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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser for independent advice.

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)**

### DISCLOSEABLE AND CONNECTED TRANSACTIONS

#### **(1) PROPOSED ACQUISITION OF UP TO 39% EQUITY INTEREST IN CITIC NETWORKS BY THE COMPANY**

**AND**

#### **(2) PROPOSED ISSUE OF NEW SHARES BY THE COMPANY TO CITIC GROUP (OR ITS WHOLLY-OWNED SUBSIDIARIES AS ITS NOMINEES)**

**AND**

#### **(3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Financial adviser to the Company**



**Independent Financial Adviser to  
the Independent Board Committee and the Independent Shareholders**



**PLATINUM  
Securities**

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A letter from the Board is set out on pages 5 to 22 of this circular. A letter from the Independent Board Committee containing its recommendation is set out on pages 23 to 24 of this circular. A letter from the Independent Financial Adviser containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 25 to 43 of this circular.

A notice convening the EGM to be held at JW Marriott Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on 23 October 2015 at 10:30 a.m. is set out on pages 50 to 52 of this circular. Form of proxy for use in the EGM is enclosed.

Whether or not you are able 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 meeting or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you so wish.

2 October 2015

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## DEFINITIONS

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

“Acquisition”	the proposed acquisition of the Sale Interest by the Company as contemplated by the Acquisition Arrangement
“Acquisition Arrangement”	the acquisition arrangement dated 24 August 2015 and entered into between CITIC Group and the Company in respect of, among other things, the Acquisition
“Acquisition Completion”	completion of the Acquisition
“Appraised Consideration”	has the meaning ascribed to it under the section headed “Letter from the Board — III. The Acquisition — Proposed Consideration” in this circular
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday or Sunday or days on which a tropical cyclone warning Number 8 or above or a “black” rain warning signal is hoisted in Hong Kong at any time between 9 a.m. and 5 p.m.) on which Hong Kong clearing banks are open for the transaction of normal banking business
“China Express Network”	the nation-wide optic fibre backbone network as owned and operated by CITIC Networks, commonly known as 奔騰網 in Chinese
“CITIC Director(s)”	the director(s) of CITIC Limited
“CITIC Group”	中國中信集團有限公司 (CITIC Group Corporation), a state-owned enterprise established under the laws of the PRC, and the controlling shareholder of CITIC Limited
“CITIC Limited”	CITIC Limited (中國中信股份有限公司), a company incorporated in Hong Kong in 1985, formerly known as CITIC Pacific Limited, the shares of which are listed on the Stock Exchange (stock code: 00267); and which is the indirect holding company of the Company and holds (via its wholly-owned subsidiaries) approximately 58.80% of the number of Shares in issue
“CITIC Networks”	中信網絡有限公司 (CITIC Networks Company Limited), a company established in the PRC, and a wholly-owned subsidiary of CITIC Group as at the Latest Practicable Date

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## DEFINITIONS

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“CITIC Pacific”	CITIC Pacific Limited (中信泰富有限公司), a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of CITIC Limited as at the Latest Practicable Date
“Company” or “CITIC Telecom”	CITIC Telecom International Holdings Limited (中信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)
“CPC”	CITIC Telecom International CPC Limited (中信國際電訊(信息技術)有限公司), a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held for the purpose of, if thought fit, approving the Transactions
“Final Consideration”	has the meaning ascribed to it under the section headed “Letter from the Board — III. The Acquisition — Proposed Consideration” in this circular
“Group”	the Company and its subsidiaries from time to time
“HK\$” or “Hong Kong dollar”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board, comprising all independent non-executive Directors, namely Mr. Liu Li Qing, Mr. Kwong Che Keung, Gordon and Mr. Zuo Xunsheng, formed for the purpose of advising the Independent Shareholders in respect of, among other things, the terms of the Acquisition and the Share Subscription
“Independent Financial Adviser” or “Platinum Securities”	Platinum Securities Company Limited, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of, among other things, the terms of the Acquisition and the Share Subscription
“Independent Shareholders”	the Shareholders other than CITIC Group and its associates, which are not required to abstain from voting in the relevant resolution(s) to be proposed in the EGM in relation to the Transactions

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## DEFINITIONS

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“Latest Practicable Date”	24 September 2015, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Long-stop Date”	30 June 2017, or such later date as CITIC Group and the Company may agree in writing, being the latest date for Acquisition Completion and Subscription Completion should take place
“Macau”	the Macau Special Administrative Region of the PRC
“Maximum Consideration”	has the meaning ascribed to it under the section headed “Letter from the Board — III. The Acquisition — Proposed Consideration” in this circular
“MIIT”	Ministry of Industry and Information Technology of the PRC
“MOFCOM”	Ministry of Commerce of the PRC
“PBOC”	The People’s Bank of China
“PRC” or “China”	The People’s Republic of China, and for the purpose of this circular, excluding Hong Kong, Macau and Taiwan
“Proposed Consideration”	has the meaning ascribed to it under the section headed “Letter from the Board — III. The Acquisition — Proposed Consideration” in this circular
“Reorganisation”	has the meaning ascribed to it under the section headed “Letter from the Board — VII. Information on CITIC Networks — Business of CITIC Networks” in this circular
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Interest”	up to 39% of the equity interest in CITIC Networks
“Shareholder(s)”	the shareholder(s) of the Company
“Share Subscription”	the subscription of the Subscription Shares by CITIC Group (or its wholly-owned subsidiaries as its nominees) under the Share Subscription Agreement

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## DEFINITIONS

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“Share Subscription Agreement”	the share subscription agreement dated 24 August 2015 and entered into between the Company and CITIC Group for the issuance of the Subscription Shares
“Shares”	the ordinary shares in the share capital of the Company
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended or supplemented from time to time
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Completion”	completion of the Share Subscription
“Subscription Consideration”	the total consideration of the Share Subscription, being the Hong Kong dollar equivalent for the amount of the Final Consideration (to be converted at the central parity exchange rate between RMB and Hong Kong dollar as published by PBOC as at the date of the payment of the Subscription Consideration), but in any event not exceeding HK\$1,562,139,658
“Subscription Price”	the subscription price of HK\$3.00 per Subscription Share
“Subscription Share(s)”	the new Share(s) to be issued under the Share Subscription Agreement
“Transactions”	the Acquisition and the Share Subscription collectively
“Type 2 Domestic Telecommunications Licence”	has the meaning ascribed to it under the section headed “Letter from the Board — VII. Information on CITIC Networks — Business of CITIC Networks — Licences obtained” in this circular
“%”	per cent.

*In this circular, unless the context otherwise requires, the terms “associate(s)”, “connected person(s)”, “connected transaction(s)”, “controlling shareholder(s)”, “subsidiary(ies)” and “substantial shareholder(s)” shall have the meanings given to such terms in the Listing Rules.*

*For the purpose of this circular, unless the context otherwise requires, conversion of Renminbi into Hong Kong dollars is based on the approximate exchange rate of HK\$1.00 to RMB0.82387. Such exchange rate is for the purpose of illustration only and does not constitute a representation that any amounts in Hong Kong dollars or Renminbi have been, could have been or may be converted at such or any other rate or at all.*

*Certain amounts and percentage figures set out in this circular have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables and the currency conversion or percentage equivalents may not be an arithmetic sum of such figures.*

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LETTER FROM THE BOARD

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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)**

***Directors:***

*Executive Directors:*

Mr. Xin Yue Jiang (*Chairman*)

Dr. Lin Zhenhui

Mr. Luo Ning

Dr. Chan Tin Wai, David

*Non-executive Director:*

Mr. Liu Jifu

*Independent Non-Executive Directors:*

Mr. Liu Li Qing

Mr. Kwong Che Keung, Gordon

Mr. Zuo Xunsheng

***Registered Office:***

25th Floor

CITIC Telecom Tower

93 Kwai Fuk Road

Kwai Chung

New Territories

Hong Kong

2 October 2015

*To the Shareholders,*

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTIONS  
(1) PROPOSED ACQUISITION OF UP TO 39% EQUITY INTEREST  
IN CITIC NETWORKS BY THE COMPANY**

**AND**

**(2) PROPOSED ISSUE OF NEW SHARES BY THE COMPANY TO CITIC  
GROUP (OR ITS WHOLLY-OWNED SUBSIDIARIES AS ITS NOMINEES)**

**I. INTRODUCTION**

With reference to the joint announcement of the Company and CITIC Limited dated 24 August 2015 in relation to the Acquisition and the Share Subscription, the purpose of this circular is to provide the Shareholders with: (i) further information on the Transactions; (ii) the recommendations of the Independent Board Committee; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (iv) the notice convening the EGM and a proxy form.

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## LETTER FROM THE BOARD

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### II. THE TRANSACTIONS

The Board is pleased to announce:

- *the Acquisition*: on 24 August 2015, CITIC Group and the Company agreed to implement the Acquisition Arrangement whereby CITIC Group has proposed to sell, and the Company has proposed to bid (or to procure its subsidiary including CPC to bid) for, in an open tender process at China Beijing Equity Exchange (北京產權交易所), up to 39% equity interest in CITIC Networks from CITIC Group. The Final Consideration for the Acquisition is expected not to exceed RMB1,287 million (equivalent to approximately HK\$1,562.1 million) (i.e. the Maximum Consideration as contemplated under the Acquisition Arrangement); and
- *the Share Subscription*: in connection with the Acquisition, on 24 August 2015, CITIC Group and the Company entered into the Share Subscription Agreement whereby CITIC Group has agreed to subscribe (or to procure its wholly-owned subsidiaries as its nominees to subscribe) for not more than 520,713,219 Subscription Shares at the Subscription Price of HK\$3.00 per Subscription Share, subject to the terms and conditions of the Share Subscription Agreement.

As the open tender for the Sale Interest is expected to take place after the EGM, the Company proposes to seek approval from the Independent Shareholders at the EGM for the Acquisition, and for the Share Subscription of not more than 520,713,219 Subscription Shares, on the premise that the Final Consideration shall not exceed RMB1,287 million (equivalent to approximately HK\$1,562.1 million) (i.e. the Maximum Consideration as contemplated under the Acquisition Arrangement).

### III. THE ACQUISITION

On 24 August 2015, CITIC Group and the Company agreed to implement the Acquisition Arrangement whereby CITIC Group has proposed to sell, and the Company has proposed to bid (or to procure its subsidiary including CPC to bid) for, in an open tender process at China Beijing Equity Exchange, up to 39% equity interest in CITIC Networks from CITIC Group. Set out below are the major terms of the Acquisition Arrangement:

#### *The Acquisition Arrangement*

Date : 24 August 2015

Parties : CITIC Group as proposed seller  
The Company as proposed bidder

#### *Acquisition*

Under the Acquisition Arrangement, CITIC Group agreed to (i) procure the implementation of the Reorganisation within 90 days upon the fulfilment of conditions (a) and (b) in the section headed “Letter from the Board — III. The Acquisition — Conditions Precedent — Conditions to the



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## LETTER FROM THE BOARD

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submission of bidding application by the Company (or its subsidiary)” (or such other date as CITIC Group and the Company may mutually agree), and (ii) within 90 days upon the fulfilment of conditions (c) and (e) in the section headed “Letter from the Board — III. The Acquisition — Conditions Precedent — Conditions to the submission of bidding application by the Company (or its subsidiary)” (or such other date as CITIC Group and the Company may mutually agree), put up the Sale Interest for sale through an open tender process at China Beijing Equity Exchange, which is expected to commence by May 2016.

The Company proposed to bid for the Sale Interest or procure its subsidiary including CPC to do so, subject to the conditions as set out in the section headed “Letter from the Board — III. The Acquisition — Conditions Precedent — Conditions to the submission of bidding application by the Company (or its subsidiary)” below. Subject to the Company (or its subsidiary) having been confirmed and determined by China Beijing Equity Exchange as the successful transferee in the open tender process, CITIC Group and the Company (or its subsidiary) will enter into a share transfer agreement and obtain the necessary consents and approvals of the relevant PRC governmental authorities to effect the Acquisition.

