other key sources of estimation uncertainty are as follows:

**(i) Business solution projects**

As explained in policy notes 1(i)(ii) and 1(p)(iii) revenue and profit recognition on an uncompleted project is dependent on estimating the total outcome of the business solution contract, as well as the work done to date. Based on the Group's recent experience and the nature of the business solution activities undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that the costs to complete and revenue can be reliably estimated. As a result, until this point is reached the accrued revenue included in trade and other receivables will not include profit which the Group may eventually realise from the work done to date. In addition, actual outcome 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.

**(ii) Impairment and useful lives of plant and equipment**

The plant and equipment used in the telecommunications network are long-lived but may be subject to technical obsolescence. The annual depreciation charges are sensitive to the estimated economic useful lives the Group allocates to each type of plant and equipment. Management performs annual reviews to assess the appropriateness of their estimated economic useful lives. Such reviews take into account the experience from the Group's operational management, certification from equipment supplies, technologies trend research and future economic trend. Management also regularly reviews whether there are any indications of impairment and will recognise an impairment loss if the carrying amount of an asset exceeds its recoverable amount which is the greater of its net selling price or its value in use. In determining the value in use, management assesses the present value of the estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life. Estimates and judgements are applied in determining these future cash flows and the discount rate. Management estimates the future cash flows based on certain assumptions, such as the market competition and development and the expected growth in subscribers and average revenue per subscriber.

## 3. TURNOVER AND SEGMENT REPORTING

## (a) Turnover

The Group is principally engaged in the provision of local telephony services, local data and broadband services, international telecommunications services and business solutions services and sales of telecommunications equipment and mobile handsets. The Group currently has the right granted from the Macau Government under a concession to provide local and international switched fixed voice and data services on a non-exclusive basis, without interruption, for a period of five years from 1 January 2012 until 31 December 2016, automatically renewable for another five-year period until 31 December 2021 except in the case of serious breach by the Group of the relevant laws and regulations or for reasons public interest. The Group also operates under a licence from the Macau Government to provide GSM 2G and WCDMA 3G mobile services in competition with other operators in Macau, which will expire in June 2015 and is renewable. The Group is also licensed to operate internet services for a period up to April 2013. The Group has applied for renewal of its internet licence and its application for renewal is being processed by the Macau Government.

Turnover represents the gross amounts received and receivable from telecommunications services provided, business solutions projects and sales of goods. The amount of each significant category of revenue recognised in turnover during the Relevant Period is as follows:

	2010 MOP'000	2011 MOP'000	2012 MOP'000
Telecommunications services revenue	2,000,927	2,074,966	2,165,106
Business solutions project revenue	251,629	372,554	223,378
Sales of goods	507,597	1,534,412	2,533,708
	<u>2,760,153</u>	<u>3,981,932</u>	<u>4,922,192</u>

## (b) Segment reporting

The Group manages its businesses by business operations and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified only one business segment, i.e. telecommunications operations. Accordingly, no business segmental analysis is presented. Further, the Group's business participates primarily in only one geographical location classified by the location of assets, i.e. Macau. The Group's overseas operation constitutes an insignificant portion of the Group's business.

*Reconciliation of reportable segment profit, assets and liabilities*

	2010 MOP'000	2011 MOP'000	2012 MOP'000
<b>Profit</b>			
Reportable segment profit	924,129	1,051,525	1,089,066
Unallocated other revenue	<u>1,436</u>	<u>5,850</u>	<u>12,035</u>
Consolidated profit before taxation	<u>925,565</u>	<u>1,057,375</u>	<u>1,101,101</u>

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.

	2010 MOP'000	2011 MOP'000	2012 MOP'000
<b>Assets</b>			
Reportable segment assets	1,894,335	2,102,139	1,998,906
Loans to related parties	495,000	633,600	831,600
Unallocated corporate assets	<u>750</u>	<u>750</u>	<u>750</u>
Consolidated total assets	<u>2,390,085</u>	<u>2,736,489</u>	<u>2,831,256</u>
<b>Liabilities</b>			
Reportable segment liabilities	<u>713,395</u>	<u>987,651</u>	<u>1,051,254</u>
Consolidated total liabilities	<u>713,395</u>	<u>987,651</u>	<u>1,051,254</u>

Segment assets include all tangible, intangible assets and other current and non-current assets with the exception of loans to related parties and other corporate assets. Segment liabilities include trade and other payables attributable to the operating activities of the segment.

#### 4. OTHER REVENUE AND OTHER NET (LOSS)/GAIN

##### Other revenue

	2010 MOP'000	2011 MOP'000	2012 MOP'000
Interest income	<u>1,436</u>	<u>5,850</u>	<u>12,035</u>

##### Other net (loss)/gain

	2010 MOP'000	2011 MOP'000	2012 MOP'000
Net gain on disposal of property, plant and equipment	363	375	481
Net foreign exchange (loss)/gain	<u>11</u>	<u>(1,169)</u>	<u>(2,124)</u>
	<u>374</u>	<u>(794)</u>	<u>(1,643)</u>

## 5. PROFIT BEFORE TAXATION

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

## (a) Cost of sales

	2010 MOP'000	2011 MOP'000	2012 MOP'000
Cost of goods sold	514,002	1,490,114	2,520,871
Cost of business solutions projects	211,105	297,547	166,112
Outpayments and other direct costs	421,678	409,424	392,194
	<u>1,146,785</u>	<u>2,197,085</u>	<u>3,079,177</u>

## (b) Staff costs

	2010 MOP'000	2011 MOP'000	2012 MOP'000
Contributions to defined contribution retirement plan	2,432	2,605	3,143
Expenses recognised in respect of defined benefit retirement plan (note 15(a)(v))	<u>5,681</u>	<u>5,618</u>	<u>8,230</u>
Total retirement costs	8,113	8,223	11,373
Share-based payment expenses (note 16)	1,306	(524)	–
Salaries, wages and other benefits	<u>177,991</u>	<u>196,681</u>	<u>199,968</u>
	<u>187,410</u>	<u>204,380</u>	<u>211,341</u>

## (c) Other items

	2010 MOP'000	2011 MOP'000	2012 MOP'000
Depreciation of property, plant and equipment (note 7)	261,657	257,863	266,285
Amortisation of intangible assets (note 8)	8,340	2,742	4,233
Government royalty	56,890	59,768	63,647
Operating lease charges <sup>#</sup>	58,928	70,224	70,140
Auditors' remuneration			
– audit services	1,156	1,187	1,361
– tax services	150	143	155
Impairment losses on trade debtors (note 11(b))	<u>2,217</u>	<u>8,382</u>	<u>4,292</u>

<sup>#</sup> Operating lease charges include operating lease charge of international private leased circuit, which is recorded in cost of sales disclosed separately in note 5 (a)

## 6. INCOME TAX

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

	2010 MOP'000	2011 MOP'000	2012 MOP'000
<b>Current tax</b>			
Macau Complementary Tax:			
Provision for the year	111,161	127,881	132,251
Over-provision in respect of prior years	—	(3,093)	(816)
	<u>111,161</u>	<u>124,788</u>	<u>131,435</u>
 Hong Kong Profits Tax:			
Provision for the year	—	—	39
	<u>—</u>	<u>—</u>	<u>39</u>
<b>Deferred tax</b>			
Origination and reversal of temporary differences	926	360	364
	<u>926</u>	<u>360</u>	<u>364</u>
	<u>112,087</u>	<u>125,148</u>	<u>131,838</u>

The provision for Macau Complementary Tax is calculated at the rate of 9% for assessable profits ranging from MOP200,001 to MOP300,000 and then at the flat rate of 12% for the amount in excess of MOP300,000 for the years ended 31 December 2010, 2011, 2012. No Macau Complementary Tax is levied on the first MOP200,000 assessable profits. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant regions or countries.

(b) Reconciliation between actual income tax expense and accounting profit at applicable tax rates:

	2010 MOP'000	2011 MOP'000	2012 MOP'000
Profit before taxation	<u>925,565</u>	<u>1,057,375</u>	<u>1,101,101</u>
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	111,068	126,885	132,132
Tax effect of non-deductable expenses	494	861	480
Over-provision in respect of prior years	—	(3,093)	(816)
Tax effect of unused tax losses not recognised	90	164	42
Others	<u>435</u>	<u>331</u>	<u>—</u>
Actual income tax expense	<u>112,087</u>	<u>125,148</u>	<u>131,838</u>

- (c) Current taxation in the statements of financial position represents:

**The Group**

	<b>2010</b> <i>MOP'000</i>	<b>2011</b> <i>MOP'000</i>	<b>2012</b> <i>MOP'000</i>
Macau Complementary Tax:			
Provision for the year	111,161	127,881	132,251
Balance of tax provision relating to prior years	<u>5,620</u>	<u>2,624</u>	<u>3,087</u>
	<u>116,781</u>	<u>130,505</u>	<u>135,338</u>
Hong Kong Profits Tax:			
Provision for the year	–	–	39
Provisional Profits Tax paid	–	–	(15)
Balance of tax provision relating to prior years	<u>26</u>	<u>41</u>	<u>41</u>
	<u>26</u>	<u>41</u>	<u>65</u>
	<u>116,807</u>	<u>130,546</u>	<u>135,403</u>

**The Company**

	<b>2010</b> <i>MOP'000</i>	<b>2011</b> <i>MOP'000</i>	<b>2012</b> <i>MOP'000</i>
Macau Complementary Tax:			
Provision for the year	111,161	127,881	132,251
Balance of tax provision relating to prior years	<u>5,620</u>	<u>2,624</u>	<u>3,087</u>
	<u>116,781</u>	<u>130,505</u>	<u>135,338</u>

## (d) Deferred tax assets recognised:

The components of deferred tax assets recognised in the statements of financial position and the movements during the Relevant Period are as follows:

**The Group and the Company**

Deferred tax assets arising from:

	<b>Impairment losses</b> <i>MOP'000</i>	<b>Defined benefit retirement obligation</b> <i>MOP'000</i>	<b>Total</b> <i>MOP'000</i>
At 1 January 2010	619	3,917	4,536
Charged to profit or loss	–	(926)	(926)
Credited to reserve	–	652	652
	<hr/>	<hr/>	<hr/>
At 31 December 2010	<b>619</b>	<b>3,643</b>	<b>4,262</b>

	<b>Impairment losses</b> <i>MOP'000</i>	<b>Defined benefit retirement obligation</b> <i>MOP'000</i>	<b>Total</b> <i>MOP'000</i>
At 1 January 2011	619	3,643	4,262
Charged to profit or loss	–	(360)	(360)
Credited to reserve	–	6,419	6,419
	<hr/>	<hr/>	<hr/>
At 31 December 2011	<b>619</b>	<b>9,702</b>	<b>10,321</b>

	<b>Impairment losses</b> <i>MOP'000</i>	<b>Defined benefit retirement obligation</b> <i>MOP'000</i>	<b>Total</b> <i>MOP'000</i>
At 1 January 2012	619	9,702	10,321
Charged to profit or loss	–	(364)	(364)
Credited to reserve	–	833	833
	<hr/>	<hr/>	<hr/>
At 31 December 2012	<b>619</b>	<b>10,171</b>	<b>10,790</b>

## (e) Deferred tax assets and liabilities not recognised:

No other deferred tax assets and liabilities have been recognised in the financial statements of the Group and the Company as the effect of all other temporary differences is immaterial at 31 December 2010, 2011 and 2012.



## 7. PROPERTY, PLANT AND EQUIPMENT

## The Group

	Land and buildings MOP'000	Plant and equipment MOP'000	Furniture, fixtures and fittings MOP'000	Motor vehicles MOP'000	Capital projects in progress (CIP) MOP'000	Total MOP'000
<b>Cost:</b>						
At 1 January 2010	301,274	3,679,923	31,712	8,830	62,738	4,084,477
Exchange adjustments	-	395	-	-	-	395
Additions	-	1,257	-	-	204,962	206,219
Transfer of CIP	-	195,705	-	-	(197,856)	(2,151)
Disposals	(179)	(340,691)	(281)	(155)	-	(341,306)
At 31 December 2010	301,095	3,536,589	31,431	8,675	69,844	3,947,634
<b>Accumulated depreciation:</b>						
At 1 January 2010	249,972	2,931,820	31,222	7,185	-	3,220,199
Exchange adjustments	-	395	-	-	-	395
Charge for the year	5,287	255,336	225	809	-	261,657
Written back on disposals	(179)	(340,691)	(281)	(155)	-	(341,306)
At 31 December 2010	255,080	2,846,860	31,166	7,839	-	3,140,945
<b>Net book value:</b>						
At 31 December 2010	46,015	689,729	265	836	69,844	806,689

  

	Land and buildings MOP'000	Plant and equipment MOP'000	Furniture, fixtures and fittings MOP'000	Motor vehicles MOP'000	Capital projects in progress (CIP) MOP'000	Total MOP'000
<b>Cost:</b>						
At 1 January 2011	301,095	3,536,589	31,431	8,675	69,844	3,947,634
Exchange adjustments	-	4	-	-	-	4
Additions	-	4,065	313	-	281,565	285,943
Transfer of CIP	-	240,243	-	-	(245,909)	(5,666)
Disposals	(9,434)	(231,261)	(657)	(447)	-	(241,799)
At 31 December 2011	291,661	3,549,640	31,087	8,228	105,500	3,986,116
<b>Accumulated depreciation:</b>						
At 1 January 2011	255,080	2,846,860	31,166	7,839	-	3,140,945
Exchange adjustments	-	4	-	-	-	4
Charge for the year	3,069	254,310	52	432	-	257,863
Written back on disposals	(9,434)	(229,345)	(657)	(447)	-	(239,883)
At 31 December 2011	248,715	2,871,829	30,561	7,824	-	3,158,929
<b>Net book value:</b>						
At 31 December 2011	42,946	677,811	526	404	105,500	827,187