### *Tender process at China Beijing Equity Exchange*

A summary of the tender process at China Beijing Equity Exchange in relation to the Sale Interest is as follows:

- (a) CITIC Group will submit to China Beijing Equity Exchange relevant materials necessary for announcement on transfer of the Sale Interest, which China Beijing Equity Exchange will examine and verify within 3 working days.
- (b) China Beijing Equity Exchange will publish the transfer information if qualified. Time limit for the initial announcement will be no less than 20 working days.
- (c) The Company (or its subsidiary) will then submit the bidding application to China Beijing Equity Exchange to bid for the Sale Interest from CITIC Group, which China Beijing Equity Exchange will examine and verify within 2 working days.
- (d) The Company (or its subsidiary) has to pay a deposit, which will generally be not exceeding 30% of the purchase price (the “**Bidding Deposit**”), in accordance with the announcement if CITIC Group has so requested in the announcement.
- (e) Within 5 working days after the information disclosure period expires, China Beijing Equity Exchange will make a written notification to CITIC Group of the registration situation of the candidate transferees and opinions on confirmation of their qualification and CITIC Group will reply in writing within 5 working days after it receives the foregoing written notification.
- (f) China Beijing Equity Exchange will organise the Company (or its subsidiary) and CITIC Group to conclude an agreement on trading of the Sale Interest within 3 working days after the Company (or its subsidiary) has been determined as the transferee.

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## LETTER FROM THE BOARD

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- (g) The Company (or its subsidiary) has to pay the balance of the purchase price within the time limit specified in the agreement on trading of the Sale Interest. China Beijing Equity Exchange will issue a trading voucher within 3 working days after the trading service fees (which will be paid by the Company (or its subsidiary) and CITIC Group) and purchase price have been paid.

China Beijing Equity Exchange is responsible for administering the tender process. It is the intention of the Company to submit (or to procure its subsidiary to submit) the bidding application to China Beijing Equity Exchange after the conditions mentioned in the section headed “Letter from the Board — III. The Acquisition — Conditions Precedent — Conditions to the submission of bidding application by the Company (or its subsidiary)” below are satisfied or waived (as the case may be). Further announcement will be made by the Company upon the announcement of the open tender results by China Beijing Equity Exchange.

The Bidding Deposit is payable by the Company (or its subsidiary) during the open tender process and will be used to settle part of the consideration. The Company intends to fund the purchase price for the Acquisition out of its internal resources and/or from the proceeds to be raised in the Share Subscription.

### *Proposed Consideration*

Under the Acquisition Arrangement, assuming the Sale Interest equals to the maximum 39% equity interest in CITIC Networks, the corresponding intended consideration for the Sale Interest is set at RMB1,170 million (equivalent to approximately HK\$1,420.1 million) (the “**Proposed Consideration**”) which, the parties acknowledged, will be subject to adjustment with reference to an independent appraisal of the Sale Interest as filed with and approved by the Ministry of Finance of the PRC (the “**Appraised Consideration**”). Pursuant to the relevant PRC laws and regulations, the consideration for the transfer of state-owned assets has to be reasonably determined with reference to the value appraised and approved by the relevant government authorities. The Appraised Consideration will be ascertained before the open tender process takes place in accordance with the relevant PRC laws and regulations but may be available only after the EGM. It should be noted that the Appraised Consideration could be lower than the Proposed Consideration subject to the results of the aforementioned independent appraisal. For the avoidance of doubt, the price for which CITIC Group puts up the Sale Interest for sale through an open tender process at China Beijing Equity Exchange shall be in no event less than the Appraised Consideration.

The Company (or its subsidiary) intends to bid using the Proposed Consideration or the Appraised Consideration, whichever is higher, in the open tender process. At present, the Company (or its subsidiary) intends to only proceed with the bidding if the Appraised Consideration does not exceed RMB1,287 million (equivalent to approximately HK\$1,562.1 million), being 110% of the Proposed Consideration (the “**Maximum Consideration**”). If the Company (or its subsidiary) is successful in the open tender process, the purchase price in winning the bid (the “**Final Consideration**”), which shall not exceed the Maximum Consideration, shall be payable in cash by the Company (or its subsidiary).

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## LETTER FROM THE BOARD

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The Proposed Consideration was determined by reference to a proposed bid price of not less than RMB300 million as agreed between a potential independent third-party investor and CITIC Group for the proposed acquisition of another 10% equity interest in CITIC Networks, and other factors including the outlook and development of enterprise solution services in the PRC market, future planning for development and strategic synergies between China Express Network and the Company.

In particular, the Proposed Consideration, which is higher than the unaudited adjusted net asset value of CITIC Networks (assuming the Reorganisation has been completed as at 30 June 2015) of approximately RMB100.81 million as at 30 June 2015 (details of financial information of CITIC Networks are set out in the section headed “Letter from the Board — VII. Information on CITIC Networks — Financial information of CITIC Networks” in this circular), reflects the strategic value which the Company placed on the Type 2 Domestic Telecommunications Licence held by CITIC Networks.

The Directors consider that the Type 2 Domestic Telecommunications Licence held by CITIC Networks commands tremendous strategic value, which cannot be evaluated by reference to the net asset value of CITIC Networks. There is only a very limited number of operators in the market which holds Type 2 Domestic Telecommunications Licence. According to information available at the official website of MIIT as at the Latest Practicable Date, CITIC Networks is among a handful of holders of Type 2 Domestic Telecommunications Licence including the “Big Three” telecoms carriers in the PRC.

The stringent eligibility criteria for Type 2 Domestic Telecommunications Licence requires, amongst other things, substantial and immediate capital investment in infrastructure. For example, the construction costs of investing in a brand new optic fibre network with the coverage comparable to China Express Network’s is estimated to be more expensive than the Proposed Consideration. This means the success of application for a new Type 2 Domestic Telecommunications Licence cannot be guaranteed without substantial upfront investment risk, and that it will take a long time. As such, the Acquisition (i) allows the Company to tap into a more profitable and high growth market segment, i.e. Internet transit service, with controllable investment risk; and (ii) brings potential benefits and strategic synergies between the Company and CITIC Networks as more particularly set out in the section headed “Letter from the Board — VIII. Reasons for and benefits of the Transactions”.

In light of the above, the Directors consider that the Proposed Consideration is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

### ***Conditions Precedent***

#### ***Conditions to the submission of bidding application by the Company (or its subsidiary)***

The obligation of the Company (or its subsidiary) to submit the bidding application to China Beijing Equity Exchange is subject to the following conditions precedent being fulfilled or waived by the Company (except that conditions (a) to (d) set out below cannot be waived) (as the case may be) on or before the Long-stop Date:

- (a) the passing of the relevant resolution(s) by the Independent Shareholders at the EGM approving the transactions contemplated under the Acquisition Arrangement;

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## LETTER FROM THE BOARD

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- (b) if applicable, the obtaining of such consents and approvals of the relevant regulatory authorities in Hong Kong or elsewhere which are required for the execution and performance of the transactions contemplated under the Acquisition Arrangement;
- (c) the obtaining of the approvals of Ministry of Finance of the PRC for the transactions contemplated under the Acquisition Arrangement and the results of independent appraisal of the Sale Interest having been filed with the Ministry of Finance of the PRC;
- (d) the statutory procedures applicable to transfer of state-owned assets in the PRC having been implemented in relation to the transfer of the Sale Interest contemplated under the Acquisition Arrangement;
- (e) completion of the Reorganisation;
- (f) the Company having undertaken and completed a due diligence review of CITIC Networks; and
- (g) there being no default on the part of CITIC Group in relation to the warranties and undertakings given under the Acquisition Arrangement (or reasonable corresponding remedial measures having been put in place).

The Company shall use its best endeavours to procure the fulfilment of conditions (a) and (b) while CITIC Group shall use its best endeavours to procure the fulfilment of conditions (c), (d), (e) and (g). The Company has no intentions to waive any of the conditions to the submission of bidding application by the Company (or its subsidiary).

### *Conditions to Acquisition Completion*

The Acquisition may only materialise if the Company (or its subsidiary) is successful in the open tender process as contemplated under the Acquisition Arrangement. Acquisition Completion is further subject to the following conditions precedent being fulfilled or waived by the Company (except that conditions (ii) and (iii) set out below cannot be waived) (as the case may be) on or before the Long-stop Date:

- (i) all of the abovementioned conditions to the submission of bidding application by the Company (or its subsidiary) having been fulfilled or waived (as the case may be);
- (ii) the Company (or its subsidiary) having been confirmed and determined by China Beijing Equity Exchange as the successful transferee in the open tender process; and
- (iii) other than as provided in condition (c) mentioned above, the obtaining of such consents and approvals of and the filing to the relevant PRC governmental authorities (including Ministry of Finance of the PRC, MIIT, National Development and Reform Commission of the PRC and MOFCOM as are necessary for the execution and performance of the Acquisition Arrangement and the filing or approval procedures contemplated under the Acquisition (including statutory procedures applicable to transfer of state-owned assets in

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## LETTER FROM THE BOARD

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the PRC, the approval of MIIT applicable to foreign investment in telecommunications industry, the approval of foreign-invested project, national security review of foreign mergers and acquisitions (if applicable), the declaration on concentration of business operators against monopoly (if applicable) and the approval on acquisition of domestic enterprise by foreign investment).

The Company shall use its best endeavours to procure the fulfilment of condition (ii) while CITIC Group shall use its best endeavours to procure the fulfilment of condition (iii). The Company has no intentions to waive any of the conditions to Acquisition Completion.

Further, in the event that the abovementioned conditions are not fulfilled by the Long-stop Date, unless otherwise agreed by the parties, the Acquisition Arrangement shall terminate and all rights and obligations of the parties thereunder shall cease and none of the parties shall have any claim against the others save for any antecedent breach.

### *Acquisition Completion*

If the Company (or its subsidiary) is successful in the open tender, Acquisition Completion is expected to take place, and full payment of the Final Consideration is expected to be made, in accordance with the terms and conditions of the relevant share transfer agreement, within 12 months after signing of such share transfer agreement.

## IV. SHARE SUBSCRIPTION

In connection with the Acquisition, on 24 August 2015, CITIC Group and the Company entered into the Share Subscription Agreement whereby CITIC Group has conditionally agreed to subscribe (or to procure its wholly-owned subsidiaries as its nominees to subscribe) for not more than 520,713,219 Subscription Shares at the Subscription Price of HK\$3.00 per Subscription Share, subject to the terms and conditions of the Share Subscription Agreement.

### *The Share Subscription Agreement*

Date : 24 August 2015

Parties : CITIC Group  
The Company

### *Subject Matter*

CITIC Group has agreed to subscribe for (or to procure its wholly-owned subsidiaries as its nominees to subscribe for), and the Company has agreed to issue not more than 520,713,219 Subscription Shares at the Subscription Price of HK\$3.00 per Subscription Share, subject to the terms and conditions of the Share Subscription Agreement.

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## LETTER FROM THE BOARD

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The actual total number of Subscription Shares to be issued will be such number that can be subscribed with the Subscription Consideration at the Subscription Price, which will be ascertained after the Final Consideration is confirmed in due course but in any event shall not exceed 520,713,219 Subscription Shares.

### ***Subscription Consideration***

The total consideration of the Share Subscription shall be the Hong Kong dollar equivalent to the amount of the Final Consideration (to be converted at the central parity exchange rate between RMB and Hong Kong dollar as published by the PBOC as at the date of the payment of the Subscription Consideration), but in any event not exceeding HK\$1,562,139,658 (i.e. the Hong Kong dollar equivalent to the amount of the Maximum Consideration converted at the exchange rate of HK\$1.00 : RMB0.82387). If the Hong Kong dollar equivalent to the amount of the Final Consideration exceeds HK\$1,562,139,658, such excess shall not be included in the Subscription Consideration and shall not be payable by CITIC Group (or its wholly-owned subsidiaries as its nominees).

### ***Subscription Shares***

Assuming the Subscription Consideration equals to the Maximum Consideration of RMB1,287 million (equivalent to approximately HK\$1,562.1 million), the number of Subscription Shares to be issued will be 520,713,219 shares, which represent 15.40% of the existing number of Shares in issue as at the Latest Practicable Date and 13.35% of the number of Shares in issue as enlarged by the Subscription Shares.

The Subscription Shares, when allotted, issued and fully paid, will rank *pari passu* in all respects among themselves and with the Shares in issue on the date of allotment and issue of the Subscription Shares. An application to the Stock Exchange will be made by the Company for the listing of and permission to deal in the Subscription Shares.

The Subscription Shares will be allotted and issued by the Company under a specific mandate to allot, issue and deal with Shares by an ordinary resolution to be proposed for passing by the Independent Shareholders at the EGM.