	Land and buildings MOP'000	Plant and equipment MOP'000	Furniture, fixtures and fittings MOP'000	Motor vehicles MOP'000	Capital projects in progress (CIP) MOP'000	Total MOP'000
<b>Cost:</b>						
At 1 January 2012	291,661	3,549,640	31,087	8,228	105,500	3,986,116
Exchange adjustments	–	491	–	–	–	491
Additions	–	593	–	176	338,255	339,024
Transfer of CIP	–	284,732	87	1,558	(290,013)	(3,636)
Disposals	–	(25,492)	(104)	(1,042)	–	(26,638)
At 31 December 2012	291,661	3,809,964	31,070	8,920	153,742	4,295,357
<b>Accumulated depreciation:</b>						
At 1 January 2012	248,715	2,871,829	30,561	7,824	–	3,158,929
Exchange adjustments	–	491	–	–	–	491
Charge for the year	2,327	263,219	113	626	–	266,285
Written back on disposals	–	(25,488)	(104)	(1,042)	–	(26,634)
At 31 December 2012	251,042	3,110,051	30,570	7,408	–	3,399,071
<b>Net book value:</b>						
At 31 December 2012	40,619	699,913	500	1,512	153,742	896,286

**The Company**

	Land and buildings MOP'000	Plant and equipment MOP'000	Furniture, fixtures and fittings MOP'000	Motor vehicles MOP'000	Capital projects in progress (CIP) MOP'000	Total MOP'000
<b>Cost:</b>						
At 1 January 2010	301,274	3,668,626	31,707	8,486	62,738	4,072,831
Additions	–	1,257	–	–	204,962	206,219
Transfer of CIP	–	195,705	–	–	(197,856)	(2,151)
Disposals	(179)	(340,691)	(281)	(155)	–	(341,306)
At 31 December 2010	301,095	3,524,897	31,426	8,331	69,844	3,935,593
<b>Accumulated depreciation:</b>						
At 1 January 2010	249,972	2,920,478	31,219	6,846	–	3,208,515
Charge for the year	5,287	255,336	224	809	–	261,656
Written back on disposals	(179)	(340,691)	(281)	(155)	–	(341,306)
At 31 December 2010	255,080	2,835,123	31,162	7,500	–	3,128,865
<b>Net book value:</b>						
At 31 December 2010	46,015	689,774	264	831	69,844	806,728

	Land and buildings MOP'000	Plant and equipment MOP'000	Furniture, fixtures and fittings MOP'000	Motor vehicles MOP'000	Capital projects in progress (CIP) MOP'000	Total MOP'000
<b>Cost:</b>						
At 1 January 2011	301,095	3,524,897	31,426	8,331	69,844	3,935,593
Additions	–	4,065	313	–	281,565	285,943
Transfer of CIP	–	240,243	–	–	(245,909)	(5,666)
Disposals	(9,434)	(231,261)	(657)	(447)	–	(241,799)
At 31 December 2011	291,661	3,537,944	31,082	7,884	105,500	3,974,071
<b>Accumulated depreciation:</b>						
At 1 January 2011	255,080	2,835,123	31,162	7,500	–	3,128,865
Charge for the year	3,069	254,310	52	432	–	257,863
Written back on disposals	(9,434)	(229,345)	(657)	(447)	–	(239,883)
At 31 December 2011	248,715	2,860,088	30,557	7,485	–	3,146,845
<b>Net book value:</b>						
At 31 December 2011	42,946	677,856	525	399	105,500	827,226
	Land and buildings MOP'000	Plant and equipment MOP'000	Furniture, fixtures and fittings MOP'000	Motor vehicles MOP'000	Capital projects in progress (CIP) MOP'000	Total MOP'000
<b>Cost:</b>						
At 1 January 2012	291,661	3,537,944	31,082	7,884	105,500	3,974,071
Additions	–	593	–	176	338,255	339,024
Transfer of CIP	–	284,732	87	1,558	(290,013)	(3,636)
Disposals	–	(25,492)	(104)	(1,042)	–	(26,638)
At 31 December 2012	291,661	3,797,777	31,065	8,576	153,742	4,282,821
<b>Accumulated depreciation:</b>						
At 1 January 2012	248,715	2,860,088	30,557	7,485	–	3,146,845
Charge for the year	2,327	263,197	113	626	–	266,263
Written back on disposals	–	(25,488)	(104)	(1,042)	–	(26,634)
At 31 December 2012	251,042	3,097,797	30,566	7,069	–	3,386,474
<b>Net book value:</b>						
At 31 December 2012	40,619	699,980	499	1,507	153,742	896,347

*Notes:*

- (a) Certain plant and equipment that were acquired before 1 January 2012 under a concession granted from the Macau Government to provide local and international switched fixed voice and data services are amortised over either their respective useful lives as set out in accounting policy note 1(e) or a period up to the end of the concession, whichever is shorter. Additional depreciation charge as a result of shortened depreciation periods amounted to MOP3,134,000, MOP3,440,000 and MOP11,325,000 for the years ended 31 December 2010, 2011 and 2012.
- (b) The Group leases Indefeasible Right of Use ("IRU") of capacity of land cable under finance leases for 13 to 16 years. The directors of the Company are of the opinion that these lease terms constitute a major part of the economic useful lives of these assets. As at 31 December 2010, 2011 and 2012, the net book value of IRU held under finance leases of the Group amounted to MOP88,636,000, MOP79,851,000 and MOP69,769,000 respectively. All the lease payments had been paid in full at the inception dates of these leases.
- (c) The analysis of net book value of properties is as follows:

**The Group and the Company**

	2010 MOP'000	2011 MOP'000	2012 MOP'000
Medium-term leases in Macau	46,015	42,946	40,619
Representing: Land and buildings carried at cost	46,015	42,946	40,619

**8. INTANGIBLE ASSETS****The Group and the Company**

	2010 MOP'000	2011 MOP'000	2012 MOP'000
<b>Computer software</b>			
<b>Cost:</b>			
At 1 January	127,609	114,229	119,960
Additions	–	800	–
Transferred from CIP	2,151	5,666	3,636
Disposals	(15,531)	(735)	–
At 31 December	114,229	119,960	123,596
<b>Accumulated amortisation:</b>			
At 1 January	118,272	111,081	113,088
Charge for the year	8,340	2,742	4,233
Written back on disposals	(15,531)	(735)	–
At 31 December	111,081	113,088	117,321
<b>Net book value:</b>			
At 31 December	3,148	6,872	6,275

## 9. INVESTMENTS IN SUBSIDIARIES

## The Company

	2010 MOP'000	2011 MOP'000	2012 MOP'000
Unlisted shares, at cost	5,168	5,168	5,168
Less: impairment losses	(5,158)	(5,158)	(5,158)
	<u>10</u>	<u>10</u>	<u>10</u>

The following list contains the particulars of subsidiaries comprising the Group as at 31 December 2010, 2011 and 2012. All of the subsidiaries are limited liability companies.

Name of subsidiary	Place of incorporation and operation	Issued and paid up capital	Proportion of ownership interest		Principal activities
			Held by the Company	Held by a subsidiary	
CTM (HK) Limited (formerly named as TeleOne (HK) Ltd.)	Hong Kong	100 shares of HK\$100 each	–	100%	Telecommunications services
*TeleOne (Singapore) Pte Ltd.	Singapore	2 shares of SG\$1 each	–	100%	Telecommunications services
*TeleOne China (Zhuhai) Co Ltd.	The People's Republic of China	5,000,000 shares of HK\$1 each	100%	–	Telecommunications services
*Canton Holdings Limited	Cayman Islands	1,000 shares of US\$1 each	100%	–	Investment holding

\* Companies not audited by KPMG. The financial statements of the subsidiaries not audited by KPMG reflect total net assets and total turnover constituting approximately 0.61% and 0.46% respectively of the related consolidated totals in 2012.

## 10. INVENTORIES

Inventories in the statements of financial position comprise:

## The Group and the Company

	2010 MOP'000	2011 MOP'000	2012 MOP'000
Inventories related to telecommunications systems	1,299	2,496	5,855
Inventories for resale	51,973	105,125	99,533
Inventories related to business solution projects	<u>49,191</u>	<u>21,124</u>	<u>19,117</u>
	<u>102,463</u>	<u>128,745</u>	<u>124,505</u>

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

**The Group and the Company**

	<b>2010</b> <i>MOP'000</i>	<b>2011</b> <i>MOP'000</i>	<b>2012</b> <i>MOP'000</i>
Carrying amount of inventories sold	<u>521,364</u>	<u>1,560,770</u>	<u>2,709,558</u>

**11. TRADE AND OTHER RECEIVABLES**

**The Group**

	<b>2010</b> <i>MOP'000</i>	<b>2011</b> <i>MOP'000</i>	<b>2012</b> <i>MOP'000</i>
Trade debtors	205,805	215,583	253,653
Less: allowance for doubtful debts	<u>(2,509)</u>	<u>(6,613)</u>	<u>(7,321)</u>
	203,296	208,970	246,332
Accrued revenue	124,315	135,606	87,242
Amounts due from affiliates of the shareholders	–	1,475	5,118
Other debtors and prepayments	<u>22,820</u>	<u>44,285</u>	<u>60,784</u>
	<u>350,431</u>	<u>390,336</u>	<u>399,476</u>

**The Company**

	<b>2010</b> <i>MOP'000</i>	<b>2011</b> <i>MOP'000</i>	<b>2012</b> <i>MOP'000</i>
Trade debtors	204,558	214,884	249,976
Less: allowance for doubtful debts	<u>(2,265)</u>	<u>(6,527)</u>	<u>(6,627)</u>
	202,293	208,357	243,349
Accrued revenue	123,652	135,266	86,640
Amounts due from affiliates of the shareholders	–	1,475	5,118
Amounts due from subsidiaries	11,848	12,283	13,657
Other debtors and prepayments	<u>22,562</u>	<u>44,227</u>	<u>60,367</u>
	<u>360,355</u>	<u>401,608</u>	<u>409,131</u>

The aggregate amounts of costs incurred plus recognised profits less recognised losses to date, included in the trade and other receivables for business solutions projects at 31 December 2010, 2011 and 2012, are MOP50,132,000, MOP119,737,000 and MOP74,987,000, respectively.

Accrued revenue represents unbilled revenue relating to telecommunications services and business solutions projects.

All of the trade receivables (net of allowance for doubtful debts) and other receivables are expected to be recovered or recognised as expense within one year.

**(a) Ageing analysis**

As of the end of the reporting period, the ageing analysis of trade debtors (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, is as follows:

**The Group**

	<b>2010</b>	<b>2011</b>	<b>2012</b>
	<i>MOP'000</i>	<i>MOP'000</i>	<i>MOP'000</i>
Within 1 month	150,427	140,124	152,310
1 to 2 months	29,261	47,370	48,360
2 to 3 months	19,440	13,946	20,445
Over 3 months	4,168	7,530	25,217
	<u>203,296</u>	<u>208,970</u>	<u>246,332</u>

**The Company**

	<b>2010</b>	<b>2011</b>	<b>2012</b>
	<i>MOP'000</i>	<i>MOP'000</i>	<i>MOP'000</i>
Within 1 month	149,663	139,658	151,197
1 to 2 months	29,117	47,307	47,772
2 to 3 months	19,460	13,860	20,642
Over 3 months	4,053	7,532	23,738
	<u>202,293</u>	<u>208,357</u>	<u>243,349</u>

Trade debtors in respect of corporate customers are due within 30 days from the date of billing whilst trade debtors relating to individuals are due within 20 days from the date of billing. Further details on the Group's credit policy are set out in note 18(a).

**(b) Impairment of trade debtors**

Impairment losses in respect of trade debtors are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors directly (see note 1(h)(i)).

The movement in the allowance for doubtful debts during the Relevant Period, including both specific and collective loss components, is as follows:

**The Group**

	2010 MOP'000	2011 MOP'000	2012 MOP'000
At 1 January	2,375	2,509	6,613
Impairment loss recognised	2,217	8,382	4,292
Uncollectible amounts written off	(2,083)	(4,278)	(3,584)
At 31 December	<u>2,509</u>	<u>6,613</u>	<u>7,321</u>

**The Company**

	2010 MOP'000	2011 MOP'000	2012 MOP'000
At 1 January	2,106	2,265	6,527
Impairment loss recognised	2,377	8,432	3,684
Uncollectible amounts written off	(2,218)	(4,170)	(3,584)
At 31 December	<u>2,265</u>	<u>6,527</u>	<u>6,627</u>

At 31 December 2010, 2011 and 2012, the Group's and the Company's trade debtors of nil, MOP4,169,000 and MOP4,325,000 were individually determined to be impaired. The individually impaired receivables related to customers that were in disputes and management assessed that a portion of the receivables may not be recovered. Consequently, specific allowances for doubtful debts for these receivables were recognised.

**(c) Trade debtors that are not impaired**

The ageing analysis of trade debtors that are neither individually nor collectively considered to be impaired are as follows:

**The Group**

	2010 MOP'000	2011 MOP'000	2012 MOP'000
Neither past due nor impaired	150,225	139,853	152,323
Less than 1 month past due	23,277	40,720	38,378
1 to 2 months past due	18,312	12,571	19,371
Over 2 months past due	3,341	6,830	22,980
	<u>44,930</u>	<u>60,121</u>	<u>80,729</u>
	<u>195,155</u>	<u>199,974</u>	<u>233,052</u>



**The Company**

	<b>2010</b> <i>MOP'000</i>	<b>2011</b> <i>MOP'000</i>	<b>2012</b> <i>MOP'000</i>
Neither past due nor impaired	149,461	139,387	151,303
Less than 1 month past due	23,133	40,658	38,378
1 to 2 months past due	18,329	12,457	19,371
Over 2 months past due	2,985	6,774	22,980
	44,447	59,889	80,729
	193,908	199,276	232,032

Receivables that were neither past due nor impaired relate to a wide range of corporate and individual customers from whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent corporate and individual customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

**12. LOANS TO RELATED PARTIES****The Group**

	<b>2010</b> <i>MOP'000</i>	<b>2011</b> <i>MOP'000</i>	<b>2012</b> <i>MOP'000</i>
Loans to affiliates of the following shareholders:			
– Cable & Wireless Communications Group	255,000	326,400	428,400
– Portugal Telecom Group	140,000	179,200	235,200
– CITIC Telecom International Group	100,000	128,000	168,000
	495,000	633,600	831,600

**The Company**

	<b>2010</b> <i>MOP'000</i>	<b>2011</b> <i>MOP'000</i>	<b>2012</b> <i>MOP'000</i>
Loans to affiliates of the following shareholders:			
– Cable & Wireless Communications Group	255,000	326,400	428,400
– Portugal Telecom Group	140,000	179,200	235,200
– CITIC Telecom International Group	100,000	128,000	168,000
Loan to subsidiary	<u>6,116</u>	<u>6,119</u>	<u>6,534</u>
	<u><b>501,116</b></u>	<u><b>639,719</b></u>	<u><b>838,134</b></u>

The loans to the affiliates of the Company's shareholders as at 31 December 2010, 2011 and 2012 are unsecured, interest bearing at the prevailing market rate and repayable in March of the following year.

The loan to subsidiary, TeleOne (Singapore) Pte Limited, is denominated in Singapore dollars, unsecured, interest bearing at the prevailing market rate and repayable on demand.

**13. CASH AND CASH EQUIVALENTS**

(a) Cash and cash equivalents comprise:

**The Group**

	<b>2010</b> <i>MOP'000</i>	<b>2011</b> <i>MOP'000</i>	<b>2012</b> <i>MOP'000</i>
Cash at bank and in hand	527,342	568,678	311,574
Short-term bank deposits	<u>100,000</u>	<u>170,000</u>	<u>250,000</u>
	<u><b>627,342</b></u>	<u><b>738,678</b></u>	<u><b>561,574</b></u>

**The Company**

	<b>2010</b> <i>MOP'000</i>	<b>2011</b> <i>MOP'000</i>	<b>2012</b> <i>MOP'000</i>
Cash at bank and in hand	521,303	563,216	307,057
Short-term bank deposits	<u>100,000</u>	<u>170,000</u>	<u>250,000</u>
	<u><b>621,303</b></u>	<u><b>733,216</b></u>	<u><b>557,057</b></u>

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

	2010 MOP'000	2011 MOP'000	2012 MOP'000
Profit before taxation	925,565	1,057,375	1,101,101
Adjustments for:			
– Depreciation and amortisation	269,997	260,605	270,518
– Interest income	(1,436)	(5,850)	(12,035)
– Expense recognised in respect of defined benefit retirement plan	5,681	5,618	8,230
– Net gain on sale of property, plant and equipment	(363)	(375)	(481)
Operating profit before changes in working capital	1,199,444	1,317,373	1,367,333
– Decrease/(increase) in inventories	(59,508)	(26,282)	4,240
– Increase in trade and other receivables	(74,970)	(37,883)	(3,863)
– Decrease in net defined benefit retirement obligation	(9,278)	(8,621)	(11,248)
– Increase in trade and other payables	107,926	210,022	54,832
Cash generated from operations	<u>1,163,614</u>	<u>1,454,609</u>	<u>1,411,294</u>

(c) Loans to affiliates of the shareholders as at 31 December 2010 and 2011, amounting to MOP495,000,000 and MOP633,600,000, were settled through offsetting the final dividend approved in March 2011 and 2012 respectively (note 17(b)).

## 14. TRADE AND OTHER PAYABLES

## The Group

	2010 MOP'000	2011 MOP'000	2012 MOP'000
Creditors and accruals	434,182	597,724	635,989
Amounts due to fellow subsidiaries	438	–	662
Receipts in advance			
– Business solutions projects	3,900	43,239	45,489
– Telecommunications services	127,716	135,295	148,950
	<u>566,236</u>	<u>776,258</u>	<u>831,090</u>

**The Company**

	<b>2010</b> <i>MOP'000</i>	<b>2011</b> <i>MOP'000</i>	<b>2012</b> <i>MOP'000</i>
Creditors and accruals	433,560	596,282	634,295
Amounts due to fellow subsidiaries	438	–	662
Amounts due to subsidiaries	12,075	12,284	12,336
Receipts in advance			
– Business solutions projects	3,900	43,239	45,489
– Telecommunications services	125,988	134,754	148,332
	<u>575,961</u>	<u>786,559</u>	<u>841,114</u>

Amounts due to fellow subsidiaries and subsidiaries are unsecured, interest-free and repayable on demand. All the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

As 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:

**The Group and the Company**

	<b>2010</b> <i>MOP'000</i>	<b>2011</b> <i>MOP'000</i>	<b>2012</b> <i>MOP'000</i>
Within 1 month	150,427	140,124	152,310
1 to 3 months	48,701	61,316	68,805
Over 3 months but within 6 months	4,168	7,530	25,217
	<u>203,296</u>	<u>208,970</u>	<u>246,332</u>

## 15. POST-EMPLOYMENT BENEFIT PLANS

The Company makes contributions to two post-employment benefit plans. The CTM Staff Provident Fund is a defined benefit retirement plan and the Defined Contribution Fund is a defined contribution retirement plan. The plans are administered by independent trustees with their assets held separately from those of the Group.

## (a) CTM Staff Provident Fund

The CTM Staff Provident Fund (“the Fund”) was established on 1 January 2003 to replace a staff provident fund of a previous constitution. The Fund is registered with the Monetary Authority of Macao and is under the management of Macau Life Insurance Company Limited. The members of the Fund are all the employees who were members of the original staff provident fund as at 31 December 2002. 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. The Company is required to make contributions to the Fund in accordance with an independent actuary’s recommendation based on periodic actuarial valuations. The Company is also obliged to make any extraordinary contributions which may be deemed necessary by Macau Life Insurance Company Limited when there are insufficient assets in the Fund to meet the liabilities of the Fund or when such insufficiency is anticipated. Upon retirement or resignation, each member is entitled to receive a lump sum payment calculated on the basis of a multiplying factor ranging from 0.6 to 2 times the final monthly salary and the number of service year that the member has served with the Company.

The independent actuarial valuations of the Fund at 31 December 2010, 2011 and 2012 were prepared by Towers Watson & Co., using the projected unit credit method. The actuarial valuations indicate that the Company’s obligations under the Fund is 88%, 70% and 71% covered by the plan assets held by the trustees as at 31 December 2010, 2011 and 2012 respectively.

Commencing in 2006, the Company has applied the alternative option of IAS 19, whereby actuarial gains and losses are taken immediately and fully reflected as defined benefit retirement assets or obligation in the statements of financial position through other comprehensive income.

(i) The amounts recognised in the statements of financial position are as follows:

**The Group and the Company**

	2010 MOP’000	2011 MOP’000	2012 MOP’000
Fair value of plan assets	220,858	192,011	204,542
Present value of plan obligation	(251,210)	(272,858)	(289,303)
	<u>(30,352)</u>	<u>(80,847)</u>	<u>(84,761)</u>

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 MOP11 million in contributions to the Fund in 2013.

- (ii) Plan assets consist of the following:

**The Group and the Company**

	<b>2010</b> <i>MOP'000</i>	<b>2011</b> <i>MOP'000</i>	<b>2012</b> <i>MOP'000</i>
Cash and money market	12,567	17,281	12,272
Bonds	84,339	78,725	85,908
Equity securities	123,952	96,005	106,362
	<u>220,858</u>	<u>192,011</u>	<u>204,542</u>

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

**The Group and the Company**

	<b>2010</b> <i>MOP'000</i>	<b>2011</b> <i>MOP'000</i>	<b>2012</b> <i>MOP'000</i>
Balance at 1 January	251,497	251,210	272,858
Benefits paid by the Fund	(26,356)	(33,524)	(23,952)
Employee contributions	4,659	4,323	4,273
Current service cost	8,296	7,545	8,491
Interest cost	8,449	9,395	9,288
Actuarial losses	4,665	33,909	18,345
	<u>251,210</u>	<u>272,858</u>	<u>289,303</u>

- (iv) Movements in plan assets

**The Group and the Company**

	<b>2010</b> <i>MOP'000</i>	<b>2011</b> <i>MOP'000</i>	<b>2012</b> <i>MOP'000</i>
Balance at 1 January	218,855	220,858	192,011
Employer's and employees' contributions paid to the Fund	13,937	12,944	15,521
Benefits paid by the Fund	(26,356)	(33,524)	(23,952)
Actuarial expected return on plan assets	11,064	11,322	9,549
Actuarial gains/(losses)	3,358	(19,589)	11,413
	<u>220,858</u>	<u>192,011</u>	<u>204,542</u>

## (v) Expense recognised in the consolidated income statement

	2010 MOP'000	2011 MOP'000	2012 MOP'000
Current service cost	8,296	7,545	8,491
Interest cost	8,449	9,395	9,288
Actuarial expected return on plan assets	(11,064)	(11,322)	(9,549)
	<u>5,681</u>	<u>5,618</u>	<u>8,230</u>

The actual return on plan assets of the Group (taking into account all changes in the fair value of the plan assets excluding contributions paid and received) was net income of MOP14 million in 2010, net loss of MOP8 million in 2011 and net income of MOP21 million in 2012.

## (vi) Actuarial losses recognised in other comprehensive income

**The Group**

	2010 MOP'000	2011 MOP'000	2012 MOP'000
Amount accumulated in retained profits at 1 January	(47,237)	(48,544)	(102,042)
Recognised during the year	<u>(1,307)</u>	<u>(53,498)</u>	<u>(6,932)</u>
Amount accumulated in retained profits at 31 December	<u>(48,544)</u>	<u>(102,042)</u>	<u>(108,974)</u>

## (vii) The principal actuarial assumptions used as at 31 December 2010, 2011 and 2012 (expressed as weighted averages) are as follows:

	2010	2011	2012
Expected rate of return on plan assets at 1 January	6.4% p.a.	6.0% p.a.	5.0%p.a.
Discount rate at 31 December	4.0% p.a.	3.5% p.a.	3.7%p.a.
Salary escalation	2.0% p.a.	2.5% p.a.	3.0%p.a.

The expected long-term rate of return on plan assets is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

## (viii) Historical information

	2008 MOP'000	2009 MOP'000	2010 MOP'000	2011 MOP'000	2012 MOP'000
Fair value of plan assets	177,293	218,855	220,858	192,011	204,542
Present value of the defined benefit obligation	<u>(203,091)</u>	<u>(251,497)</u>	<u>(251,210)</u>	<u>(272,858)</u>	<u>(289,303)</u>
Deficit in the plan	<u>(25,798)</u>	<u>(32,642)</u>	<u>(30,352)</u>	<u>(80,847)</u>	<u>(84,761)</u>
Experience adjustments arising on plan liabilities	<u>Note</u>	<u>5,117</u>	<u>6,116</u>	<u>10,472</u>	<u>11,311</u>
Experience adjustments arising on plan assets	<u>(80,573)</u>	<u>31,363</u>	<u>3,358</u>	<u>(19,589)</u>	<u>(11,406)</u>

*Note:* Information not available

**(b) Defined Contribution Fund**

The Defined Contribution Fund was set up under the terms of Decree Law 6/99/M and registered with the Monetary Authority of Macao. The Defined Contribution Fund is for all full time Macau employees who joined the Company after 1 May 2002. The Defined Contribution Fund is under the management of Macau Life Insurance Company Limited. The employees and the Company 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.

**16. SHARE BASED PAYMENTS**

In 2008, some employees of the Company were invited to participate the Colleague Retention Plan ("CRP"), a share based incentive plan operated by the Company's ultimate holding company.

The CRP was a 3 year incentive plan starting from August 2008. The CRP was provided to senior management and selective executives of the Company. The award was calculated based on the share price of the ultimate holding company at the payment award date and the award was paid to the plan members in cash annually up to August 2011.

Up to the end of the incentive plan, MOP4 million had been awarded and paid to plan members.



## 17. 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 statements of changes in equity. Details of the changes in the Company's individual components of equity during the Relevant Period are set out below:

**The Company**

	Note	Share capital MOP'000	Legal reserve MOP'000 (Note 17(d)(i))	Capital contribution reserve MOP'000 (Note 17(d)(ii))	Retained profits MOP'000	Total MOP'000
At 1 January 2010		150,000	37,500	11,225	987,716	1,186,441
<b>Changes in equity for 2010:</b>						
Profit for the year		-	-	-	814,255	814,255
Other comprehensive income		-	-	-	(655)	(655)
Total comprehensive income		-	-	-	813,600	813,600
Dividend approved in respect of the previous year	17(b)(ii)	-	-	-	(323,000)	(323,000)
At 31 December 2010		150,000	37,500	11,225	1,478,316	1,677,041
At 1 January 2011		150,000	37,500	11,225	1,478,316	1,677,041
<b>Changes in equity for 2011:</b>						
Profit for the year		-	-	-	933,594	933,594
Other comprehensive income		-	-	-	(47,079)	(47,079)
Total comprehensive income		-	-	-	886,515	886,515
Dividend approved in respect of the previous year	17(b)(ii)	-	-	-	(813,000)	(813,000)
At 31 December 2011		150,000	37,500	11,225	1,551,831	1,750,556
At 1 January 2012		150,000	37,500	11,225	1,551,831	1,750,556
<b>Changes in equity for 2012:</b>						
Profit for the year		-	-	-	969,329	969,329
Other comprehensive income		-	-	-	(6,099)	(6,099)
Total comprehensive income		-	-	-	963,230	963,230
Dividend approved in respect of the previous year	17(b)(ii)	-	-	-	(932,000)	(932,000)
At 31 December 2012		150,000	37,500	11,225	1,583,061	1,781,786

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

	<b>2010</b> <i>MOP'000</i>	<b>2011</b> <i>MOP'000</i>	<b>2012</b> <i>MOP'000</i>
Final dividend proposed after the end of the reporting period (2010: MOP5,420 per share; 2011: MOP6,213 per share; 2012: MOP6,460 per share)	<u>813,000</u>	<u>932,000</u>	<u>969,000</u>

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.