### ***Subscription Price***

The Subscription Price is HK\$3.00 per Subscription Share.

The Subscription Price was arrived at after arm's length negotiations between the Company and CITIC Group with reference to, among other things, the recent trading prices of the Shares, which represents:

- (i) a premium of 17.65% over the closing price of HK\$2.55 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

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## LETTER FROM THE BOARD

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- (ii) a discount of 7.41% to the closing price of HK\$3.24 per Share as quoted on the Stock Exchange on 21 August 2015, being the last trading date prior to the date of the Share Subscription Agreement;
- (iii) a discount of 12.02% to the average closing price of approximately HK\$3.41 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days up to and including the last trading date prior to the date of the Share Subscription Agreement; and
- (iv) a discount of 13.04% to the average closing price of approximately HK\$3.45 per Share as quoted on the Stock Exchange for the last ten (10) consecutive trading days up to and including the last trading date prior to the date of the Share Subscription Agreement.

The Subscription Consideration will be payable by CITIC Group (or its wholly-owned subsidiaries as its nominees) to the Company in cash upon Subscription Completion.

### *Conditions to Subscription Completion*

Subscription Completion is conditional on the fulfilment or waiver by CITIC Group (except that conditions (a) to (e) set out below cannot be waived) (as the case may be) of the following conditions on or before the Long-stop Date:

- (a) the passing of the relevant resolution(s) by the Independent Shareholders at the EGM approving the transactions contemplated under the Acquisition Arrangement and the Share Subscription Agreement (i.e. the Transactions), and the allotment and issue of the Subscription Shares;
- (b) the listing of and permission to deal in the Subscription Shares on the Main Board of the Stock Exchange having been granted by the Stock Exchange;
- (c) if applicable, the obtaining of such consents and approvals of the relevant PRC governmental authorities (including National Development and Reform Commission of the PRC, Ministry of Finance of the PRC and MOFCOM) as are necessary for the execution and performance of the transactions contemplated under the Share Subscription Agreement;
- (d) if applicable, the obtaining of such consents and approvals of the relevant regulatory authorities in Hong Kong or elsewhere which are required for the execution and performance of the transactions contemplated under the Share Subscription Agreement;
- (e) the relevant share transfer agreement in relation to the Sale Interest effecting the Acquisition Arrangement being effective (i.e. when MOFCOM's approval for the relevant share transfer agreement as referred to condition (iii) in the section headed "Letter from the Board — III. The Acquisition — Conditions Precedent — Conditions to Acquisition Completion" having been obtained) and the Bidding Deposit having been paid and used to settle part of the purchase price for the Acquisition as contemplated under the relevant share transfer agreement; and



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## LETTER FROM THE BOARD

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- (f) the Company's warranties given under the Share Subscription Agreement remaining true and accurate and not misleading if they were repeated at any time prior to the Subscription Completion by reference to the facts and circumstances then existing.

The Company shall use its best endeavours to procure the fulfilment of conditions (a), (b), (d) and (f) while CITIC Group shall use its best endeavours to procure the fulfilment of condition (c). The Company and CITIC Group shall use their respective best endeavours to procure the fulfilment of condition (e). If any of the above conditions has not been fulfilled (or in respect of the condition set out in paragraph (f) above waived by CITIC Group) by the Long-stop Date, the Share Subscription Agreement shall terminate and no party shall have any claim against the other, except in respect of any antecedent breach of the terms thereof.

### *Subscription Completion*

Subscription Completion shall take place on the third Business Day after the date on which the last of the conditions as set out in the section headed "Letter from the Board — IV. Share Subscription — Conditions to Subscription Completion" is fulfilled or waived (as the case may be) (or such other date as CITIC Group and the Company may mutually agree but in any event not later than the Long-stop Date).

Subscription Completion is not conditional upon Acquisition Completion. As referred to in condition (e) in the section headed "Letter from the Board — IV. Share Subscription — Conditions to Subscription Completion", Subscription Completion is conditional upon, among other conditions, the relevant share transfer agreement in relation to the Sale Interest effecting the Acquisition Arrangement being effective by obtaining the MOFCOM's approval of the share transfer agreement, which is expected to be among the last condition to be satisfied for Acquisition Completion as advised by the PRC legal advisers to the Company. The Directors consider to be unlikely that Acquisition will remain conditional after Subscription Completion. The Company intends to proceed with Acquisition Completion shortly after Subscription Completion. In the unlikely event that the Acquisition is not proceeded with following Subscription Completion, the net proceeds from the Share Subscription are intended to be used for general working capital of the Group.

CITIC Group has undertaken to the Company that, for a period of six months from the date of Subscription Completion, it (or its wholly-owned subsidiaries as its nominees) will not dispose of any Subscription Shares save for any intra-group transfers.



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## LETTER FROM THE BOARD

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### *Use of proceeds*

Assuming the Subscription Consideration equals to the Maximum Consideration of RMB1,287 million (equivalent to approximately HK\$1,562.1 million), the expected aggregate gross proceeds of the Share Subscription will be approximately HK\$1,562.1 million, and the net proceeds is expected to be approximately HK\$1,561.1 million. On such basis, the net price per Subscription Share is expected to be approximately HK\$3.00. The Company intends to use the net proceeds from the Share Subscription, together with its internal resources, to fund the purchase price for the Acquisition and to replenish the capital resources and/or support the future business development of China Express Network.

### *Fund raising of the Company*

The Company has not raised any funds by way of issue of equity securities (other than the shares issued under the share option plan of the Company) during the 12 months immediately preceding the date of the Share Subscription Agreement.

## **V. EFFECT OF COMPLETION OF THE TRANSACTIONS**

### *Acquisition Completion*

Upon Acquisition Completion, assuming the Company acquires the maximum 39% equity interest in CITIC Networks, the Company will be interested in 39% of the equity interest in CITIC Networks, which will become an associated company of the Company.

### *Effect of Subscription Completion on the shareholding structure of the Company*

As at the Latest Practicable Date, CITIC Group is the ultimate holding company and is interested in 1,987,678,508 Shares (representing approximately 58.80% of the number of Shares in issue) indirectly via CITIC Limited or its wholly-owned subsidiaries. As at the Latest Practicable Date, CITIC Group does not directly hold any Shares. Upon Subscription Completion (assuming the Subscription Consideration equals to the Maximum Consideration of RMB1,287 million (equivalent to approximately HK\$1,562.1 million)), CITIC Group (or its wholly-owned subsidiaries as its nominees) will hold 520,713,219 Shares (representing 13.35% of the total number of Shares in issue as enlarged by the Subscription Shares).

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## LETTER FROM THE BOARD

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The shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately upon the issue of the maximum number of Subscription Shares at Subscription Completion (assuming that (a) the Subscription Consideration equals to the Maximum Consideration of RMB1,287 million (equivalent to approximately HK\$1,562.1 million); (b) there is no change in the number of Shares in issue from the Latest Practicable Date and up to Subscription Completion other than as a result of the allotment and issue of the Subscription Shares), are summarised as follows:

Name of Shareholder	As at the Latest Practicable Date		Immediately after Subscription Completion	
	Number of Shares held	Approximate percentage of number of Shares in issue	Number of Shares held	Approximate percentage of number of Shares in issue
CITIC Group (or its wholly-owned subsidiaries)	—	—	520,713,219	13.35%
CITIC Limited (or its wholly-owned subsidiaries) ( <i>Note 1</i> )	1,987,678,508	58.80%	1,987,678,508	50.95%
Director ( <i>Note 2</i> )	774,262	0.02%	774,262	0.02%
Public Shareholders	<u>1,392,243,000</u>	<u>41.18%</u>	<u>1,392,243,000</u>	<u>35.68%</u>
Total	<u><u>3,380,695,770</u></u>	<u><u>100%</u></u>	<u><u>3,901,408,989</u></u>	<u><u>100%</u></u>

*Notes:*

- These 1,987,678,508 Shares are held by CITIC Limited via its wholly-owned subsidiaries: (i) Ease Action Investments Corp. as to 1,241,649,869 Shares; (ii) Richtone Enterprises Inc. as to 134,841,139 Shares; and (iii) Silver Log Holdings Ltd. as to 611,187,500 Shares, each of which is a company indirectly wholly owned by CITIC Limited.
- These 774,262 Shares are held by Dr. Chan Tin Wai, David, an executive Director of the Company.

## VI. INFORMATION ON THE COMPANY AND THE PARTIES TO THE TRANSACTIONS

### The Company and the Group

The Company was established in 1997 in Hong Kong and was listed on the Stock Exchange on 3 April 2007.

The Group's services cover international telecommunications services (including mobile, Internet, voice and data services), integrated telecoms services (in Macau), and through CPC, has established numerous points of presence (“PoPs”) around the world (especially in the Asia-Pacific region) to provide data and telecoms services (including VPN, Cloud, network security, co-location, Internet access, etc.) to multinational corporations. CPC is one of the most trusted partners of leading multinational and business enterprises in the Asia-Pacific region.

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## LETTER FROM THE BOARD

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The Group holds 99% equity interest in Companhia de Telecomunicações de Macau, S.A.R.L. (“CTM”). CTM is one of the leading integrated telecoms services providers in Macau, and is the only full telecommunications services provider in Macau. It has long provided quality telecommunications services to the residents, government and enterprises of Macau, and plays an important role in the ongoing development of Macau.

### **CITIC Group**

CITIC Group is a wholly state-owned company established in the PRC in 1979 and the ultimate controlling shareholder of CITIC Limited and the Company. Its principal business includes basic telecommunications and value-added telecommunications; asset management; production and deep processing of metal products; leasing of plant building and equipment; transportation and other industrial services; hotel operations and services; medical industrial investment, health care and elderly care, health management, pharmaceuticals and medical services.

## **VII. INFORMATION ON CITIC NETWORKS**

### **Business of CITIC Networks**

CITIC Networks was established under the laws of the PRC in 2000 and commenced its business operation in the same year. CITIC Networks offers renting and sale of network equipment and related products. It is permitted to offer provision of Internet services, construction, management and maintenance of data networks, and development and sale of software and databases. It is also one of the few which has the Type 2 Domestic Telecommunications Licence to build and operate optic fibre network in the PRC. It is the owner and operator of China Express Network, one of the few commercial use backbone network resources in the PRC with over 24,000 km optic fibre network connecting most provincial cities across the nation through over 32 PoPs. With abundant bandwidth resources, China Express Network provides highly stable and secure data transmission services to most provincial cities across the PRC.

### ***Business model, revenue stream and cost components***

CITIC Networks’ current core business mainly consists of (a) long-haul transmission service; (b) resale of Internet bandwidth; and (c) other services such as data centre services, which respectively accounted for approximately 61%, 21% and 18% of its total revenue for the year ended 31 December 2014. The major cost components incurred by CITIC Networks in its operation are system operation cost, maintenance cost and depreciation of fixed assets.

### ***Licences obtained***

As at the Latest Practicable Date, CITIC Networks holds (a) Type 2 Domestic Telecommunications Infrastructure Services Licence (第二類基礎電信業務經營許可證) (“**Type 2 Domestic Telecommunications Licence**”); and (b) Type 2 Value-added Telecommunications Business Licence (第二類增值電信業務經營許可證).

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## LETTER FROM THE BOARD

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### *Major suppliers and customers*

The major suppliers of CITIC Networks comprise (a) maintenance provider for China Express Network; (b) primary telecoms operators for the provision of circuits; and (c) vendors of data centres. The major customers of CITIC Networks comprise Internet service providers (ISPs) and Internet content providers (ICPs).

Under the Acquisition Arrangement, CITIC Group agreed to procure CITIC Networks to implement certain reorganisation, such that all assets and business not related to China Express Network shall be hived off (including items (iii) to (v) mentioned below) from CITIC Networks (the “**Reorganisation**”). Prior to the Reorganisation, the major assets of CITIC Networks comprised of (i) China Express Network; (ii) licenses held by CITIC Networks which enable CITIC Networks to carry out certain telecommunications related business through China Express Network; (iii) licenses held by CITIC Networks which enables CITIC Networks to carry out satellite related business; (iv) 75% of the equity interest in 湖南中信通信有限公司 (Hunan CITIC Telecommunications Limited) (“**Hunan Telecommunications**”), a company established under the laws of the PRC with limited liability; and (v) 36% of the equity interest in 廣東盈通網絡投資有限公司 (Guangdong Yingtong Network Investments Limited) (“**Guangdong Yingtong**”), a company established under the laws of the PRC with limited liability. It is expected that upon completion of the Reorganisation, CITIC Networks shall then hold China Express Network together with the telecoms licenses as its main asset and engage mainly in the operation of China Express Network.