Part of the above final dividend attributable to the financial year of 2012 was settled through offsetting the loans to affiliates of shareholders in February 2013 of MOP831,600,000.

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

	<b>2010</b> <i>MOP'000</i>	<b>2011</b> <i>MOP'000</i>	<b>2012</b> <i>MOP'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year (2010: MOP2,153 per share; 2011: MOP5,420 per share; 2012: MOP6,213 per share)	<u>323,000</u>	<u>813,000</u>	<u>932,000</u>

Part of the above final dividend attributable to the financial years of 2010 and 2011 was settled through offsetting the loans to affiliates of shareholders in 2011 and 2012 of MOP495,000,000 and MOP633,600,000 respectively, as mentioned in note 13(c).

**(c) Share capital**

	<b>2010</b> <i>MOP'000</i>	<b>2011</b> <i>MOP'000</i>	<b>2012</b> <i>MOP'000</i>
<b>Authorised, issued and fully paid:</b> 150,000 shares of MOP1,000 each, carrying one voting right for every 20 shares	<u>150,000</u>	<u>150,000</u>	<u>150,000</u>

**(d) Nature and purpose of reserves****(i) Legal reserve**

The non-distributable legal reserve of MOP37,500,000, representing 25% of the capital of the Company, has been provided for in accordance with Article 432 of the Commercial Code (Decree Law No. 40/99/M) and the Company's Articles of Association.

(ii) Capital contribution reserve

The capital contribution reserve comprises the fair value of the actual or estimated number of shares granted to employees of the Company recognised in accordance with the accounting policy adopted for share based payments in note 1(m)(iii).

(e) Distributability of reserves

As at 31 December 2010, 2011 and 2012, the aggregate amount of reserves available for distribution to equity shareholders of the Company was MOP1,478,316,000, MOP1,551,831,000 and MOP1,583,061,000 respectively.

After the end of the reporting period, the directors proposed a final dividend of MOP5,420 per share, MOP6,213 per share and MOP6,460 per share for 2010, 2011 and 2012 respectively, amounting to MOP813,000,000, MOP932,000,000 and MOP969,000,000 (note 17(b)(i)). The dividend has not been recognised as a liability at the end of the reporting period.

During 1988 to 1999, CTM had claimed to the Macau tax authority in an amount of MOP718,216,000 of retained profits for deduction of Macau Complementary Tax as profit reinvestment (the tax rate prevailing at the time was 15%). In case CTM distributes dividends out of this part of retained profits, the Macau tax authority may take the view of these distributed profits as taxable income.

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a Debt-to-Equity ratio. For this purpose, the Group defines Debt as total debts (which includes interest-bearing loans and borrowings, trade and other payables and obligations under finance leases) plus unaccrued proposed dividends, less cash and cash equivalents. Equity comprises all components of equity and reserves, less unaccrued proposed dividends.

The Group's strategy during the Relevant Period was to maintain the Debt-to-Equity ratio at a minimum level. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

18. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables and loans to related parties. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, 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 in respect of corporate customers are due within 30 days from the date of billing whilst trade debtors relating to individuals are due within 20 days from the date of billing. Normally, the Group does not obtain collateral from customers.

In respect of loans to related parties, given their high credit ratings and no past history of default, management does not expect any of these related parties to fail to meet its obligations.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry or country in which the customers operate also has an influence on credit risk but to a lesser extent. At the end of the reporting period, the Group has a certain concentration of credit risk as 27%, 18% and 14% of the total trade and other receivables was due from the largest five customers as at 31 December 2010, 2011 and 2012 respectively.

Except for the performance bonds given by the Group as stated in note 20, the Group does not provide any other guarantees which would expose the Group or the Company to credit risk. The maximum exposure to credit risk in respect of these performance bonds as at 31 December 2010, 2011 and 2012 is disclosed in note 20.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 11.

**(b) Liquidity risk**

The Group's policy is to regularly monitor its liquidity requirements 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.

Details of the components of the Group's financial liabilities at 31 December 2010, 2011 and 2012 are set out in note 14. Since the Group does not have any loan financing, the maximum exposure to short-term liquidity risk is reflected by the balance of trade and other payables which arise from daily operations.

**(c) Interest rate risk**

The Group's exposure to market risk for changes in interest rate risk is concentrated in its holdings of short term bank deposits and the loans to affiliates of shareholders. The Group does not anticipate significant impact to cash and cash equivalents and loans to affiliates of shareholders as their interest rates are not expected to fluctuate significantly. The Group does not carry out any hedging activities to manage its interest rate exposure.

**(d) Currency risk**

The Group is exposed to currency risks primarily arising from trade and other receivables, cash and cash equivalents and trade and other payables that are denominated mainly in Hong Kong Dollars (HKD), United States Dollars (USD) and Renminbi (RMB). As Macau Patacas is pegged to HKD as well as USD, the Group considers the risk of movements in exchange rates between Macau Patacas, HKD and USD to be insignificant. In respect of trade and other receivables, cash and cash equivalents and trade and other payables denominated in foreign currency other than HKD or USD, the Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances. The Group did not have any significant forward exchange contracts outstanding on 31 December 2010, 2011 and 2012.

The following table details the exposure to currency risk for the Group at the end of the reporting period arising from recognised assets or liabilities denominated in a currency other than Macau Patacas. For presentation purposes, the amounts of the exposure are expressed in Macau Patacas.

**The Group****At 31 December 2010**

	<b>HKD</b> <b>'000</b>	<b>USD</b> <b>'000</b>	<b>RMB</b> <b>'000</b>
Trade and other receivables	5,934	39,625	–
Cash and cash equivalents	172,020	23,889	1,220
Trade and other payables	(16,404)	(26,726)	(155)
	<u>161,550</u>	<u>36,788</u>	<u>1,065</u>

**At 31 December 2011**

	<b>HKD</b> <b>'000</b>	<b>USD</b> <b>'000</b>	<b>RMB</b> <b>'000</b>
Trade and other receivables	6,769	43,839	–
Cash and cash equivalents	127,878	12,495	956
Trade and other payables	(2,751)	(19,400)	–
	<u>131,896</u>	<u>36,934</u>	<u>956</u>

**At 31 December 2012**

	<b>HKD</b> <b>'000</b>	<b>USD</b> <b>'000</b>	<b>RMB</b> <b>'000</b>
Trade and other receivables	11,212	24,610	–
Cash and cash equivalents	40,877	9,852	1,201
Trade and other payables	(11,744)	(13,014)	–
	<u>40,345</u>	<u>21,448</u>	<u>1,201</u>

**The Company****At 31 December 2010**

	<b>HKD</b> <b>'000</b>	<b>USD</b> <b>'000</b>	<b>RMB</b> <b>'000</b>
Trade and other receivables	5,934	32,384	–
Cash and cash equivalents	170,632	20,764	2
Trade and other payables	(14,979)	(26,726)	(155)
	<u>161,587</u>	<u>26,422</u>	<u>(153)</u>

## At 31 December 2011

	HKD '000	USD '000	RMB '000
Trade and other receivables	6,769	34,638	–
Cash and cash equivalents	127,215	9,090	–
Trade and other payables	(2,751)	(19,400)	–
	<u>131,233</u>	<u>24,328</u>	<u>–</u>

## At 31 December 2012

	HKD '000	USD '000	RMB '000
Trade and other receivables	11,212	14,218	–
Cash and cash equivalents	40,488	7,095	–
Trade and other payables	(11,744)	(13,014)	–
	<u>39,956</u>	<u>8,299</u>	<u>–</u>

Due to the linked exchange rates of the USD relative to the HKD and Macau Patacas, the Group's currency risk principally arises from its assets and liabilities denominated in foreign currencies other than the USD and HKD. Based on the above table, there is no significant impact on the Group's profit after taxation and other components of consolidated equity if RMB appreciates/depreciates by 5%.

## (e) Fair values

At 31 December 2010, 2011 and 2012, all financial instruments were carried at amounts not materially different from their fair values.

## (f) Estimation of fair values

For interest bearing receivables, the fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

## 19. COMMITMENTS

- (a) Capital commitments outstanding at 31 December 2010, 2011 and 2012 not provided for in the Financial Information were as follows:

## The Group and the Company

	2010 MOP'000	2011 MOP'000	2012 MOP'000
Authorised and contracted for	39,417	72,960	58,219
Authorised but not contracted for	<u>37,909</u>	<u>75,842</u>	<u>62,930</u>
	<u>77,326</u>	<u>148,802</u>	<u>121,149</u>

- (b) At 31 December 2010, 2011 and 2012, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

**The Group and the Company**

	<b>2010</b> <i>MOP'000</i>	<b>2011</b> <i>MOP'000</i>	<b>2012</b> <i>MOP'000</i>
Within 1 year	29,948	23,209	40,282
After 1 year but within 5 years	<u>1,189</u>	<u>210</u>	<u>7,216</u>
	<b><u>31,137</u></b>	<b><u>23,419</u></b>	<b><u>47,498</u></b>

The Group is the lessee in respect of a number of properties, cell sites and international private leased circuit held under operating leases. The leases typically run for an initial period of one to two years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually increased every year to reflect market rentals. None of the leases includes contingent rentals.

**20. PERFORMANCE BONDS**

The performance bonds at 31 December 2010, 2011 and 2012 for which no provision has been made in the Financial Information are as follows:

**The Group and the Company**

	<b>2010</b> <i>MOP'000</i>	<b>2011</b> <i>MOP'000</i>	<b>2012</b> <i>MOP'000</i>
Performance bonds provided to:			
Macau Government in accordance with Article 52 of the renewed concession agreement on fixed line services	2,000	2,000	2,000
Macau Government in accordance with Clause 4, paragraph 1 of the WCDMA Licence	2,000	2,000	2,000
Macau Government in accordance with Article 4 of the Mobile Licence	2,000	2,000	–
Macau Government for a project to relocate the Group's shore end connection of SEA-ME-WE 3 submarine cable to a new location	38,862	38,862	38,862
Customers of business solutions projects	<u>21,544</u>	<u>17,766</u>	<u>25,394</u>
	<b><u>66,406</u></b>	<b><u>62,628</u></b>	<b><u>68,256</u></b>

At the end of each reporting period, the directors do not consider it probable that a claim will be made against the Group and the Company under any of the performance bonds.

## 21. MATERIAL RELATED PARTY TRANSACTIONS

## (a) Key management personnel remuneration

Remuneration for key management personnel of the Group is as follows:

	2010 MOP'000	2011 MOP'000	2012 MOP'000
Short term employee benefits	15,133	24,634	29,032
Post-employment benefits	698	599	560
	<u>15,831</u>	<u>25,233</u>	<u>29,592</u>

Total remuneration is included in “staff costs” (note 5(b)).

## (b) Financing arrangements

	Note	Amount owed to the Group by related parties At 31 December			Related interest income Year ended 31 December		
		2010 MOP'000	2011 MOP'000	2012 MOP'000	2010 MOP'000	2011 MOP'000	2012 MOP'000
Loans to affiliates of the shareholders	(i), (ii)	<u>495,000</u>	<u>633,600</u>	<u>831,600</u>	<u>1,086</u>	<u>4,724</u>	<u>7,991</u>

Notes:

- (i) The loans to the affiliates of the Company's shareholders as at 31 December 2010, 2011 and 2012 are unsecured, interest bearing at the prevailing market rate and repayable in the following year.
- (ii) No provisions for bad or doubtful debts have been made in respect of these loans.



## (c) Other related party transactions

The Group and the Company had the following recurring transactions with related parties in the normal course of business during the Relevant Period.

	2010 <i>MOP'000</i>	2011 <i>MOP'000</i>	2012 <i>MOP'000</i>
Telecommunications service revenue receivable/received from affiliates of shareholders	<u>11,002</u>	<u>15,092</u>	<u>14,567</u>
Cost of telecommunications service payable/paid to affiliates of shareholders	<u>20,622</u>	<u>22,722</u>	<u>18,804</u>
Other operating expenses payable/paid to affiliates of shareholder	<u>8,329</u>	<u>9,184</u>	<u>8,308</u>
Capital expenditure payable/paid to affiliates of shareholder	<u>553</u>	<u>1,260</u>	<u>273</u>

## (d) Balances with related parties at 31 December

	<i>Note</i>	2010 <i>MOP'000</i>	2011 <i>MOP'000</i>	2012 <i>MOP'000</i>
Loans to affiliates of the shareholders	12	<u>495,000</u>	<u>633,600</u>	<u>831,600</u>
Amounts due from affiliates of the shareholders	11	<u>–</u>	<u>1,475</u>	<u>5,118</u>
Amounts due to fellow subsidiaries	14	<u>(438)</u>	<u>–</u>	<u>(662)</u>

## 22. IMMEDIATE PARENT AND ULTIMATE CONTROLLING PARTY

At 31 December 2010, 2011 and 2012, the directors consider the immediate parent and ultimate controlling party of the Group to be Sable Holding Limited and Cable & Wireless Communications PLC, respectively, both incorporated in the United Kingdom. Cable & Wireless Communications PLC is listed on the London Stock Exchange and prepares financial statements available for public use.

### 23. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Up to the date of issue of the Financial Information, the IASB has issued a number of amendments and new standards which are not yet effective for the period beginning on 1 January 2012 and which have not been adopted in the Financial Information. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Amendments to IAS 1, Presentation of financial statements	
— Presentation of items of other comprehensive income	1 July 2012
IFRS 10, Consolidated financial statements	1 January 2013
IFRS 12, Disclosure of interests in other entities	1 January 2013
IFRS 13, Fair value measurement	1 January 2013
IAS 27, Separate financial statements (2011)	1 January 2013
Revised IAS 19, Employee benefits	1 January 2013
Annual Improvements to IFRSs 2009-2011 Cycle	1 January 2013
Amendments to IFRS 7, Financial instruments: Disclosures	
— Disclosures – Offsetting financial assets and financial liabilities	1 January 2013
Amendments to IAS 32, Financial instruments: Presentation	
— Offsetting financial assets and financial liabilities	1 January 2014
IFRS 9, Financial instruments	1 January 2015

The Group is in the process of making an assessment of what the impact of these amendments 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 Group's results of operations and financial position.

### 24. STATUTORY AUDIT

The financial statements of the companies comprising the Group which are subject to audit during the Relevant Period were audited by the following auditors:

Name of company	Financial year	Name of auditors
Companhia de Telecomunicações de Macau, S.A.R.L.	Years ended 31 December 2010, 2011 and 2012	KPMG Macau
CTM (HK) Limited (formerly named as TeleOne (HK) Ltd.)	Years ended 31 March 2010, 2011 and 2012	KPMG
TeleOne (Singapore) Pte Ltd.	Years ended 31 March 2010, 2011 and 2012	James Chan & Partners LLP
TeleOne China (Zhuhai) Co Ltd.	Years ended 31 December 2010, 2011 and 2012	Zhuhai Anderly United CPA

**C. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Company and its subsidiaries in respect of any period subsequent to 31 December 2012.

Yours faithfully

**KPMG**

*Certified Public Accountants*

Hong Kong

**MANAGEMENT DISCUSSION AND ANALYSIS OF CTM GROUP**

Set out below is management's discussion and analysis of CTM Group's results of operation for each of the three years ended 31 December 2010, 2011 and 2012.

**1. Operational Review*****For the year ended 31 December 2012 compared to the year ended 31 December 2011***

CTM Group's turnover for the year ended 31 December 2012 reached MOP4,922.2 million, representing a 23.6% increase from the preceding year of MOP3,981.9 million. This growth in turnover was mainly attributable to sales of goods (primarily due to the increasing popularity of smartphones), reflecting a growth of 65.1% (MOP999.3 million) against the previous year. Excluding sales of goods, turnover decreased by 2.4% (MOP59.0 million) in 2012, mainly driven by the decrease in business solutions for enterprise customers as a result of the cyclical nature of casino/hotel developments in Macau. The drop in gross margin of business solutions was compensated by the growth in mobile services and leased lines which led to a growth of overall gross margin of 3% (MOP58 million). As a result, CTM Group's profit for the year increased by 4.0% from MOP932.2 million in 2011 to MOP969.3 million in 2012.

***Mobile Services***

Mobile revenue increased from MOP2,306.1 million in 2011 by 47.1% to MOP3,393.2 million in 2012. The increase was mainly driven by increased handset sales, increase in customer base and growth in mobile broadband revenue.

Handset sales increased from MOP1,515.5 million in 2011 by 66.3% to MOP2,519.8 million in 2012. The increase was mainly driven by the increasing popularity of smartphones which have a higher selling price per unit.

The Macau mobile penetration rate reached around 279.8% by the end of 2012. At the same time, CTM Group's mobile customer base increased by 17.6% to 745,460 (2011: 633,936). The number of mobile broadband subscribers increased by 34.5% to 165,512 (2011: 123,079).

***Fixed line Services***

Fixed line revenue decreased from MOP598.7 million in 2011 by 9.7% to MOP540.9 million in 2012. The decrease was mainly due to continuing migration of customers to mobile telecommunications, increased pricing pressure on IDD service from competitors, the popularity of VoIP as well as the drop in international transit voice revenue due to worldwide competition.

During the year ended 31 December 2012, CTM Group received a total of 13,589 (2011: 15,560) applications for new direct exchange lines. The overall number of installations during the year was 13,784 (2011: 15,511), comprising 8,367 direct exchange lines and 5,417 external removals. The number of lines decreased by 3,777 (2011: 2,064) after a cessation of 17,561 (2011: 17,575). The total system size at the end of the year was 162,533 lines (2011: 166,310). The total outgoing international telephone minutes originating in Macau for 2012 was 133 million, representing a 6% increase compared to 2011. The total incoming international telephone minutes terminated in Macau for 2012 was 167 million, representing a 5% decrease compared to 2011.

#### *Internet Services*

Internet revenue increased from MOP435.7 million in 2011 by 4.3% to MOP454.3 million in 2012. The increase was driven by growing customer base.

The total internet customer base grew by 5% to 145,120 (2011: 138,222) in 2012, whilst 11% of the existing customers opted to upgrade to packages offering higher bandwidth.

#### *Enterprise Solutions Services and others*

Revenue from enterprise solutions and others including leased line services decreased from MOP641.4 million in 2011 by 16.8% to MOP533.8 million in 2012. The decrease was mainly due to the cyclical nature of casino/hotel developments.

#### ***For the year ended 31 December 2011 compared to the year ended 31 December 2010***

CTM Group's turnover increased by 44.3% from MOP2,760.2 million in 2010 to MOP3,981.9 million in 2011. The increase in revenue was mainly due to sales of mobile equipment, reflecting a growth of 208% over the same period in preceding year. Excluding the sales of mobile equipment, the revenues grew by 9% during 2011. As a result, CTM Group's net profit increased by 14.6% from MOP813.5 million in 2010 to MOP932.2 million in 2011.

#### *Mobile Services*

Mobile revenue increased from MOP1,218.1 million in 2010 by 89.3% to MOP2,306.1 million in 2011. The increase was mainly driven by increased handset sales, increases in customer base and growth in mobile broadband revenue.

Handset sales increased from MOP492.4 million in 2010 by 208% to MOP1,515.5 million in 2011. The increase was mainly driven by the increasing popularity of smart phones which have a higher selling price per unit.

The Macau mobile penetration rate reached around 243% by the end of 2011. At the same time, CTM's mobile customer base increased by 23% to 633,936. Throughout the year 2011, the 3G customer base continued to grow reaching 89% of the total mobile subscriber base by the year end. At the same time, there was a fast uptake of mobile broadband in which the subscriber base had doubled that of 2010 to 123,079 in 2011.

#### *Fixed line Services*

Fixed line revenue decreased from MOP649.6 million in 2010 by 7.8% to MOP598.7 million in 2011. The decrease was mainly due to the continuing migration of customers to mobile telecommunications, increased pricing pressure on IDD service from competitors, the popularity of VoIP as well as drop in international transit voice revenue due to worldwide competition.

The total outgoing international telephone minutes originating in Macau for 2011 was 126 million, representing 4% increase compared to 2010. The total incoming international telephone minutes terminated in Macau for 2011 was 175 million, also a 4% increase compared to 2010.

#### *Internet Services*

Internet revenue increased from MOP389.0 million in 2010 by 12.0% to MOP435.7 million in 2011. The increase was driven by increases in the customer base and usage.

The total internet customer base grew 4% to 138,222 for the year 2011, whilst 15% of the existing customers opted to upgrade to price packages offering higher bandwidth.

#### *Enterprise Solution Services and others*

Revenue for enterprise solutions and others, including leased line services, increased from MOP503.5 million in 2010 by 27.4% to MOP641.4 million in 2011. The increase was mainly due to the resumption of the casino/hotel business solutions projects that were put on hold in 2009 and 2010 during the downturn of the economy.

## **2. Group Liquidity and Capital Resources**

CTM Group's primary objectives in managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for its shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

*For the year ended 31 December 2012 compared to the year ended 31 December 2011*

During the year ended 31 December 2012, CTM Group's cash and cash equivalents remained healthy at MOP561.6 million (31 December 2011: MOP738.7 million). CTM Group had net operating cash inflow of MOP1,284.7 million as at 31 December 2012, a decrease of MOP58.9 million when compared with the corresponding period for 2011. The decrease was due to settlement of trade payables to handset suppliers due to large purchases of handsets at the end of last year. As at 31 December 2012, CTM Group had no outstanding financial debts and borrowings.

*For the year ended 31 December 2011 compared to the year ended 31 December 2010*

During the year ended 31 December 2011, CTM Group's cash and cash equivalents improved to MOP738.7 million (31 December 2010: MOP627.3 million). CTM Group had net operating cash inflow of MOP1,343.6 million at 31 December 2011, an increase of MOP280.5 million when compared with the corresponding period for 2010. The increase was due to increase in profit contribution from mobile, internet and enterprise solutions, as well as increases in trade payables to handset suppliers due to large purchases of handsets at the year end. As at 31 December 2011, CTM Group had no outstanding financial debts and borrowings.

*a. Bank Borrowings*

As at 31 December 2010, 2011 and 2012, CTM Group had no outstanding loans and borrowings.

*b. Capital Commitments*

As at 31 December 2010, 2011 and 2012, CTM Group had outstanding capital commitments of MOP77.3 million, MOP148.8 million and MOP121.1 million respectively, mainly for investments on projects such as expansion of the WCDMA 3G mobile, leased line, fixed line, broadband internet and Wi-Fi networks, the development of a platform to deliver TV and video application services, the development and enhancement of IT systems, and the opening and renovation of retail shops.

*c. Gearing Ratio*

CTM Group's gearing ratio is calculated based on total liabilities divided by total assets. At 31 December 2010, 2011 and 2012, CTM Group's gearing ratio was approximately 0.30, 0.36 and 0.37, respectively.

*d. Securities and Guarantees*

As at 31 December 2010, 2011 and 2012, the total amount of the performance bonds issued by CTM Group were MOP66.4 million, MOP62.6 million and MOP68.3 million respectively.

As at 31 December 2012, CTM Group had the following performance bonds for which no provision has been made in the financial statements:

- (a) performance bonds of MOP2.0 million provided to the Macau Government in accordance with Article 52 of the renewed Macau Concession;
- (b) performance bonds of MOP2.0 million provided to the Macau Government in accordance with Clause 4, paragraph 1 of the WCDMA License;
- (c) performance bonds of MOP38.9 million provided to the Macau Government for a project to relocate CTM Group's shore end connection of SEA-ME-WE 3 submarine cable to a new location; and
- (d) performance bonds of MOP25.4 million provided by CTM given to various customers to complete business solutions projects in accordance with the respective contractual terms and conditions.

As at 31 December 2012, the directors of CTM did not consider it probable that a claim will be made against CTM Group under the above performance bonds. No provision has therefore been made for such guarantees and performance bonds.

Certain fixed assets of CTM Group are designated for the provision of basic infrastructure of the public telecommunications services. Such fixed assets might need to be shared with other licensed telecommunications operators or the Macau Government with fair compensation, or, upon termination of Macau Concession, assigned in favour of the Macau Government.

Save as disclosed above, as at 31 December 2012, CTM Group had no pledged or charged assets.

**3. Contingent Liabilities**

Save for the financial guarantees given by CTM Group as stated in the paragraph headed "d. Securities and Guarantees" above in this section, as at 31 December 2010, 2011 and 2012, CTM Group had no other significant contingent liabilities.



#### 4. Risk Management

##### *a. Exchange Rate Risk*

CTM Group's functional currency is Macau Patacas. CTM Group is exposed to currency risks primarily arising from trade and other receivables, cash and cash equivalents and trade and other payables that are denominated mainly in Hong Kong dollars, United States dollars and Renminbi. As Macau Patacas are pegged to Hong Kong dollars as well as United States dollars, CTM Group considers the risk of movements in exchange rates between these currencies to be insignificant. At 31 December 2010, 2011 and 2012, CTM Group did not have any significant forward exchange contracts outstanding.

##### *b. Credit Risk*

CTM Group's credit risk is primarily attributable to trade and other receivables and loans to related parties. Trade receivables are due within 20–30 days from the date of billing. Debtors with balances that are more than 1–2 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, CTM Group does not obtain collateral from customers. In respect of loans to related parties, given their high credit standing and no past history of default, management does not expect any of these related parties to fail to meet its obligations.

At 31 December 2010, 2011 and 2012, CTM Group has certain concentration of credit risk as 27%, 18% and 14%, respectively, in respect of the total trade and other receivables due from the largest five customers.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset in the statements of financial position after deducting any impairment allowance. Except for the performance bonds given by CTM Group as stated in the paragraph headed "d. Securities and Guarantees" above in this section, CTM Group does not provide any other guarantees which would expose CTM Group to credit risk.

#### 5. Capital Expenditure

For the three years ended 31 December 2010, 2011 and 2012, CTM Group's total capital expenditures were MOP206 million, MOP287 million and MOP339 million, respectively. CTM Group's capital expenditures comprised of investments on projects such as expansion of the WCDMA 3G mobile, leased line, fixed local and international and broadband internet networks, the development of a platform to deliver TV and video application services, the development and enhancement of IT systems, and the opening and renovation of retail shops.