### **Financial information of CITIC Networks**

For the purposes of this circular, set out below are the unaudited adjusted loss before taxation and adjusted loss after taxation of CITIC Networks (assuming the Reorganisation has been completed for the respective periods) for each of the two years ended 31 December 2013 and 2014:

	<b>For the year ended 31 December</b>	
	<b>2013</b>	<b>2014</b>
	<i>(RMB million)</i>	<i>(RMB million)</i>
Adjusted loss before taxation	(40.36)	(104.11)
Adjusted loss after taxation	(32.76)	(96.51)

As at 30 June 2015, the unaudited adjusted net asset value of CITIC Networks (assuming the Reorganisation has been completed as at 30 June 2015) was approximately RMB100.81 million (equivalent to approximately HK\$122.36 million). As at the Latest Practicable Date, the registered capital of CITIC Networks is RMB4,211.97 million. As a result of (a) depreciation of the assets over the years; and (b) lack of competitive advantage in a highly commoditised and price sensitive market in respect of certain products and services offered by CITIC Networks, CITIC Networks accumulated net losses over the years.

The original total investment cost by CITIC Group into CITIC Networks (including the investment cost into Hunan Telecommunications and Guangdong Yingtong by CITIC Networks) was

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## LETTER FROM THE BOARD

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approximately RMB4,211.97 million (equivalent to approximately HK\$5,112.42 million). As part of the Reorganisation, Hunan Telecommunications and Guangdong Yingtong has been hived off from CITIC Networks. The adjusted total investment cost by CITIC Group into CITIC Networks less the investment cost of Hunan Telecommunications and Guangdong Yingtong was RMB3,099.18 million (equivalent to approximately HK\$3,761.73 million).

The above unaudited adjusted financial information is for illustration purpose only and does not reflect the audited financial information of CITIC Networks.

### VIII. REASONS FOR AND BENEFITS OF THE TRANSACTIONS

China Express Network is one of the few commercial-use backbone network resources in the PRC. It has over 24,000 km optic fibre network connecting most provincial cities across the nation through over 32 PoPs. It is the Company's strategy to develop and expand its enterprise solution services in the PRC and the Directors believe that the abundant bandwidth resources of China Express Network will provide reliable and cost effective support to the Company in delivering stable and secure data transmission services, and providing a vital alternative to its reliance on network infrastructure operated by third parties. The Directors consider that by acquiring equity interest in CITIC Networks pursuant to the Acquisition, the Company will be able to upgrade and align the technology specifications of China Express Network in support of the Company's product offerings and expansion strategy. By reducing the dominance in the market created by a few leading market players in the telecommunications market, the Acquisition will facilitate development of the business of, and generate new business opportunities for, the Company.

The Directors consider that the Acquisition presents the Company a valuable opportunity to acquire a strategic stake in China Express Network and the Type 2 Domestic Telecommunications Licence in a low-risk, cost-effective and timely manner, and allows the Company (via CITIC Networks) to gain propriety access to (a) terrestrial transmission networks and network elements that provide domestic traffic; and (b) domestic telecommunications infrastructure services. The Company expects that in the long run, it can reduce reliance on other local telecommunications operators and tap into more profitable and high growth market segment, i.e. Internet transit service.

Going forward, the Directors envisage the future development plan of CITIC Networks will target to: (a) continue enhancing the market competitiveness and expanding the existing clientele of its existing business; (b) link up data centres to its network with the aim to develop an interconnect market among data centre customers to better serve its customers; and (c) develop an Internet exchange platform and tap into the Internet transit service market to enhance its profitability. In addition, the Company will continue to provide management consultancy and technical services to CITIC Networks pursuant to a series of existing management service agreements. Please refer to the Company's announcements dated 25 April 2014 and 22 April 2015 (the "**Previous Announcements**") for more details. By leveraging on the Company's management experience and customer resources, it is expected that the overall operating efficiency and profitability of China Express Network will be improved, and is expected to have positive impact on its sales, revenue and profit after completion of the Transactions.

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## LETTER FROM THE BOARD

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The capital commitment of CITIC Networks primarily relates to purchase of network equipment of China Express Network. The capital expenditure requirement of CITIC Networks is expected to be relatively low due to (a) the long expected lifetime of China Express Network; and (b) such capital expenditure can be made gradually and flexibly according to the business requirement and expansion of CITIC Networks in stages. As at the Latest Practicable Date, the capital commitment of CITIC Networks contracted amounts to RMB8.60 million (equivalent to approximately HK\$10.44 million). As disclosed in the Previous Announcements, the Group agreed to provide the funds of up to RMB200 million to CITIC Networks if and when a shortage of funds arises in the operation of the China Express Network at any time until April 2017. Please refer to the Previous Announcements for further details.

The Share Subscription will enlarge the share capital of the Company by the issuance of a total of not more than 520,713,219 Subscription Shares and strengthen the capital base of the Company.

In view of the above potential benefits and synergies, the Directors consider that the terms of the Transactions are on normal commercial terms, fair and reasonable and in the interests of the Shareholders as a whole.

### **IX. IMPLICATIONS OF THE TRANSACTIONS UNDER THE LISTING RULES**

As at the Latest Practicable Date, CITIC Group is the controlling shareholder of CITIC Limited, which in turn is the indirect holding company of the Company, and holds (via CITIC Limited and its wholly-owned subsidiaries) approximately 58.80% of the number of Shares in issue. Therefore, CITIC Group is a connected person of the Company.

The Acquisition and the Share Subscription each constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios for the Company regarding each of the Acquisition and the Share Subscription exceed 5% but are less than 25%, the Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules, and the Transactions (i.e. the Acquisition and the Share Subscription, collectively) constitute connected transactions, which are subject to the reporting, announcement and Independent Shareholders' approval requirements set out in Chapter 14A of the Listing Rules.

The Transactions are subject to the approval of the Independent Shareholders at the EGM. CITIC Group and its associates (including CITIC Limited), which together hold approximately 58.80% of the number of Shares in issue as at the Latest Practicable Date, are required to abstain from voting on the relevant resolutions to be proposed at the EGM to approve the Transactions.

### **X. EXTRAORDINARY GENERAL MEETING**

A notice convening the EGM to be held at JW Marriott Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on 23 October 2015 at 10:30 a.m. is set out on pages 50 to 52 of this circular. Ordinary resolutions will be proposed to the Independent Shareholders to consider and, if thought fit, approve the terms of the Acquisition Arrangement and the Share Subscription Agreement and the transactions contemplated thereunder. A proxy form for use at the EGM is enclosed with this circular. Whether or not you are able to attend the meeting, you are

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## LETTER FROM THE BOARD

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requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the registered office of the Company in Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof (as the case may be) should you so wish.

The register of members of the Company will be closed, for the purpose of determining the identity of members who are entitled to attend and vote at the meeting, from Thursday, 22 October 2015 to Friday, 23 October 2015, both days inclusive, during which period no transfers of shares will be effected. In order to be eligible to attend and vote at the meeting, all properly completed and duly stamped transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 20 October 2015.

In accordance with Rule 13.39(4) of the Listing Rules, voting at the EGM will be conducted by poll. The chairman of the EGM will demand a poll for the ordinary resolutions to be proposed at the EGM in accordance with the Company's articles of association. CITIC Group and its associates (including CITIC Limited), which together held approximately 58.80% of the total number of Shares in issue as at the Latest Practicable Date, had a material interest in the Transactions and therefore will abstain from voting at the EGM.

Mr. Luo Ning, a Director, is also the Chairman of CITIC Networks. To avoid any appearance of conflicts, he volunteered to abstain from voting on the board resolutions of the Company or considering and approving the Transactions. Save as disclosed above, no other Director has a material interest in the Transactions or is required to abstain from voting on the board resolutions for considering and approving the Transactions. Mr. Liu Jifu, a Director, is also a director of CITIC Pacific. He has no material interest in the Transactions and is not required to abstain from voting on the board resolutions of the Company for considering and approving the Transactions.

### **XI. RECOMMENDATION**

The Board (including the independent non-executive Directors), having taken into account the advice of the Independent Financial Adviser, considers that the Transactions and the terms of the Acquisition Arrangement and the Share Subscription Agreement, though not entered into in the ordinary and usual course of business of the Group, are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the ordinary resolutions which will be proposed at the EGM for approving the Acquisition Arrangement and the Share Subscription Agreement.

Your attention is drawn to the letter from the Independent Board Committee set out on pages 23 to 24 of this circular containing its recommendation to the Independent Shareholders and the letter from the Independent Financial Adviser set out on pages 25 to 43 of this circular containing its advice and recommendation to the Independent Board Committee and to the Independent Shareholders, on the Acquisition Arrangement and Share Subscription Agreement.

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**LETTER FROM THE BOARD**

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Your attention is also drawn to the general information set out in the Appendix to this circular.

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



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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*The following is the full text of the letter from the Independent Board Committee to the Independent Shareholders which was prepared for the purpose of inclusion in this circular.*



**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)**

2 October 2015

*To the Independent Shareholders*

Dear Sir or Madam,

### **DISCLOSEABLE AND CONNECTED TRANSACTIONS**

#### **(1) PROPOSED ACQUISITION OF UP TO 39% EQUITY INTEREST IN CITIC NETWORKS BY THE COMPANY**

**AND**

#### **(2) PROPOSED ISSUE OF NEW SHARES BY THE COMPANY TO CITIC GROUP (OR ITS WHOLLY-OWNED SUBSIDIARIES AS ITS NOMINEES)**

We refer to the circular of the Company dated 2 October 2015 (the “**Circular**”) of which this letter forms part. Terms defined in the Circular shall have the same meanings herein unless the context otherwise requires.

We have been appointed by the Board to form the Independent Board Committee to advise the Independent Shareholders as to whether, in our opinion, the Acquisition Arrangement and the Share Subscription Agreement, are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Platinum Securities has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same respect.

We wish to draw your attention to the letter from the Board set out on pages 5 to 22 of the Circular which contain information in connection with the Acquisition Arrangement and Share Subscription Agreement, and the letter from the Independent Financial Adviser set out on pages 25 to 43 of the Circular which contains its advice and recommendation in the same respect.

Having considered the terms of the Acquisition Arrangement and Share Subscription Agreement, the advice and recommendation of the Independent Financial Adviser and the relevant information contained in the letter from the Board, we are of the opinion that the Transactions and the terms of

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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the Acquisition Arrangement and the Share Subscription Agreement, though not entered into in the ordinary and usual course of business of the Group, are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Acquisition Arrangement and the Share Subscription Agreement.

Yours faithfully,  
for and on behalf of

**Independent Board Committee of  
CITIC Telecom International Holdings Limited**

**Liu Li Qing**  
*Independent non-executive  
Director*

**Kwong Che Keung, Gordon**  
*Independent non-executive  
Director*

**Zuo Xunsheng**  
*Independent non-executive  
Director*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the text of the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition and the Share Subscription for the purpose of incorporation into this circular.*



**PLATINUM**  
Securities

2 October 2015

*To the Independent Board Committee and the Independent Shareholders*

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTIONS**  
**(1) PROPOSED ACQUISITION OF UP TO 39% EQUITY INTEREST**  
**IN CITIC NETWORKS BY CITIC TELECOM**  
**AND**  
**(2) PROPOSED ISSUE OF NEW SHARES BY CITIC TELECOM TO CITIC GROUP**  
**(OR ITS WHOLLY-OWNED SUBSIDIARIES AS ITS NOMINEES)**

### INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the proposed Acquisition and Share Subscription (collectively, the “**Transactions**”) contemplated under the Acquisition Arrangement and the Share Subscription Agreement. Details of the Transactions are contained in the Letter from the Board as set out in the circular of CITIC Telecom dated 2 October 2015 (the “**Circular**”). Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

The Board announced that on 24 August 2015, CITIC Group and CITIC Telecom had agreed to implement the Acquisition Arrangement whereby CITIC Group has proposed to sell, and CITIC Telecom has proposed to bid (or to procure its subsidiary including CPC to bid) for, in an open tender process at China Beijing Equity Exchange (北京產權交易所), up to 39% equity interest in CITIC Networks from CITIC Group. The Final Consideration for the Acquisition is expected not to exceed RMB1,287 million (equivalent to approximately HK\$1,562.1 million) (i.e. the Maximum Consideration as contemplated under the Acquisition Arrangement); and CITIC Group and CITIC Telecom had entered into the Share Subscription Agreement whereby CITIC Group had agreed to subscribe (or to procure its wholly-owned subsidiaries as its nominees to subscribe) for not more than 520,713,219 Subscription Shares at the Subscription Price of HK\$3.00 per Subscription Share, subject to the terms and conditions of the Share Subscription Agreement.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### BASIS OF OUR OPINION

In our capacity as the Independent Financial Adviser, our role is to advise the Independent Board Committee and the Independent Shareholders as to whether the Transactions are in the ordinary and usual course of business, the terms of the Transactions were agreed on normal commercial terms, and are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of CITIC Telecom and the Shareholders as a whole; and to give independent advice to the Independent Board Committee and Independent Shareholders as to whether the Independent Shareholders should vote in favour of the Transactions.

In formulating our opinion, we have relied on the information and facts supplied to us by the Directors and/or management of CITIC Telecom. We have reviewed, among other things: (i) the Acquisition Arrangement and the Share Subscription Agreement; (ii) the audited annual report of CITIC Telecom and the unaudited adjusted management accounts of CITIC Networks, each for the financial year ended 31 December 2013 (the “**2013 Annual Report of CITIC Telecom**” and “**2013 Adjusted Management Accounts of CITIC Networks**”); (iii) the audited annual report of CITIC Telecom and unaudited management accounts of CITIC Networks, each for the financial year ended 31 December 2014 (the “**2014 Annual Report of CITIC Telecom**” and “**2014 Adjusted Management Accounts of CITIC Networks**”); (iv) the unaudited results of CITIC Telecom and CITIC Networks, each for the six months ended 30 June 2015 (the “**2015 Interim Results of CITIC Telecom**” and “**Six Months Ended 30 June 2015 Adjusted Management Accounts of CITIC Networks**”); and (v) the Memorandum of Understanding signed between a third-party investor and CITIC Group who offered to acquire 10% equity interest in CITIC Networks (the “**MOU**”).

We have assumed that all information, facts, opinions and representations contained in the Circular and all information, statements and representations provided to us by the Directors and/or the management of CITIC Telecom, which we have relied on, are true, complete, accurate and not misleading in all material respects as at the date hereof and we and the Independent Shareholders will be notified by CITIC Telecom of any material changes thereof as soon as practicable. The Directors have confirmed that they take full responsibility for the contents of the Circular and have made all reasonable inquiries that no material facts have been omitted from the information supplied to us.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other matters not contained in the Circular, the omission of which would make any statement in the Circular misleading or deceptive.

The 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 CITIC Telecom. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in the 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 the Circular or any statement in the Circular misleading.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We have no reason to suspect that material facts or information have been withheld or to doubt the truth, accuracy or completeness of the information of all facts as set out in the Circular and of the information and representations provided to us by the Directors and/or the management of CITIC Telecom. We have no reason to suspect the reasonableness of the opinions and representations expressed by the Directors and/or the management of CITIC Telecom, which have been provided to us. In line with customary practice, we have not, however, conducted a verification process for the information supplied to us, nor have we conducted any independent in-depth investigation into the business and affairs of CITIC Telecom. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion, and we consider that we have taken sufficient and necessary steps based on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Independent Board Committee, comprising all independent non-executive directors of CITIC Telecom, namely Mr. Liu Li Qing, Mr. Kwong Che Keung, Gordon and Mr. Zuo Xunsheng, has been established to advise the Independent Shareholders as to whether the terms of the Transactions were agreed on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and that the entering into the Transactions is in the interests of CITIC Telecom and the Independent Shareholders as a whole.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in relation to the Transactions and giving our independent financial advice to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors and reasons:

#### A. THE ACQUISITION ARRANGEMENT

##### 1. Background of the Acquisition Arrangement

On 24 August 2015, CITIC Group and CITIC Telecom agreed to implement the Acquisition Arrangement whereby CITIC Group has proposed to sell, and CITIC Telecom has proposed to bid (or to procure its subsidiary including CPC to bid) for, in an open tender process at China Beijing Equity Exchange, up to 39% equity interest in CITIC Networks from CITIC Group. The Final Consideration for the Acquisition is expected not to exceed RMB1,287 million (equivalent to approximately HK\$1,562.1 million) (i.e. the Maximum Consideration as contemplated under the Acquisition Arrangement); and

In connection with the Acquisition, on 24 August 2015, CITIC Group and CITIC Telecom entered into the Share Subscription Agreement whereby CITIC Group has conditionally agreed to subscribe (or to procure its wholly-owned subsidiaries as its nominees to subscribe) for not more than 520,713,219 Subscription Shares at the Subscription Price of HK\$3.00 per Subscription Share, subject to the terms and conditions of the Share Subscription Agreement.

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### 1.1 Information on CITIC Telecom

CITIC Telecom engages in provision of international telecommunications services (including mobile, Internet, voice and data services), integrated telecoms services in Macau, and through CPC, has established numerous PoPs around the world, especially in the Asia-Pacific region, to provide data and telecoms services (including VPN, Cloud, network security, co-location, Internet access, etc.) to multinational corporations.

Set out below is the financial highlights of CITIC Telecom's published consolidated financial statements in accordance with the Hong Kong Financial Reporting Standards:

**Table 1: Financial highlights of CITIC Telecom**

	<b>2013</b>	<b>2014</b>	<b>Six Months Ended 30 June 2015</b>
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Unaudited)</i>
Cash and bank deposits	856,076	1,396,892	1,944,823
Total assets	16,441,654	17,340,547	17,831,635
Total equity	6,187,951	6,594,276	6,750,741
Revenue	6,018,543	8,183,607	4,350,275
Net profit attributable to the equity shareholders of CITIC Telecom	1,067,506	723,734	397,152

*Source: 2013 Annual Report of CITIC Telecom, 2014 Annual Report of CITIC Telecom and 2015 Interim Results of CITIC Telecom.*

According to CITIC Telecom's consolidated financial statements prepared in accordance with the Hong Kong Financial Reporting Standards, CITIC Telecom's profit before taxation and profit for the year for the financial year ended 31 December 2014 were approximately HK\$914.29 million and HK\$734.96 million, respectively; and CITIC Telecom's profit before taxation and profit for the year for the financial year ended 31 December 2013 were approximately HK\$1,201.13 million and HK\$1,070.30 million, respectively. CITIC Telecom's net asset was approximately HK\$6,750.74 million as at 30 June 2015.

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### 1.2 Information on CITIC Networks

CITIC Networks was established under the laws of the PRC in 2000 and commenced its business operation in the same year. CITIC Networks offers renting and sale of network equipment and related products. It is permitted to offer provision for Internet services, construction, management and maintenance of data networks, and development and sale of software and databases. It is also one of the few which has the Type 2 Domestic Telecommunications Licence to construct and operate optic fibre network in the PRC. It is also the owner and operator of the China Express Network, with over 24,000 km nation-wide optic fibre backbone network in the PRC. With abundant bandwidth resources, the China Express Network provides highly stable and secure data transmission services to most provincial cities across the PRC.

**Table 2: Financial highlights of CITIC Networks**

	<b>2013</b>	<b>2014</b>	<b>Six Months Ended 30 June 2015</b>
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
	<i>(Adjusted and Unaudited)</i>	<i>(Adjusted and Unaudited)</i>	<i>(Adjusted and Unaudited)</i>
	<i>(Remarks)</i>	<i>(Remarks)</i>	<i>(Remarks)</i>
Cash and bank deposits	132.95	13.06	28.83
Total assets	435.17	320.28	299.05
Total equity	243.34	146.83	100.81
Revenue	191.85	110.04	57.78
Net loss attributable to the equity shareholders of CITIC Networks	(32.76)	(96.51)	(46.02)

*Source: 2013 Adjusted Management Accounts of CITIC Networks, 2014 Adjusted Management Accounts of CITIC Networks and Six Months Ended 30 June 2015 Adjusted Management Accounts of CITIC Networks.*

*Remarks: To present a consistent comparable financial analysis of the relevant financial periods stated above, financial information of CITIC Networks has been adjusted with the assumption that the Reorganisation had been substantially completed during the two years ended 31 December 2013 and 2014, and for the six months ended 30 June 2015 respectively.*

According to CITIC Networks' 2013 and 2014 unaudited Adjusted Management Accounts, CITIC Networks' adjusted loss before taxation and adjusted loss for the financial year ended 31 December 2014 were approximately RMB104.11 million and RMB96.51 million, respectively; and CITIC Networks' adjusted loss before taxation and adjusted loss for the financial year ended 31 December 2013 were approximately RMB40.36 million and RMB32.76 million, respectively. According to the unaudited Six Months Ended 30 June 2015 Adjusted Management Accounts of CITIC Networks, CITIC Networks' adjusted net asset was approximately RMB100.81 million as at 30 June 2015.

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### 2. Reasons for and benefits of entering into of the Acquisition Arrangement

#### 2.1 Valuable operating licences

CITIC Networks possesses the following telecommunications licences but those services listed in (ii) and (iii) below will be hived off from CITIC Networks before the Acquisition as per the Acquisition Arrangement:

##### Domestic Telecommunications Infrastructure Services Licence (“基礎電信業務經營許可證”)

- i. lease or sale of network elements of Type 2 Domestic Telecommunications Infrastructure Services (第二類基礎電信業務中的網絡元素出租、出售業務)
- ii. lease or sale of satellite transponder of Type 2 Domestic Telecommunications Infrastructure Services (第二類基礎電信業務中的衛星轉發器出租、出售業務)

##### Value-added Telecommunications Business Licence (“增值電信業務經營許可證”)

- iii. domestic VSAT telecommunications business of Type 2 Domestic Telecommunications Infrastructure Services (第二類基礎電信業務中的國內甚小口徑終端地球站 (VSAT) 通信業務)
- iv. Internet access service of Type 2 Value-added Telecommunications Business Licence (第二類增值電信業務中的因特網接入服務業務)

The lease or sale of network elements of Type 2 Domestic Telecommunications Licence is the most valuable asset to CITIC Networks as it is among a handful of holders of the aforementioned licence in the PRC including the three local telecommunications operators, namely, China Mobile Communications Corporation, China United Network Communications Group Co., Ltd and China Telecom Corporation Limited. Upon Acquisition Completion, it allows CITIC Telecom to have the legitimate right to have (1) its own terrestrial transmission networks and network elements that provide domestic traffic; and (2) domestic telecommunications infrastructure services, i.e. leasing and sale of domestic telecommunications infrastructure services within China. As per our discussion with the management of CITIC Telecom, we noted that, prior to the Acquisition, CITIC Telecom did not have the optic fibre network to carry out the long-haul transmission service and hence their business’s dependence on the aforesaid local telecommunications operators was much greater. In order to enter into the Internet transit service segment, the management believes that it is crucial to secure the Type 2 Domestic Telecommunications Licence, and also, is able to reduce CITIC Telecom’s reliance on other local telecommunications operators. In light of the above, the Acquisition creates synergies between CITIC Telecom and CITIC Networks in a way that it allows CITIC Telecom to maximise the commercial value of the lease or sale of network elements of Type 2 Domestic Telecommunications Licence and enhance its profitability by tapping into a high profit margin market segment, such as Internet transit service.



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We are of the view that the Acquisition will be of CITIC Telecom's benefit as it gives CITIC Telecom the access to the legal rights of the aforementioned services and the backbone network across China which enhances the success rate of shifting into a high profit margin market segment.

### *2.2 Favourable government policies*

The PRC Government has signalled to open up its telecommunications market. In 2011, National Development and Reform Commission announced the country's first anti-monopoly investigation in the telecommunications sector to encourage opening up of the said sector. Furthermore, the Ministry of Industry and Information Technology repeatedly announced, in 2013 and 2014, to invest in Internet exchange points in cities such as Chengdu, Wuhan, Xi'an, Shenyang, Nanjing, Chongqing and Zhengzhou. The addition of these state-level exchange points will also help advance the implementation of the "Internet Plus" action plan, a concept that Premier Li Keqiang first presented in March 2015 when delivering the government work report which was formally announced by the State Council on 4 July 2015. "Internet Plus" provides an environment conducive to the development of various Internet business applications such as cloud computing and data centre, boost information-sector consumption, and drive the growth of the Internet economy. As discussed with the management, they also believe that the Acquisition will equip CITIC Telecom to leverage on the upcoming opportunities in the telecommunications industry while it gradually opens up and to adapt quickly to this fast changing telecommunications business environment.