Going forward, capital expenditure is expected to be driven by investments on the expansion of mobile, leased lines, broadband internet, local and international networks, Wi-Fi and online TV and video applications, as well as the improvement of network resilience. In relation to network enhancement and resilience, the investment in the mobile network includes the initial development of LTE (Long Term Evolution-4G), the elimination of single points of failure to ensure stability and diversity of the service. The main investments in the IT area are expected to cover the implementation of the “Convergent Rating, Billing and Mediation”, “CRM” and “Revenue Assurance and Fraud Detection” systems.

#### **6. Significant Investments, Material Acquisitions and Disposals**

CTM Group had no material acquisitions or disposals of subsidiaries during the three years ended 31 December 2012.

#### **7. Human Resources**

At 31 December 2010, 2011 and 2012, CTM Group had a total of 841, 898 and 964 employees, respectively.

CTM Group offers remuneration packages based on the employees’ performance, working experience and the prevailing market rates. CTM Group makes contributions to two post-employment benefit plans, the CTM Staff Provident Fund and the Defined Contribution Fund. CTM Group also organised a variety of employee activities including staff functions, volunteer charitable events and staff club activities to maintain a positive atmosphere and build team cohesion. CTM Group provides training courses to its employees to enhance their skills and abilities. To strengthen team communication, CTM Group also organises managers’ briefings to share CTM Group’s development plans.

#### **8. Dividends**

During 2010, CTM paid a total dividend of MOP323.0 million.

During 2011, CTM paid a total dividend of MOP813.0 million, including an amount of MOP495.0 million that was settled through offsetting the loans to affiliates of shareholders made in 2010. A new loan to affiliates of shareholders of MOP633.6 million was made by CTM during the year and this loan was repaid in March 2012.

During 2012, CTM paid a total dividend of MOP932.0 million, including an amount of MOP633.6 million that was settled through offsetting the loan to affiliates of shareholders made in 2011. A new loan to affiliates of shareholders of MOP831.6 million was made by CTM during the year and this loan was repaid in February 2013.

**PROSPECTS AND FUTURE PLANS**

CTM Group is the leading telecom enterprise in Macau offering full services of mobile and fixed line, internet and enterprises solutions.

CTM Group is prepared to address the challenges and opportunities of the liberalisation of the telecom market in Macau by continuing to provide good quality products and services to meet customers' demand and the developing needs of the territory.

CTM Group will continue to improve the standard of its retail services by expanding the retail shops network and extending servicing hours of the retail shops. CTM Group will continue to develop and adopt new technologies, such as cloud technology and 4G technology, and improve and upgrade the network infrastructure. CTM Group will continue its collaboration with major global cellphone manufacturers to introduce new products to Macau, and will also continue to invest to enhance its network coverage and broadband speed. CTM Group will continue to provide one-stop business solutions for enterprise customers in different sectors, including Macau government departments, educational institutions, hospitals and the gaming industry, and the major civil infrastructure constructions and major development projects.

*The unaudited pro forma financial information of the Enlarged Group set out below in this Appendix should be read in conjunction with the financial information of the Group as set out in the Company's annual report for the year ended 31 December 2012, the financial information of CTM Group as set out in Appendix II to this circular, and other financial information included elsewhere in this circular.*

**A. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP**

*The following is the text of a letter dated 21 March 2013, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.*



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

**The Directors**  
**CITIC Telecom International Holdings Limited**

21 March 2013

Dear Sirs,

**CITIC Telecom International Holdings Limited (the "Company")**

We report on the unaudited pro forma financial information ("Pro Forma Financial Information") of the Company and its subsidiaries (the "Group") set out on pages III-4 to III-17 in Appendix III of the circular of the Company dated 21 March 2013 (the "Circular"), which has been prepared by the directors of the Company solely for illustrative purposes to provide information about how the proposed acquisition of a 79% interest in Companhia de Telecomunicações de Macau, S.A.R.L. by the Company might have affected the financial information presented. The basis of preparation of the unaudited Pro Forma Financial Information is set out on pages III-4 to III-17 in Appendix III of the Circular.

**Responsibilities**

It is the responsibility solely of the directors of the Company to prepare the unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**Basis of opinion**

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (“HKSIR”) 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited Pro Forma Financial Information with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or review performed in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 31 December 2012 or any future date; or
- the results and cash flows of the Group for the year ended 31 December 2012 or any future periods.

**Opinion**

In our opinion:

- a) the unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully

**KPMG**

*Certified Public Accountants*

Hong Kong

**B. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP****1. Introduction**

The unaudited pro forma financial information comprising the unaudited pro forma consolidated balance sheet as at 31 December 2012, and the unaudited pro forma consolidated income statement and the unaudited pro forma consolidated cash flow statement for the year ended 31 December 2012, has been prepared to illustrate the effect of the proposed very substantial acquisition of 79% interest in CTM by the Company. Details of the Acquisitions are set out in the section headed “Letter from the Board” contained in this circular.

The unaudited pro forma financial information of the Enlarged Group has been prepared in accordance with Paragraph 4.29 of the Listing Rules and has been prepared by the Directors of the Company for illustrative purposes only.

The unaudited pro forma financial information of the Enlarged Group is based upon: (i) the audited consolidated financial statements of the Group as at and for the year ended 31 December 2012, which have been extracted from the Company’s annual report for the year ended 31 December 2012; (ii) the audited consolidated financial statements of CTM Group as at and for the year ended 31 December 2012 as extracted from the accountant’s report thereon set out in Appendix II to this circular, and adjusted on a pro forma basis to reflect the effect of the Acquisitions. These pro forma adjustments are (i) directly attributable to the Acquisitions and not relating to other future events and decision and (ii) factually supportable based on the terms of the Sable Sale and Purchase Agreement and PT Sale and Purchase Agreement.

The audited consolidated financial statements of the Group for the year ended 31 December 2012 have been prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The audited consolidated financial statements of CTM Group for the year ended 31 December 2012 have been prepared in accordance with the International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”). No material adjustment is required to be made to conform the accounting policies of CTM Group to those of the Group.

The unaudited pro forma financial information of the Enlarged Group is based on a number of assumptions, estimates and uncertainties. Accordingly, the accompanying unaudited pro forma financial information of the Enlarged Group does not purport to describe: (i) the actual financial position of the Enlarged Group that would have been attained had the Acquisitions been completed on 31 December 2012; (ii) the actual results and cash flows of the Enlarged Group that would have been attained had the Acquisitions been completed on 1 January 2012. The unaudited pro forma financial information of the Enlarged Group does not purport to predict the future financial position, results or cash flows of the Enlarged Group.



## 2. Unaudited pro forma consolidated balance sheet as at 31 December 2012

	The Group	CTM Group		Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	The Enlarged Group
	HK\$'000	MOP'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Non-current assets</b>							
Property, plant and equipment	742,376	896,286	863,571	308,775 <sup>b</sup>			1,914,722
Intangible assets	105,825	6,275	6,046	3,093,932 <sup>b</sup>			3,205,803
Goodwill	402,456	–	–	7,188,689 <sup>b</sup>			7,591,145
Interest in an associate	1,449,938	–	–	(1,449,938) <sup>d</sup>			–
Interest in a jointly controlled entity	45,950	–	–				45,950
Non-current other receivables and deposits	174,352	750	723				175,075
Deferred tax assets	37,451	10,790	10,396				47,847
	<u>2,958,348</u>	<u>914,101</u>	<u>880,736</u>				<u>12,980,542</u>
<b>Current assets</b>							
Inventories	–	124,505	119,960				119,960
Trade receivables, other receivables and deposits	1,363,583	399,476	384,895		(11,168) <sup>c</sup>		1,737,310
Current tax recoverable	3,611	–	–				3,611
Loans to related parties	–	831,600	801,247		(801,247) <sup>c</sup>		–
Loans to affiliates of the former shareholders of a subsidiary	–	–	–		639,379 <sup>c</sup>		639,379
Cash and bank deposits	354,816	561,574	541,077	(9,456,866) <sup>a,b</sup>		(97,000) <sup>f</sup>	(8,657,973) <sup>a</sup>
	<u>1,722,010</u>	<u>1,917,155</u>	<u>1,847,179</u>				<u>(6,157,713)</u>
<b>Current liabilities</b>							
Trade and other payables	801,248	831,090	800,755		(11,168) <sup>c</sup>		1,590,835
Bank loans	100,000	–	–				100,000
Loans from an associate	161,868	–	–		(161,868) <sup>c</sup>		–
Current tax payable	43,169	135,403	130,461				173,630
	<u>1,106,285</u>	<u>966,493</u>	<u>931,216</u>				<u>1,864,465</u>
<b>Net current assets/(liabilities)</b>	<u>615,725</u>	<u>950,662</u>	<u>915,963</u>				<u>(8,022,178)</u>
<b>Total assets less current liabilities</b>	<u>3,574,073</u>	<u>1,864,763</u>	<u>1,796,699</u>				<u>4,958,364</u>
<b>Non-current liabilities</b>							
Non-current other payables	87,808	–	–				87,808
Net defined benefit retirement obligation	–	84,761	81,667				81,667
Deferred tax liabilities	65,241	–	–	408,325 <sup>b</sup>			473,566
	<u>153,049</u>	<u>84,761</u>	<u>81,667</u>				<u>643,041</u>
<b>Net assets</b>	<u>3,421,024</u>	<u>1,780,002</u>	<u>1,715,032</u>				<u>4,315,323</u>
<b>Capital and reserves</b>							
Share capital	238,668	150,000	144,525	(144,525) <sup>d</sup>			238,668
Reserves	3,194,035	1,630,002	1,570,507	(626,302) <sup>d,e</sup>		(97,000) <sup>f</sup>	4,041,240
<b>Total equity attributable to equity shareholders of the Company</b>	<u>3,432,703</u>	<u>1,780,002</u>	<u>1,715,032</u>				<u>4,279,908</u>
<b>Non-controlling interests</b>	<u>(11,679)</u>	<u>–</u>	<u>–</u>	<u>47,094<sup>b</sup></u>			<u>35,415</u>
<b>Total equity</b>	<u>3,421,024</u>	<u>1,780,002</u>	<u>1,715,032</u>				<u>4,315,323</u>

## 3. Unaudited pro forma consolidated income statement for the year ended 31 December 2012

	The Group	CTM Group		Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	The Enlarged Group
	HK\$'000	MOP'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Turnover</b>	3,609,810	4,922,192	4,742,532						8,329,678
Other revenue	545	12,035	11,596						12,141
Other net loss	(6,432)	(1,643)	(1,583)				(22,664) <sup>j</sup>		(8,015)
Network, operations and support expenses	3,603,923	4,932,584	4,752,545						8,333,804
Depreciation and amortisation	(2,527,843)	(3,079,177)	(2,966,787)				22,664 <sup>j</sup>		(5,471,966)
Staff costs	(154,282)	(270,518)	(260,644)			(269,776) <sup>h</sup>			(684,702)
Other operating expenses	(353,003)	(211,341)	(203,627)					(97,000) <sup>k</sup>	(556,630)
	(219,985)	(270,447)	(260,576)						(577,561)
<b>Profit from operations</b>	348,810	1,101,101	1,060,911						1,042,945
Finance costs	(3,063)	-	-						(3,063) <sup>m</sup>
Share of profit of an associate	158,295	-	-			(158,295) <sup>g</sup>			-
Share of profit of a jointly controlled entity	1,179	-	-						1,179
Gain on deemed disposal of equity interest in an associate	-	-	-					957,499 <sup>l</sup>	957,499
<b>Profit before taxation</b>	505,221	1,101,101	1,060,911						1,998,560
Income tax	(40,232)	(131,838)	(127,026)			32,373 <sup>h</sup>			(134,885)
<b>Profit for the year</b>	464,989	969,263	933,885						1,863,675
<b>Attributable to:</b>									
Equity shareholders of the Company	461,283	969,263	933,885			(158,295)		860,499	1,853,004
Non-controlling interests	3,706	-	-			(6,965)	6,965 <sup>i</sup>		10,671
<b>Profit for the year</b>	464,989	969,263	933,885			(237,403)			1,863,675

4. Unaudited pro forma consolidated cash flow statement for the year ended  
31 December 2012

	The Group	CTM Group		Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	The Enlarged Group
	HK\$'000	MOP'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Operating activities</b>							
Cash generated from operations	328,751	1,411,294	1,359,783		1,081 <sup>P</sup>	349 <sup>q</sup>	1,689,964
Tax paid:							
– Hong Kong Profits Tax paid	(34,379)	–	–				(34,379)
– Macau income tax paid	–	(126,602)	(121,981)				(121,981)
– Overseas tax paid	(3,392)	(15)	(14)				(3,406)
Tax refunded:							
– Hong Kong Profits Tax refunded	168	–	–				168
<b>Net cash generated from operating activities</b>	<b>291,148</b>	<b>1,284,677</b>	<b>1,237,788</b>				<b>1,530,366</b>
<b>Investing activities</b>							
Payment for the purchase of property, plant and equipment	(160,347)	(339,024)	(326,650)				(486,997)
Proceeds from sale of property, plant and equipment	584	485	467				1,051
New loans to affiliates of shareholders	–	(831,600)	(801,247)		801,247 <sup>P</sup>		–
New loans to affiliates of former shareholders of a subsidiary	–	–	–		(639,379) <sup>P</sup>		(639,379)
Payment for acquisition of subsidiaries (net of cash and cash equivalents acquired)	(43,845)	–	–	(8,921,659) <sup>n</sup>			(8,965,504)
Advance payment for the acquisition of the remaining equity interest in a subsidiary	(75,988)	–	–				(75,988)
Transaction costs for acquisition of subsidiaries	(2,361)	–	–	(97,000) <sup>o</sup>			(99,361)
Increase in pledged deposits	(111)	–	–				(111)
Interest received	549	6,758	6,511				7,060
Dividend received from an associate	180,708	–	–			(180,708) <sup>q</sup>	–
<b>Net cash used in investing activities</b>	<b>(100,811)</b>	<b>(1,163,381)</b>	<b>(1,120,919)</b>				<b>(10,259,229)</b>