We concur with the management that the Acquisition shall enable CITIC Telecom to embrace the opportunities created by the PRC Government's policies and it will be to CITIC Telecom's benefit.

### *2.3 Attractive market outlook*

The Acquisition allows CITIC Telecom to enter into a much larger market sector and we noted from our discussion with the management that they expect total market size of PRC telecommunications sector (excluding the three local telecommunications operators' market share) will reach approximately RMB1,380 billion in 2019. In addition, the Compound Annual Growth Rate ("CAGR") for the period during 2014 to 2019 is approximately 28%. In particular, CAGR for the same period for sub-sector of data centres, Internet service providers and Internet content providers were 35%, 40% and 27% respectively. However, we also noted that such positive impact resulted from the market growth might be off-set to certain extent by the downward trend of market price of data transmission related service.

Overall, we are of the view that the strong market growth in the telecommunications industry in China is to CITIC Telecom's benefit for future business expansion.

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### *2.4 Expansion into new market to meet customers' demand*

CITIC Networks' current core business consists mainly of (1) long-haul transmission service, accounting for approximately 61% of its total revenue; (2) resale of Internet bandwidth, accounting for approximately 21% of its total revenue; and (3) others such as data centre services, accounting for approximately 18% of its total revenue. The existing customers of CITIC Networks mainly consist of Internet service providers and Internet content providers, which have a demand of high capacity transmission circuits. However, the aforementioned business segment is a highly commoditised and price sensitive market. As per our discussion with the management, they believe that CITIC Telecom will be able to make use of the long-haul transmission network from CITIC Networks to reposition themselves to focus into a new market segment — enterprise customers, which has a demand of high quality services of which CITIC Telecom can help CITIC Networks to compete more effectively with its vast experience. The management further stated that, existing customers of CITIC Telecom are also the targeted group of customers for the new market segment of enterprise customers, and, as such, CITIC Networks' service can be offered to part of the existing customer base of CITIC Telecom. Effectively, this creates synergistic value to CITIC Telecom by serving the same client base while complementing the existing product portfolio.

As such, we are of the view that the potential Acquisition will be in the interest of CITIC Telecom as it shall improve CITIC Telecom's profit level by being able to extend its product portfolio.

### *2.5 Low Capital Expenditure ("CAPEX") required*

As noted from the Circular, CITIC Networks owns China Express Network which is one of the commercial-use backbone network resources in the PRC. It possesses over 24,000 km of optic fibre network, covering 25 provinces and direct-controlled municipalities with 32 PoPs. As per our discussion with the management, we understand that CAPEX requirement for such business is not expected to be high. This is due to the following reasons: (1) Optic fibre is a relatively new technology and has long expected lifetime. It is a technology that has been put into commercial use in the late 1990s. The management stated that majority of the existing optic fibre networks were constructed by telecommunications operators in the world with a design of long expected lifetime, provided that there is continuous maintenance. In addition, CITIC Networks has engaged a contractor for the maintenance of China Express Network, who will continuously monitors the entire network to ensure smooth operation of the network. As such, maintenance cost can be kept within a predictable level as it only requires replacing parts of equipment or sections of the network with faults only and where necessary. (2) The pricing of capital expenditure has decreased over the years. As such, the expected CAPEX requirement for future expansion is not expected to be high. (3) The CAPEX expansion can be made according to business requirement. As such, it can be increased flexibly according to the future business growth.

We are of the view that the Acquisition will be in the interest of CITIC Telecom as CAPEX is expected to remain low while such flexible business model is not likely to worsen the current financial position of CITIC Telecom such as gearing level or level of working capital following the Completion of the Acquisition and Share Subscription.

In the light of the above, we are of the view that the Acquisition is in line with CITIC Telecom's business expansion strategy and in the interest of CITIC Telecom and beneficial to CITIC Telecom.

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### 3. Principal terms of the Acquisition Arrangement

- Date** : 24 August 2015
- Parties** : (a) CITIC Group as proposed seller; and  
(b) CITIC Telecom as proposed bidder.
- Consideration** : Under the Acquisition Arrangement, assuming the Sale Interest equals to the maximum 39% equity interest in CITIC Networks, the corresponding intended consideration for the Sale Interest is set at RMB1,170 million (equivalent to approximately HK\$1,420.1 million) (the “**Proposed Consideration**”) which, the parties acknowledged, will be subject to adjustment with reference to an independent appraisal of the Sale Interest as filed with and approved by the Ministry of Finance of the PRC (the “**Appraised Consideration**”). Pursuant to the relevant PRC laws and regulations, the consideration for the transfer of state-owned assets has to be reasonably determined with reference to the value appraised and approved by the relevant government authorities. The Appraised Consideration will be ascertained before the open tender process takes place in accordance with the relevant PRC laws and regulations but may be available only after the EGM. It should be noted that the Appraised Consideration could be lower than the Proposed Consideration subject to the results of the aforementioned independent appraisal. For the avoidance of doubt, the price for which CITIC Group puts up the Sale Interest for sale through an open tender process at China Beijing Equity Exchange shall be in no event less than the Appraised Consideration.

CITIC Telecom (or its subsidiary) intends to bid using the Proposed Consideration or the Appraised Consideration, whichever is higher, in the open tender process. At present, CITIC Telecom (or its subsidiary) intends to only proceed with the bidding if the Appraised Consideration does not exceed RMB1,287 million (equivalent to approximately HK\$1,562.1 million), being 110% of the Proposed Consideration (the “**Maximum Consideration**”). If CITIC Telecom (or its subsidiary) is successful in the open tender process, the purchase price in winning the bid (the “**Final Consideration**”), which shall not exceed the Maximum Consideration, shall be payable in cash by CITIC Telecom (or its subsidiary).

The Proposed Consideration was determined by reference to a proposed bid price of not less than RMB300 million as agreed between a potential third-party investor and CITIC Group for the proposed acquisition of another 10% equity interest in CITIC Networks, and other factors including the outlook and development of enterprise solution services in the PRC market, future planning for development and strategic synergies between China Express Network and CITIC Telecom.

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### 4. The Proposed Consideration

#### 4.1 Basis of the Proposed Consideration

Pursuant to the Acquisition Arrangement subject to the conditions precedent thereunder, CITIC Group and CITIC Telecom agreed to implement the Acquisition Arrangement whereby CITIC Group has proposed to sell, and CITIC Telecom has proposed to bid (or to procure its subsidiary including CPC to bid) for, in an open tender process at China Beijing Equity Exchange, up to 39% equity interest in CITIC Networks from CITIC Group with the Proposed Consideration of RMB1,170 million (equivalent to approximately HK\$1,420.1 million) and it shall not exceed the Maximum Consideration. The Proposed Consideration was determined after arm's length negotiations between CITIC Telecom and CITIC Group by reference to factors as set out under the paragraph headed "*Principal Terms of the Acquisition Arrangement*" in this letter.

#### 4.2 Analysis of the Proposed Consideration

In assessing the fairness and reasonableness of the Proposed Consideration, we have tried to compare the Proposed Consideration against a pool of comparable companies listed on the Stock Exchange that are mainly engaged in the telecommunications network business in the PRC, providing long-haul transmission service and optic fibre rental service. However, we are unable to find any listed company that has similar business as its core business in our research through public information. We then attempted to find comparable transactions that involve either acquisition or disposal of similar business in the PRC for comparison. However, we are again unable to identify any meaningful comparable transaction with adequate information for us to conduct a comparison in evaluating the Proposed Consideration.

As alternatives, we have resorted to consider (a) original investment cost of CITIC Networks; and (b) the MOU signed between a third-party investor and CITIC Group who offered to acquire 10% equity interest in CITIC Networks.

##### a. Investment cost

The original total investment cost by CITIC Group into CITIC Networks (including the investment cost into Hunan Telecommunications and Guangdong Yingtong by CITIC Networks) was approximately RMB4,211.97 million (equivalent to approximately HK\$5,112.42 million). As part of the Reorganisation, Hunan Telecommunications and Guangdong Yingtong will be hived off from CITIC Networks. The total adjusted investment cost by CITIC Group into CITIC Networks after deducting the investment cost of Hunan Telecommunications and Guangdong Yingtong was RMB3,099.18 million (equivalent to approximately HK\$3,761.73 million) (the "**Original Investment Cost**").

As discussed with the management, the stringent eligibility criteria for Type 2 Domestic Telecommunications Licence require, amongst other things, substantial and immediate capital investment in infrastructure. The management had pointed out that the construction costs of investing in a brand new optic fibre network is likely to be much more

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expensive than the consideration offered under the Acquisition Arrangement. The application for a new licence and constructing its own optic fibre network of equivalent or similar scale would impose far more onerous and immediate capital investment required in such infrastructure, causing CITIC Telecom to have a larger exposure to operation risk due to (i) the uncertainty of outcome for such application; and (ii) extra time required for constructing the same scale of optic fibre network which might have an impact on CITIC Telecom's capability to adapt to the quickly changing market.

For illustration purpose, we have assumed taking 39% equity interest of RMB3,099.18 million, the Original Investment Cost and calculated the difference against the Maximum Consideration of RMB1,287 million. By that, we have reached a calculated outcome that CITIC Telecom is only proposing to pay an increment of approximately 6.5% against the Original Investment Cost. We have further studied the inflation rate in the PRC over the past 15 years, which is of approximately 34.45%, that paying an increment of approximately 6.5% over the Original Investment Cost is of CITIC Telecom and Shareholders' benefit. In addition, the management believes that the optic fibre network can continue to operate for a much longer time period than its expected lifetime means that not much upgrading or repair or maintenance cost will be required. For details, please refer to the section headed "*Low Capital Expenditure ("CAPEX") required*" in this letter.

Having compared to the Original Investment Cost, we also noted that CITIC Networks' net asset value is approximately RMB100.81 million as at 30 June 2015, and hence, CITIC Telecom is preparing to submit a bid with relatively high price-to-book multiples for the Acquisition. As per our discussion with the management, we noted that CITIC Networks' fixed assets mainly comprise of over 24,000 km long optic fibre network which has almost completed its full depreciation cycle from an account perspective, attributing to CITIC Networks' low net asset value. Although the depreciation cycle has almost completed, the management is of the view that the optic fibre network will continue to be fully operational with low CAPEX required. In addition, we concur with the management's view that the exclusivity of the Type 2 Domestic Telecommunications Licence has an unquantifiable strategic value due to a very limited number of Type 2 Domestic Telecommunications Licence issued and there is no precedent record of a similar kind of transaction. However, we are of the view that the Acquisition will open up a new source of income and bridge the gap between CITIC Telecom and the upcoming opportunities in the market, for details please refer to the section headed "*Reasons for and benefits of entering into of the Acquisition Arrangement*" in this letter.

In light of the above, we consider that the Maximum Consideration, being RMB1,287 million, is close to 39% of the Original Investment Cost, i.e. approximately RMB1,209 million. As such, we are of the view that both the Proposed and Maximum Consideration is fair and reasonable to CITIC Telecom and the Shareholders in this regard. However, Independent Shareholders are advised to take note that the Appraised Consideration could be lower than the Proposed Consideration subject to the results of the aforementioned independent appraisal. Should the valuation assessed by such independent appraisal become lower than the Proposed Consideration, CITIC Telecom will continue to proceed with the Acquisition with the Proposed Consideration. Despite the foregoing, we are of the view that

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the Proposed Consideration is fair, reasonable and value accretive as mentioned in the section headed “*Reasons for and benefits of entering into of the Acquisition Arrangement*” in this letter. However, Independent Shareholders are advised to vote with due care and attention.

*b. Proposed bid offered by a third-party investor*

The management also took reference from a proposed bid price of not less than RMB300 million as agreed between a potential third-party investor and CITIC Group for another 10% equity interest in CITIC Networks. As per our discussion with the management and based on the public information such as the MOU, we understand that the proposed bid was made by Dr. Peng Telecom & Media Group Co., Ltd. (“**Dr. Peng**”) which offers Internet access, e-government, Internet data centre, and private network and operations services, as well as network security monitoring, city surveillance, toll-shunt, and other value-added network services. It was also previously CITIC Networks’ single largest customer which contributed over 37% of CITIC Networks’ total revenue in China. However, Dr. Peng has terminated all the service contracts with CITIC Networks in 2014 and is an independent third party of CITIC Networks. Given that Dr. Peng was once in a long term business relationship with CITIC Networks and together with its knowledge and experience accumulated through its operation in the same industry, we believe that allowed Dr. Peng to have a deep understanding of value of the underlying assets, and hence, the valuation is fair and true and should be able to reflect the true market value.

As such, we concur with the management that taking reference to the proposed bid offered by a third-party investor that the Proposed Consideration is fair and reasonable to CITIC Telecom and the Shareholders as a whole.

Based on the analysis of (a) the original investment cost and (b) the proposed bid offered by an independent third-party investor, we are of the view that the Proposed Consideration is fair and reasonable to CITIC Telecom and the Shareholders as a whole.

### **5. The Subscription Price**

The Subscription Price of HK\$3.00 per Subscription Share represents:

- (a) a premium of 17.65% over the closing price of HK\$2.55 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (b) a discount of 7.41% to the closing price of HK\$3.24 per Share as quoted on the Stock Exchange on 21 August 2015, being the last trading date prior to the date of the Share Subscription Agreement;
- (c) a discount of 12.02% to the average closing price of approximately HK\$3.41 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days up to and including the last trading date prior to the date of the Share Subscription Agreement; and

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- (d) a discount of 13.04% to the average closing price of approximately HK\$3.45 per Share as quoted on the Stock Exchange for the last ten (10) consecutive trading days up to and including the last trading date prior to the date of the Share Subscription Agreement.

We have enquired the management of CITIC Telecom and noted that the Subscription Price was determined after arm's length negotiations between CITIC Telecom and CITIC Group with reference to, among other things, (i) prevailing market prices of the Shares; (ii) the financial performance of the Group; and (iii) the current market conditions.

(i) *Analysis of Share Price*

The following share price chart depicts the share price movement for the twelve months before the last trading date up to and including the Latest Practicable Date (the “**Review Period**”):

**Table 3: Historical share price of CITIC Telecom**



Source: Bloomberg

The chart above depicts the closing prices of shares of CITIC Telecom from 24 August 2014 up to the Latest Practicable Date. During the Review Period, CITIC Telecom's share price had been traded at an average closing price of HK\$3.05. To highlight, CITIC Telecom's share price had greatly benefited from the strong stock market sentiment during April to June as a result of PRC Government's various stimulus policies. However, the stock market experienced a significant downturn for the past 3 months and CITIC Telecom's share price had tumbled significantly to HK\$2.55 as at the Latest Practicable Date.



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After the announcement of the Transactions by CITIC Telecom dated 24 August 2015, the share price reacted positively with an increase of approximately 3.09% to HK\$3.00. However, the share price suffered greatly from the recent collapse of stock market and the share price decreased significantly towards the end of the Review Period. We believe that such fluctuation of share price was mainly due to the weakening economic indications and the overall negative market sentiment, resulting in the bearish stock market performance. Moreover, we also noted that the Subscription Price is only at a slight discount to the average closing price of HK\$3.05 during the Review Period. Moreover, the Subscription Price of HK\$3.00 is favourable to CITIC Telecom and Shareholders as a whole as it represents a premium of approximately 17.65% over its closing price of HK\$2.55 on the Latest Practicable Date.

### *(ii) Comparable Transactions*

In order to assess the reasonableness of the Subscription Price, we have reviewed the exhaustive list of transactions announced by companies listed on the Stock Exchange which the underlying acquisitions involved the issuance of consideration shares and convertible notes/bonds (the “**Comparable Transactions**”).

The Comparable Transactions have been selected exhaustively based on the above criteria, which have been identified, to the best of our endeavours, in our research through public information. We note that the companies involved in the Comparable Transactions are not engaged in similar businesses as the principal business of CITIC Telecom. However, since the Comparable Transactions were transacted at the time close to date of the Acquisition Arrangement under similar market conditions and investment sentiments, we are of the view that the Comparable Transactions, although not to be used in isolation in determining the fairness and reasonableness of the Subscription Price, nevertheless can provide a general reference for the Independent Shareholders as they can reflect recent market trends of terms of transactions involving in issuance of shares as full or partial settlement of consideration.

**Table 4: Comparable Transactions analysis on Subscription Price of consideration shares**

Date of Announcement	Company Name	Ticker	Premium/(discount) of the issue price over/(to) the average closing price of		
			Last trading day prior to/on the date of the relevant announcement	Last 5 consecutive trading days prior to/on the date of the relevant announcement	Last 10 consecutive trading days prior to/on the date of the relevant announcement
27-Feb-15	China Fire Safety Enterprise Group Limited	445 HK	(40.30%)	(39.39%)	(38.46%)
10-Mar-15	Madex International (Holdings) Limited	231 HK	(9.91%)	(9.50%)	(9.50%)
24-Mar-15	China Overseas Land & Investment Ltd.	688 HK	10.80%	14.50%	15.20%
01-Apr-15	China Precious Metal Resources Holdings Co., Ltd.	1194 HK	26.67%	24.59%	35.71%
10-Apr-15	Heritage International Holdings Limited	412 HK	(46.30%)	(18.52%)	1.50%
15-Apr-15	Greater China Holdings Limited	431 HK	(20.15%)	(21.31%)	(8.96%)
24-Apr-15	PetroAsian Energy Holdings Limited	850 HK	29.60%	25.58%	25.58%



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Date of Announcement	Company Name	Ticker	Premium/(discount) of the issue price over/(to) the average closing price of		
			Last trading day prior to/on the date of the relevant announcement	Last 5 consecutive trading days prior to/on the date of the relevant announcement	Last 10 consecutive trading days prior to/on the date of the relevant announcement
28-Apr-15	Tongda Group Holdings Limited	698 HK	(5.29%)	0.00%	1.42%
08-May-15	HC International, Inc.	2280 HK	(23.70%)	(26.34%)	(29.75%)
11-May-15	Skyway Securities Group Limited	1141 HK	(19.35%)	(18.30%)	(17.76%)
15-May-15	Sinoref Holdings Limited	1020 HK	(31.91%)	(23.99%)	(27.27%)
20-May-15	Shunfeng International Clean Energy Limited	1165 HK	4.42%	2.56%	2.36%
09-Jun-15	Renhe Commercial Holdings Company Limited ( <i>Note 1</i> )	1387 HK	(50.00%)	(44.14%)	(32.40%)
17-Jun-15	Huajun Holdings Limited	377 HK	30.84%	47.68%	53.17%
24-Jun-15	Fullshare Holdings Limited	607 HK	(11.18%)	(0.44%)	2.66%
25-Jun-15	Feiyu Technology International Company Ltd.	1022 HK	0.00%	(2.70%)	(5.00%)
10-Jul-15	Beijing Enterprises Medical And Health Industry Group Limited	2389 HK	(2.44%)	14.29%	(6.65%)
16-Jul-15	Blue Sky Power Holdings Limited	6828 HK	0.00%	(1.27%)	0.78%
26-Jul-15	GOME Electrical Appliances Holdings Limited	493 HK	(4.79%)	(3.47%)	1.46%
06-Aug-15	Loudong General Nice Resources (China) Holdings Limited	988 HK	(4.67%)	(3.23%)	(3.59%)
		Maximum	30.84%	47.68%	53.17%
		Minimum	(50.00%)	(44.14%)	(38.46%)
		Average	(8.38%)	(4.17%)	(1.98%)
		Subscription Price	(7.41%)	(12.02%)	(13.04%)

Source: Stock Exchange Website and respective announcements by the relevant listed companies

Note 1: Although the announcement of Renhe Commercial Holdings Company Limited (“**Renhe**”) in relation to acquisition involving issuance of consideration shares was made on 9 June 2015, the last trading date in respective of Renhe comparable transaction was referred to 1 June 2015, being the date when the announcement made pursuant to Rule 13.10 of the Listing Rules was published by Renhe regarding the possible acquisition involving issuance of consideration shares.

As noted in Table 4 above, the subscription prices of the Comparable Transactions are within the range of: (i) a discount of 50.00% to a premium of 30.84% to the respective closing prices of their shares on the last trading days (the “**Market Range I**”) with an average discount of 8.38% (the “**Market Average I**”); (ii) a discount of 44.14% to a premium of 47.68% to the respective average closing prices of their shares on the last five consecutive trading days (the “**Market Range II**”) with an average discount of 4.17% (the “**Market Average II**”); and (iii) a discount of 38.46% to a premium of 53.17% to the average closing prices of their shares on the last ten consecutive trading days (the “**Market Range III**”), with an average discount of 1.98% (the “**Market Average III**”), respectively.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We note that the Subscription Price represents a discount of 7.41% to the closing price of the Shares on the last trading day (the “**Subscription Price Discount I**”), a discount of 12.02% to the average closing price of the Shares on last five consecutive trading days (the “**Subscription Price Discount II**”) and a discount of 13.04% to the average closing price of the Shares on last ten consecutive trading days (the “**Subscription Price Discount III**”).

The Subscription Price Discount I is slightly lower than the Market Average I and the Subscription Price Discount I is within the Market Range I. Meanwhile, each of the Subscription Price Discount II and the Subscription Price Discount III is larger than the Market Average II and the Market Average III and within the Market Range II and Market Range III, respectively. We note that the Subscription Price is generally at a steeper discount than the average of that of the Comparable Transactions but within the range of the Comparable Transactions. We consider this is reasonable as we are of the view that the value-added to CITIC Telecom via the Acquisition will be positive as it opens up a new high-end market, potentially creating a new stream of revenue and allowing CITIC Telecom to maximise the commercial value of the lease or sale of network elements of Type 2 Domestic Telecommunications Licence. Moreover, we believe that the steeper discount is mainly due to the macro factors such as PRC Government’s stimulus policies to the stock market which resulted in CITIC Telecom’s share price fluctuation as discussed in the section headed “*Analysis of Share Price*” in this letter.

Based on the above and having taken into account, (i) the recent movements of the Share price during the Review Period; (ii) the recent Comparable Transactions which evident similar level of discount for similar kinds of transactions; we agree with the Directors’ view that the Subscription Price is fair and reasonable and was reached based on normal commercial terms so far as the Independent Shareholders are concerned and in the interests of CITIC Telecom and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 6. Dilution effect on the shareholding interests of the existing public Shareholders

The following table illustrates the shareholding structure of CITIC Telecom (i) as at the Latest Practicable Date; and (ii) immediately upon the issue of the maximum number of Subscription Shares at Subscription Completion (assuming that (a) the Subscription Consideration equals to the Maximum Consideration of RMB1,287 million (equivalent to approximately HK\$1,562.1 million); (b) there is no change in the number of Shares in issue from the Latest Practicable Date and up to Subscription Completion other than as a result of the allotment and issue of the Subscription Shares), are summarised as follows:

Name of the shareholder	As at the Latest Practicable Date		Immediately after Subscription Completion	
	Number of Shares held	Approximate percentage of number of Shares in issue	Number of Shares held	Approximate percentage of number of Shares in issue
CITIC Group (or its wholly-owned subsidiaries)	—	—	520,713,219	13.35%
CITIC Limited (or its wholly-owned subsidiaries) (Note 1)	1,987,678,508	58.80%	1,987,678,508	50.95%
CITIC Telecom Director (Note 2)	774,262	0.02%	774,262	0.02%
CITIC Telecom Public Shareholders	<u>1,392,243,000</u>	<u>41.18%</u>	<u>1,392,243,000</u>	<u>35.68%</u>
Total	<u>3,380,695,770</u>	<u>100%</u>	<u>3,901,408,989</u>	<u>100%</u>

Notes:

(1) These 1,987,678,508 Shares are held by CITIC Limited via its wholly-owned subsidiaries: (i) Ease Action Investments Corp. as to 1,241,649,869 Shares; (ii) Richtone Enterprises Inc. as to 134,841,139 Shares; and (iii) Silver Log Holdings Ltd. as to 611,187,500 Shares, each of which is a company indirectly wholly owned by CITIC Limited.

(2) These 774,262 Shares are held by Dr. Chan Tin Wai, David, an executive director of CITIC Telecom.