**APPENDIX III**
**UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF THE ENLARGED GROUP**

	The Group	CTM Group		Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	The Enlarged Group
	HK\$'000	MOP'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Financing activities</b>							
Proceeds from new bank loans	100,000	-	-				100,000
Proceeds from new loans from an associate	162,949	-	-		(162,949) <sup>P</sup>		-
Repayment of loans from an associate	(124,091)	-	-			124,091 <sup>Q</sup>	-
Proceeds from new shares issued under share option plan	1,051	-	-				1,051
Borrowing costs paid	(5,207)	-	-				(5,207)
Dividends paid to equity shareholders of the Company	(229,055)	(298,400)	(287,508)			287,508 <sup>Q, R, S</sup>	(229,055)
Dividends paid to former shareholders of a subsidiary	-	-	-			(222,260) <sup>S</sup>	(222,260)
Dividends paid to holders of non-controlling interests	-	-	-			(8,980) <sup>F</sup>	(8,980)
	<u>-</u>	<u>-</u>	<u>-</u>				
<b>Net cash used in financing activities</b>	<u>(94,353)</u>	<u>(298,400)</u>	<u>(287,508)</u>				<u>(364,451)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	95,984	(177,104)	(170,639)				(9,093,314)
<b>Cash and cash equivalents at 1 January</b>	253,326	738,678	711,716	(711,716) <sup>N</sup>			253,326
<b>Effect of foreign exchange rate changes</b>	<u>1,698</u>	<u>-</u>	<u>-</u>				<u>1,698</u>
<b>Cash and cash equivalents at 31 December</b>	<u><u>351,008</u></u>	<u><u>561,574</u></u>	<u><u>541,077</u></u>				<u><u>(8,838,290)</u></u>

**Note: Reconciliation of profit before taxation to cash generated from operations:**

	The Group	CTM Group		Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	The Enlarged Group
	HK\$'000	MOP'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Profit before taxation</b>	505,221	1,101,101	1,060,911	432,428			1,998,560
Adjustments for:							
Depreciation and amortisation	154,282	270,518	260,644	269,776 <sup>h</sup>			684,702
Expense recognised in respect of defined benefit retirement plan	–	8,230	7,930				7,930
Net loss/(gain) on disposal of property, plant and equipment	4,654	(481)	(463)				4,191
Share of profit of an associate	(158,295)	–	–	158,295 <sup>g</sup>			–
Share of profit of a jointly controlled entity	(1,179)	–	–				(1,179)
Transaction costs for acquisition of subsidiaries	2,361	–	–	97,000 <sup>k</sup>			99,361
Finance costs	3,063	–	–				3,063
Interest income	(545)	(12,035)	(11,596)				(12,141)
Gain on deemed disposal of equity interest in an associate	–	–	–	(957,499) <sup>l</sup>			(957,499)
Equity-settled share-based payment expenses	12,800	–	–				12,800
Foreign exchange gain	(1,559)	–	–		1,081 <sup>p</sup>	349 <sup>q</sup>	(129)
	520,803	1,367,333	1,317,426				1,839,659
Changes in working capital:							
Decrease in inventories	–	4,240	4,085				4,085
Decrease/(increase) in trade receivables, other receivables and deposits	11,895	(3,863)	(3,722)				8,173
Decrease in net defined benefit retirement obligations	–	(11,248)	(10,837)				(10,837)
(Decrease)/increase in trade and other payables	(203,947)	54,832	52,831				(151,116)
<b>Cash generated from operations</b>	<b>328,751</b>	<b>1,411,294</b>	<b>1,359,783</b>				<b>1,689,964</b>

**5. Notes to the unaudited pro forma financial information of the Enlarged Group**

For the purpose of this unaudited pro forma financial information, conversion of United States dollars ("US\$") into Hong Kong dollars ("HK\$") is based on the exchange rate of US\$1.00 to HK\$7.80 and conversion of Macau Patacas ("MOP") into HK\$ is based on the exchange rate of MOP1.00 to HK\$0.9635 for the unaudited pro forma consolidated balance sheet, the unaudited pro forma consolidated income statement and the unaudited pro forma consolidated cash flow statement.

**5.1 Notes to the unaudited pro forma consolidated balance sheet as at 31 December 2012**

- a. Pursuant to the terms of the Sable Sale and Purchase Agreement and the PT Sale and Purchase Agreement to acquire 79% interest in CTM Group, the total cash consideration for the Acquisitions amounts to US\$1,161,300,000 (approximately HK\$9,058,140,000), subject to adjustments, including net cash adjustment and working capital adjustment, as described in the "Letter from the Board" of this circular.

Based on the audited consolidated balance sheet of CTM Group as at 31 December 2012, the upward net cash adjustment on a pro-rata basis for 79% interest of CTM Group amounted to approximately HK\$427,451,000 and the downward working capital adjustment on a pro-rata basis for 79% interest of CTM Group amounted to approximately HK\$28,725,000. The consideration was adjusted to approximately HK\$9,456,866,000 as if the Acquisitions had taken place at 31 December 2012.

The Group has already obtained commitments on a certain funds basis for short and long-term loan facilities from a group of banks and other financial institutions to cover all of its funding requirements in relation to the Acquisitions. The Company may consider reducing the amount to be drawdown under such facilities through a combination of equity issuance (including via a rights issue) and/or bond issuance. The actual funding for the Acquisitions may consist of different forms of funding (including bank borrowings, equity issuance, bond issuance, etc).

- b. Goodwill represents the excess of the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in CTM Group and the fair value of the Group's previously held equity interest in CTM Group; over the net fair value of CTM Group's identifiable assets and liabilities measured at the date of Acquisitions.

The identifiable assets and liabilities of CTM Group will be accounted for under the acquisition method of accounting in accordance with Hong Kong Financial Reporting Standard 3 (Revised) “Business Combinations” (“HKFRS 3”) issued by HKICPA.

For the purpose of the unaudited pro forma consolidated balance sheet, the allocation of the purchase price is determined based on the Directors’ estimates of the fair value of the identifiable assets and liabilities of CTM Group as at 31 December 2012.

Goodwill is estimated as follows:

	<i>HK\$’000</i>
Adjusted consideration	9,456,866 <sup>a</sup>
Estimated fair value of previously held 20% interest in CTM Group	<u>2,394,143</u>
Total consideration	----- 11,851,009
Carrying amount of CTM Group’s net assets as at 31 December 2012	1,715,032
Estimated fair value adjustments with relevant tax impact	<u>2,994,382</u>
Estimated fair value of net identifiable assets and liabilities of CTM Group	4,709,414
Less: Non-controlling interests arising from the Acquisitions (i.e. 1% on estimated fair value of net identifiable assets and liabilities of CTM Group)	<u>(47,094)</u>
Net identifiable assets and liabilities acquired	----- 4,662,320
Goodwill	<u><u>7,188,689</u></u>

The fair value of previously held 20% interest in CTM Group of approximately HK\$2,394,143,000 is estimated primarily from the adjusted consideration for the Acquisitions, which is determined with reference to CTM Group’s historical financial performance and comparable trading and transaction multiples applied to CTM Group’s annualised Adjusted EBITDA and net income in the first half of 2012.

The fair value adjustments relate to intangible assets (including trade name, customer relationships, etc.) and property, plant and equipment of CTM Group of approximately HK\$3,093,932,000 and HK\$308,775,000 respectively and the corresponding deferred tax liabilities of approximately HK\$408,325,000 which is calculated at the Macau Income Tax rate applicable to CTM Group of 12%.

Non-controlling interests represent the equity in CTM Group not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holder 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. The amount of approximately HK\$47,094,000 represents non-controlling shareholder's share of interests in CTM Group's net fair value of identifiable assets and liabilities.

The amounts of goodwill and fair value of the identifiable assets and liabilities (including intangible assets and deferred tax thereon) of the CTM Group are subject to change upon the completion of (i) the valuation of the fair value of the identifiable assets and liabilities of CTM Group, (ii) the financial position of CTM Group on the date of completion, and (iii) the valuation of the previously held interest in CTM Group on the date of completion. The amounts may be different from the estimates used in the preparation of the unaudited pro forma financial information presented above.

For the purpose of this unaudited pro forma financial information, the Directors have assessed whether there is any impairment in respect of goodwill and intangible assets of CTM Group in accordance with Hong Kong Accounting Standard 36 "Impairment of Assets" which is consistent with the accounting policies of the Group. Based on the Directors' assessment, the Directors consider that there is no impairment on the goodwill and intangible assets with assumed values set out above.

- c. The adjustments represent the elimination of (i) the Group's trade receivables and trade payables with CTM Group amounting to approximately HK\$11,168,000, and (ii) intercompany loan between the Group and CTM Group amounting to approximately HK\$161,868,000, and the re-classification of loans to related parties of HK\$639,379,000 to loans to affiliates of the former shareholders of a subsidiary.



- d. The adjustments represent the elimination of (i) interest in an associate amounting to approximately HK\$1,449,938,000, (ii) share capital of CTM Group amounting to approximately HK\$144,525,000, and (iii) pre-acquisition reserves of CTM Group amounting to approximately HK\$1,570,507,000 on consolidation.
- e. The adjustments represent (i) gain on deemed disposal of previously held 20% interest in CTM Group amounting to approximately HK\$934,114,000, and (ii) release of the share of a debit balance reserve of CTM Group in previous years amounting to approximately HK\$10,091,000 in relation to the deemed disposal of interest in an associate.
- f. The adjustment represents estimated transaction costs for the Acquisitions of approximately HK\$97,000,000 which are expensed in profit or loss as incurred.

**5.2 Notes to the unaudited pro forma consolidated income statement for the year ended 31 December 2012**

For presentation purposes, network, operations and support expenses included cost of sales of CTM Group.

- g. The adjustment represents the reversal of share of profit of an associate (CTM Group) of approximately HK\$158,295,000 for the year ended 31 December 2012, since the results of CTM Group are consolidated into the unaudited pro forma consolidated income statement of the Group as if the Acquisitions had taken place at 1 January 2012. The adjustment is not expected to have a continuing effect on the Enlarged Group.
- h. The adjustments represent the annual additional depreciation and amortisation of approximately HK\$269,776,000 arising from the fair value adjustments to property, plant and equipment and intangible assets (including trade name, customer relationships, etc.) of approximately HK\$3,402,707,000 on a straight-line basis over the estimated useful lives of 5 to 30 years and the reversal of the corresponding deferred tax liabilities of approximately HK\$32,373,000 calculated at the Macau Income Tax rate applicable to CTM Group of 12%. The actual deprecation and amortisation may be different from the estimated amounts shown in the unaudited pro forma financial information depending on the actual fair value adjustments to property, plant and equipment and intangible assets, as discussed in Note b above. The adjustments are expected to have a continuing effect on the Enlarged Group.

- i. The adjustment represents the non-controlling shareholder's share of CTM Group's profit for the year (including the effects of depreciation and amortisation in respect of the fair value adjustments to property, plant and equipment and intangible assets and the corresponding deferred tax impact (see Note h) for the year) of approximately HK\$6,965,000, being 1% on profit for the year of CTM Group of HK\$933,885,000, less effects of depreciation and amortisation in respect of the fair value adjustments to property, plant and equipment and intangible assets offset by the corresponding deferred tax impact for the year, amounting to HK\$269,776,000 and HK\$32,373,000, respectively. The adjustment is expected to have a continuing effect on the Enlarged Group.
- j. The adjustment represents the elimination of sales and purchase transactions between the Group and CTM Group amounting to approximately HK\$22,664,000 for the year.
- k. The adjustment represents estimated transaction costs for the Acquisitions of approximately HK\$97,000,000 which are expensed in profit or loss as incurred. The adjustment is not expected to have a continuing effect on the Enlarged Group.
- l. The adjustment represents the gain on deemed disposal of previously held 20% interest in an associate (CTM Group) measured as the excess of the fair value of the 20% interest in CTM Group of approximately HK\$2,438,829,000 at 1 January 2012 over the carrying amount of the 20% interest previously held in CTM Group of approximately HK\$1,472,414,000 at 1 January 2012 and the share of reserve of CTM Group in previous years of a negative balance of approximately HK\$8,916,000 in accordance with HKFRS 3. The fair value of the 20% interest in CTM Group is estimated primarily from the adjusted consideration for the Acquisitions, which is determined with reference to CTM Group's historical financial performance and comparable trading and transaction multiples applied to CTM Group's annualised Adjusted EBITDA and net income in the first half of 2012. The amount may be different from the estimated amounts shown in the unaudited pro forma financial information, as discussed in Note b above. The adjustment is not expected to have a continuing effect on the Enlarged Group.

- m. The Group will fund the Acquisitions with its existing cash resources and new bank loan facilities. The Group has already obtained commitments on a certain funds basis for short and long-term loan facilities from a group of banks and other financial institutions to cover all of its funding requirements in relation to the Acquisitions. The Company may consider reducing the amount to be drawdown under such facilities through a combination of equity issuance (including via a rights issue) and/or bond issuance. The actual funding for the Acquisitions may consist of different forms of funding (including bank borrowings, equity issuance, bond issuance, etc). As a result, the Group may incur borrowing costs arising from the different forms of funding for the Acquisitions.

**5.3 Notes to the unaudited pro forma consolidated cash flow statement for the year ended 31 December 2012**

- n. Pursuant to the terms of the Sable Sale and Purchase Agreement and the PT Sale and Purchase Agreement to acquire 79% interest in CTM Group, the total cash consideration for the Acquisitions amounts to approximately HK\$9,058,140,000, subject to adjustments, including net cash adjustment and working capital adjustment, as described in the “Letter from the Board” of this circular.

Based on the audited consolidated balance sheet of CTM Group at 31 December 2011, the upward net cash adjustment on a pro-rata basis for 79% interest of CTM Group amounted to approximately HK\$562,256,000 and the upward working capital adjustment on a pro-rata basis for 79% interest of CTM Group was approximately HK\$12,979,000. The consideration was adjusted to approximately HK\$9,633,375,000 as if the Acquisitions had taken place at 1 January 2012.

The adjustment represents the cash consideration of approximately HK\$9,633,375,000 as described above, net of cash and cash equivalents acquired of approximately HK\$711,716,000 at 1 January 2012. The adjustment is not expected to have a continuing effect on the Enlarged Group.

- o. The adjustment represents the payment for the estimated transaction costs for the Acquisitions of approximately HK\$97,000,000 which would be expensed in profit or loss as incurred. The adjustment is not expected to have a continuing effect on the Enlarged Group.

- p. The adjustment represents the elimination of “new loans to affiliates of shareholders” of approximately HK\$161,868,000 and “proceeds from new loans from an associate” of approximately HK\$162,949,000 for a loan from CTM Group to the Group, the difference of approximately HK\$1,081,000 represents the exchange difference arising from the conversion of MOP to HK\$ at exchange rate ruling at the transaction date and the exchange rate adopted for this circular. The remaining balance of “new loans to affiliates of shareholders” of CTM Group of approximately HK\$639,379,000 will be re-classified to “new loans to affiliates of former shareholders of a subsidiary” (see Note c).
- q. The adjustment represents the elimination of “dividend received from an associate” of HK\$180,708,000, “repayment of loans from an associate” of approximately HK\$124,091,000 and “dividends paid to equity shareholders of the Company” of approximately HK\$56,268,000 for the dividends paid by CTM Group to the Group and the repayment of loan by the Group to CTM Group, the difference of approximately HK\$349,000 represents the exchange difference arising from the conversion of MOP to HK\$ at exchange rate ruling at the transaction date and the exchange rate adopted for this circular.
- r. The adjustment represents the dividend paid by CTM Group to the non-controlling shareholder of HK\$8,980,000.
- s. The remaining balance of “dividends paid to equity shareholders of the Company” of CTM Group of HK\$222,260,000 will be re-classified to “dividends paid to former shareholders of a subsidiary”.

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTERESTS

- (i) As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company or any of their respective associates in any shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules were as follows:

(a) *Interest in Shares*

Name of Director	Number of Shares	Percentage of issued share capital (%)
	Personal interests	
Yuen Kee Tong	500,000	0.0208
David Chan Tin Wai	2,000	0.0001

## (b) Interest in share options granted by the Company

Name of Director	Underlying shares pursuant to share options	Percentage of issued share capital (%)	Exercise price per Share (HK\$)	Date of grant	Exercisable period
Xin Yue Jiang	900,000	0.0374	2.10	17.9.2009	17.9.2010– 16.9.2015
	900,000	0.0374	2.10	17.9.2009	17.9.2011– 16.9.2016
	1,250,000	0.0519	1.54	19.8.2011	19.8.2012– 18.8.2017
	1,250,000	0.0519	1.54	19.8.2011	19.8.2013– 18.8.2018
Yuen Kee Tong	800,000	0.0332	2.10	17.9.2009	17.9.2010– 16.9.2015
	800,000	0.0332	2.10	17.9.2009	17.9.2011– 16.9.2016
	1,100,000	0.0457	1.54	19.8.2011	19.8.2012– 18.8.2017
	1,100,000	0.0457	1.54	19.8.2011	19.8.2013– 18.8.2018
David Chan Tin Wai	700,000	0.0291	2.10	17.9.2009	17.9.2010– 16.9.2015
	700,000	0.0291	2.10	17.9.2009	17.9.2011– 16.9.2016
	950,000	0.0395	1.54	19.8.2011	19.8.2012– 18.8.2017
	950,000	0.0395	1.54	19.8.2011	19.8.2013– 18.8.2018

Name of Director	Underlying shares pursuant to share options	Percentage of issued share capital (%)	Exercise price per Share (HK\$)	Date of grant	Exercisable period
Yang Xianzu	150,000	0.0062	2.10	17.9.2009	17.9.2010– 16.9.2015
	150,000	0.0062	2.10	17.9.2009	17.9.2011– 16.9.2016
	150,000	0.0062	1.54	19.8.2011	19.8.2012– 18.8.2017
	150,000	0.0062	1.54	19.8.2011	19.8.2013– 18.8.2018
Liu Li Qing	150,000	0.0062	2.10	17.9.2009	17.9.2010– 16.9.2015
	150,000	0.0062	2.10	17.9.2009	17.9.2011– 16.9.2016
	150,000	0.0062	1.54	19.8.2011	19.8.2012– 18.8.2017
	150,000	0.0062	1.54	19.8.2011	19.8.2013– 18.8.2018
Gordon Kwong Che Keung	150,000	0.0062	2.10	17.9.2009	17.9.2010– 16.9.2015
	150,000	0.0062	2.10	17.9.2009	17.9.2011– 16.9.2016
	150,000	0.0062	1.54	19.8.2011	19.8.2012– 18.8.2017
	150,000	0.0062	1.54	19.8.2011	19.8.2013– 18.8.2018

(c) *Interest in shares of CITIC Pacific*

Name of Director	Number of Shares			Percentage of issued share capital (%)
	Personal interests	Corporate interests	Total	
Yuen Kee Tong	1,033,000	–	1,033,000	0.0283
David Chan Tin Wai	40,000	–	40,000	0.0011
Liu Jifu	840,000	–	840,000	0.0230
Yang Xianzu	20,000	–	20,000	0.0005
Gordon Kwong Che Keung	20,000	50,000	70,000	0.0019

(d) *Interest in share options granted by CITIC Pacific*

Name of Director	Underlying shares pursuant to share options	Percentage of issued share capital (%)	Exercise price per share (HK\$)	Date of grant	Exercisable period
Liu Jifu	500,000	0.0137	22.00	19.11.2009	19.11.2009–18.11.2014

(e) *Interest in shares of Dah Chong Hong Holdings Limited*

Name of Director	Number of Shares	Percentage of issued share capital (%)
	Personal interests	
Yuen Kee Tong	20,000	0.0011
David Chan Tin Wai	5,279	0.0003



(f) *Interest in shares of China CITIC Bank Corporation Limited*

Name of Director	Class of shares	Number of Shares	Percentage of issued share capital (%)
		Family interests	
David Chan Tin Wai	H shares	3,000	0.00002

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules.

- (ii) As at the Latest Practicable Date, Mr. Liu Jifu is an executive director of CITIC Pacific and Mr. Luo Ning is an assistant president of CITIC Limited, a subsidiary of CITIC Group. Save as disclosed above, none of the Directors and the chief executive of the Company was a director or employee of a company which has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.
- (iii) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, any member of the Enlarged Group since 31 December 2012, being the date to which the latest published audited accounts of the Company were made up.
- (iv) None of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Enlarged Group.

### 3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into any service contract with any member of the Enlarged Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

#### 4. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group.

To the best knowledge of the Directors after reasonable enquiries, as at the Latest Practicable Date, there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of CTM Group.

#### 5. COMPETING BUSINESS

As at the Latest Practicable Date, save as disclosed below, none of the Directors and their respective associates had any direct or indirect interest in a business which competes or is likely to compete with the business of the Group and would require disclosure under Rule 8.10 of the Listing Rules:

Mr. Luo Ning, a non-executive director of the Company, is a vice chairman of CITIC Guoan Group and the chairman of CITIC Networks Co., Ltd..

CITIC Guoan Group is one of the major operating subsidiaries of CITIC Group in China, which is engaged in information industry operations (including cable television network investment and management, value added telecommunications, satellite communications, network system integration, software development and advertising), high-technology and resources development, tourism, and real estate.

CITIC Networks Co., Ltd. is also a wholly-owned subsidiary of CITIC Group. It possesses licenses for operation of basic telecommunications services and value added services under which CITIC Networks Co., Ltd. is permitted to conduct the sale and leasing of network resources and satellite transmitter, ISP (Internet Service Provider) services and ICP (Internet Content Provider) services, etc. It now possesses a nationwide optic fiber network and holds various investments in other network resources.

#### 6. EXPERT AND CONSENT

The following is the qualification of the expert who has given its opinion or advice on the information contained in this circular:

Name	Qualification
KPMG	Certified Public Accountants

As at the Latest Practicable Date, KPMG had no interest in the share capital of any member of the Group nor had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group, and

KPMG had no interest, either directly or indirectly, in any assets which have been, since 31 December 2012, the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

KPMG has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its reports and references to its name in the form and context in which it appears.

## **7. MATERIAL CONTRACTS**

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of the Enlarged Group within the two years immediately preceding the issue of this circular and are material:

- (i) the Sable Sale and Purchase Agreement;
- (ii) the PT Sale and Purchase Agreement;
- (iii) the Three-party Agreement; and
- (iv) the Strategic Alliance Agreement.

## **8. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2012, being the date to which the latest published audited accounts of the Company were made up.

## **9. GENERAL**

- (i) The registered office of the Company is situated at 25th Floor, CITIC Telecom Tower, 93 Kwai Fuk Road, Kwai Chung, New Territories, Hong Kong.
- (ii) The head office and principal place of business in Hong Kong is situated at 25th Floor, CITIC Telecom Tower, 93 Kwai Fuk Road, Kwai Chung, New Territories, Hong Kong.
- (iii) The principal registrar and transfer office of the Company is Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (iv) The company secretary of the Company is Ms. Tso Mun Wai, *ACIS, MA*.
- (v) In the event of any inconsistency, the English text of this circular shall prevail over the Chinese text thereof.

**10. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the registered office of the Company at 25th Floor, CITIC Telecom Tower, 93 Kwai Fuk Road, Kwai Chung, New Territories, Hong Kong during normal business hours on any weekdays other than public holidays up to and including 12 April 2013:

- (a) the memorandum and new articles of association of the Company;
- (b) the annual reports of the Company for each of the two financial years ended 31 December 2011 and 31 December 2012;
- (c) the accountant's report on CTM Group, the text of which is set out in Appendix II to this circular;
- (d) the report of KPMG on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;
- (e) the written consent referred to in paragraph headed "6. Expert and Consent" of this appendix; and
- (f) the material contracts referred to in the paragraph headed "7. Material Contracts" of this appendix.

## NOTICE OF EGM



# 中信國際電訊集團有限公司

CITIC TELECOM INTERNATIONAL HOLDINGS LIMITED

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 01883)**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “EGM”) of CITIC Telecom International Holdings Limited (the “**Company**”) will be held at Salon 6, JW Marriott Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Friday, 12 April 2013 at 11:00 a.m. (or immediately after the conclusion or the adjournment of the annual general meeting of the Company to be held at the same venue and on the same day) for the purpose of considering and, if thought fit, passing with or without modification the following resolution as ordinary resolution of the Company:

### ORDINARY RESOLUTION

**“THAT:**

- (a) the Sable Sale and Purchase Agreement, the PT Sale and Purchase Agreement, the Three-party Agreement and the Strategic Alliance Agreement (as defined in the circular to the shareholders of the Company dated 21 March 2013), copies of which have been produced to this meeting marked “A”, “B”, “C” and “D” respectively and signed by the chairman of this meeting for identification purpose, and the transactions contemplated thereunder be and are hereby confirmed, approved, authorised and ratified; and
- (b) any one director of the Company or any two directors of the Company, if the affixation of the common seal is necessary, be and is/are hereby authorised for and on behalf of the Company to execute (and, if necessary, affix the common seal of the Company to) any such documents, instruments and agreements and to do any such acts or things as may be deemed by him/them in his/their absolute discretion to be incidental to, ancillary to or in connection with the matters contemplated in the agreements mentioned in (a) above and the transactions contemplated thereunder.”

By Order of the Board of  
**CITIC Telecom International Holdings Limited**  
**Xin Yue Jiang**  
*Chairman*

Hong Kong, 21 March 2013

*Registered Office:*  
25th Floor  
CITIC Telecom Tower  
93 Kwai Fuk Road  
Kwai Chung  
New Territories  
Hong Kong

## NOTICE OF EGM

*Notes:*

- (i) A member who is the holder of two or more shares may appoint more than one proxy to attend in the same occasion. A proxy need not be a member of the Company.
- (ii) A form of proxy for use at the EGM is enclosed. Whether or not you intend to attend the EGM in person, you are urged to complete and return the form of proxy in accordance with the instructions printed thereon as soon as possible. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof if you so wish. In the event that you attend the EGM, your form of proxy will be deemed to have been revoked.
- (iii) To be valid, the form of proxy, together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power of attorney, must be deposited at the Company's registered office at 25th Floor, CITIC Telecom Tower, 93 Kwai Fuk Road, Kwai Chung, New Territories, Hong Kong, not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof.
- (iv) In the case of joint registered holders of any shares, any one of such joint registered holders may vote at the EGM, either in person or by proxy, in respect of such shares as if he/she/it were solely entitled thereto; but if more than one of such joint registered holders be present at the EGM, either in person or by proxy, the vote of that one of them so present, either in person or by proxy, whose name stands first on the register of members in respect of such shares shall be accepted to the exclusion of the votes of the other joint registered holder(s).