We noted that the shareholding interest of the existing public Shareholders is subject to dilution to the aforementioned extents as a result of the Acquisition. However, with considerations of (i) the reasons for and benefit of entering into the Acquisition Arrangement; (ii) the Proposed Consideration being fair and reasonable to CITIC Telecom and the Shareholders; and (iii) the Subscription Price being fair and reasonable as far as the Independent Shareholders are concerned, we consider the possible dilution effect on the shareholding interests of the existing public Shareholders to be justifiable.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 7. Financial effects of the Acquisition

#### 7.1 *Effect on NAV*

As disclosed in the 2015 Interim Results of CITIC Telecom, the NAV attributable to equity shareholders as at 30 June 2015 was approximately HK\$6,729.6 million. The Subscription Price of HK\$3.00 per Subscription Share represents a premium of approximately 50.75% to the NAV per Share of approximately HK\$1.99 as at 30 June 2015. Based on the discussion with management of CITIC Telecom, we understand that the asset value of CITIC Telecom will increase by approximately the value of the Final Consideration upon the Completion of the Acquisition and Share Subscription.

Since the NAV per Share is expected to increase after the Acquisition Completion, we are of the view that the Acquisition will have a positive impact on NAV of the Group.

#### 7.2 *Effect on earnings and earnings per Share*

As disclosed in the 2014 Annual Report of CITIC Telecom, net profit attributable to Shareholders for FY2014 was approximately HK\$723.7 million. As discussed in the section headed “*Reasons for and benefits of entering into of the Acquisition Arrangement*” in this letter, it is expected that the Acquisition will contribute to the earnings of CITIC Telecom.

As a result, we are of the view that the Acquisition will have a potential positive impact on the earnings and earnings per Share of CITIC Telecom.

#### 7.3 *Effect on gearing*

As stated in the letter from the Board in the Circular, CITIC Telecom intends to finance the payment of the Final Consideration out of its internal resources and/or from the proceeds raised through the Share Subscription of not more than 520,713,219 Subscription Shares at the Subscription Price of HK\$3.00 per Subscription Share. In addition, the gearing level of the Group (calculated by dividing net debt divided by the total capital) was approximately 48% as at 30 June 2015, down from 50% as at 31 December 2014.

Based on the above, Acquisition will not have a significant impact on CITIC Telecom’s gearing. As such, we consider that the Transactions will not have any significant impact on the gearing position of CITIC Telecom following the Completion of the Acquisition and Share Subscription.

#### 7.4 *Effect on cash/working capital*

As disclosed in the 2015 Interim Results of CITIC Telecom, CITIC Telecom had current assets of approximately HK\$4,015.9 million including cash and bank deposits of approximately HK\$1,944.8 million and current liabilities of approximately HK\$2,485.6 million. Given the Final Consideration will be financed by its internal resources and/or from the proceeds raised through the Share Subscription of not more than 520,713,219 Subscription Shares at the Subscription Price of HK\$3.00 per Subscription Share, we consider that there will be no material impact on the cash/working capital of CITIC Telecom following the Completion of the Acquisition and Share Subscription.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In view of (i) positive impact on the NAV to CITIC Telecom; (ii) positive impact on the earnings to CITIC Telecom; (iii) no significant impact on gearing, and (iv) no material impact on cash/working capital, we are of the view that the Transactions will have an overall positive financial effect on CITIC Telecom in the long run and be in the interest of CITIC Telecom and its Shareholders as a whole.

### RECOMMENDATION

Having taken into account the above principal factors and reasons, in particular,

- i) it is in the interests of CITIC Telecom and the Shareholders to enter into the Acquisition Arrangement as it allows CITIC Telecom to maximise the commercial value of the lease or sale of network elements of Type 2 Telecommunications Licence, enabling CITIC Telecom to enter into more profitable and high growth market segment with low CAPEX requirement in the early stage of business development;
- ii) the Proposed Consideration being fair and reasonable to CITIC Telecom and the Shareholders;
- iii) the Subscription Price being fair and reasonable as far as the Independent Shareholders are concerned;
- iv) the Transactions will have a positive financial effect and are in the interests of CITIC Telecom and the Independent Shareholders as a whole; and

we are of the view that the Transactions is not in the ordinary and usual course of business but the terms of the respective agreements for the Transactions are entered into on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of CITIC Telecom and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend the Independent Shareholders to vote in favour of the resolutions in relation to the Transactions to be proposed at the EGM.

Yours faithfully,  
For and on behalf of  
**Platinum Securities Company Limited**

**Li Lan**  
*Director and Co-Head of Corporate Finance*

*Mr. Li Lan is a licensed person registered with the Securities and Futures Commission and as a responsible officer of Platinum Securities Company Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and has over nine years of experience in corporate finance industry.*

**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 Company. 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 OF DIRECTORS AND CHIEF EXECUTIVE**

As at the Latest Practicable Date, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which (a) were required 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 SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

**(a) Interest in Shares of the Company**

Name of Director	Number of Shares		Percentage to the number of Shares in issue (%)
	Personal interests		
David Chan Tin Wai	774,262		0.02

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

Name of Director	Date of grant	Exercise price per Share (HK\$)	Exercisable period	Underlying shares pursuant to share options	Percentage to the number of Shares in issue (%)
Xin Yue Jiang	17.9.2009	1.91	17.9.2011-16.9.2016	991,945	0.322
	19.8.2011	1.40	19.8.2012-18.8.2017	1,377,701	
	19.8.2011	1.40	19.8.2013-18.8.2018	1,377,701	
	26.6.2013	2.25	26.6.2013-25.6.2018	3,575,000	
	24.3.2015	2.612	24.3.2016-23.3.2021	1,787,500	
	24.3.2015	2.612	24.3.2017-23.3.2022	1,787,500	
				10,897,347	

**APPENDIX**
**GENERAL INFORMATION**

Name of Director	Date of grant	Exercise price per Share (HK\$)	Exercisable period	Underlying shares pursuant to share options	Percentage to the number of Shares in issue (%)
Lin Zhenhui	24.3.2015	2.612	24.3.2016-23.3.2021	1,573,000	0.093
	24.3.2015	2.612	24.3.2017-23.3.2022	1,573,000	
				<u>3,146,000</u>	
Luo Ning	26.6.2013	2.25	26.6.2013-25.6.2018	400,000	0.041
	24.3.2015	2.612	24.3.2016-23.3.2021	500,000	
	24.3.2015	2.612	24.3.2017-23.3.2022	500,000	
				<u>1,400,000</u>	
David Chan Tin Wai	17.9.2009	1.91	17.9.2011-16.9.2016	771,513	0.246
	19.8.2011	1.40	19.8.2012-18.8.2017	1,047,052	
	19.8.2011	1.40	19.8.2013-18.8.2018	1,047,053	
	26.6.2013	2.25	26.6.2013-25.6.2018	2,717,000	
	24.3.2015	2.612	24.3.2016-23.3.2021	1,358,500	
	24.3.2015	2.612	24.3.2017-23.3.2022	1,358,500	
				<u>8,299,618</u>	
Liu Jifu	24.3.2015	2.612	24.3.2016-23.3.2021	1,000,000	0.059
	24.3.2015	2.612	24.3.2017-23.3.2022	1,000,000	
				<u>2,000,000</u>	
Liu Li Qing	24.3.2015	2.612	24.3.2016-23.3.2021	200,000	0.012
	24.3.2015	2.612	24.3.2017-23.3.2022	200,000	
				<u>400,000</u>	
Gordon Kwong	26.6.2013	2.25	26.6.2013-25.6.2018	400,000	0.024
Che Keung	24.3.2015	2.612	24.3.2016-23.3.2021	200,000	
	24.3.2015	2.612	24.3.2017-23.3.2022	200,000	
				<u>800,000</u>	
Zuo Xunsheng	24.3.2015	2.612	24.3.2016-23.3.2021	200,000	0.012
	24.3.2015	2.612	24.3.2017-23.3.2022	200,000	
				<u>400,000</u>	

**(c) Interest in shares of CITIC Limited**

Name of Director	Number of shares			Percentage to the number of shares in issue (%)
	Personal interests	Corporate interests	Total	
David Chan Tin Wai	40,000	—	40,000	0.0001
Liu Jifu	840,000	—	840,000	0.0029
Gordon Kwong Che Keung	20,000	50,000	70,000	0.0002

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

Name of Director	Number of shares		Percentage to the number of shares in issue (%)
	Personal interests		
David Chan Tin Wai	5,279		0.0003

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

Name of Director	Class of shares	Number of shares		Percentage to the number of shares in issue (%)
		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 or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required 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 they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.



**(f) Directors' positions in substantial shareholders**

As at the Latest Practicable Date, amongst others, each of CITIC Group, CITIC Limited, CITIC Corporation Limited, CITIC Investment (HK) Limited, Silver Log Holdings Ltd., CITIC Polaris Limited, CITIC Glory Limited, CITIC Pacific, Crown Base International Limited, Effectual Holdings Corp., CITIC Pacific Communications Limited, Douro Holdings Inc., Ferretti Holdings Corp., Ease Action Investments Corp., Peganin Corp., Richtone Enterprises Inc. and FIL Limited is a substantial shareholder disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

As at the Latest Practicable Date, Mr. Luo Ning is an assistant president of CITIC Limited and Mr. Liu Jifu is a director of CITIC Pacific. Save as disclosed above, as at the Latest Practicable Date, none of the Directors is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

**(g) Other interests of the Directors**

As at the Latest Practicable Date, there was no contract or arrangement subsisting in which any of the Directors was materially interested and which was significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had since 31 December 2014 (being the date to which the latest published audited accounts of the Company were made up) been acquired or disposed of by or leased to or were proposed to be acquired or disposed of by or leased to any member of the Group.

**3. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any service contract or a proposed service contract with any member of the Group which is not expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation).

**4. 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 2014, the date to which the latest published audited accounts of the Company were made up.

## 5. COMPETING INTERESTS OF DIRECTORS

As at the Latest Practicable Date, the interests of the Director in the businesses (other than those businesses where the Director was appointed as director to represent the interests of the Company and/or member of the Group) which are considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group were as follows:

Mr. Luo Ning, an executive director of the Company, is a vice chairman of CITIC Guoan Group and the chairman of CITIC Networks.

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

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

Save as disclosed above, the Company had not been notified of any other relationship among the directors, senior management or substantial or controlling shareholders of the Company.

As the Board operates independently of the boards of these companies, the Group operates its business independently of, and at arm's length from, the business of these companies.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors and their respective close associates had any interest in a business apart from the Group's business, which competes or is likely to compete directly or indirectly, with the Group's business and would require disclosure under Rule 8.10 of the Listing Rules.

## 6. EXPERT AND CONSENT

The following is the qualification of the expert who has given its opinion and advice dated 2 October 2015, which is contained in this circular:

<b>Name</b>	<b>Qualification</b>
Platinum Securities	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO.

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

**7. EXPERT'S INTEREST**

Platinum Securities has confirmed that, as at the Latest Practicable Date:

- (a) it did not have any shareholding, directly or indirectly, in any member of the Group or 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
- (b) it did not have any direct or indirect interest in any assets which had since 31 December 2014 (being the date to which the latest published audited accounts of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

**8. GENERAL**

The English text of this circular and the accompanying form of proxy shall prevail over the Chinese text.

**9. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during business hours at the office of the Company at 25th Floor, CITIC Telecom Tower, 93 Kwai Fuk Road, Kwai Chung, New Territories, Hong Kong from the date of this circular up to and including 23 October 2015 (except Saturdays and Sundays) and will be available for inspection at the EGM:

- (a) the Acquisition Arrangement;
- (b) the Share Subscription Agreement;
- (c) the letter from the Independent Board Committee, the text of which is set out in the section headed "Letter from the Independent Board Committee" of this circular;
- (d) the letter from Platinum Securities, the text of which is set out in the section headed "Letter from the Independent Financial Adviser" of this circular; and
- (e) the written consent of the expert referred to in the paragraph headed "6. Expert and Consent" in this Appendix.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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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)**

## NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the extraordinary general meeting of the shareholders of **CITIC Telecom International Holdings Limited** (the “**Company**”) will be held at JW Marriott Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on 23 October 2015 at 10:30 a.m. for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolutions as ordinary resolutions of the Company:

### ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) the Acquisition Arrangement (as defined in the circular of the Company dated 2 October 2015 (the “**Circular**”) of which this notice forms part) (a copy of which is tabled at the meeting and marked “A” and initialled by the chairman of the meeting for identification purpose), the form and substance thereof and all the transactions contemplated thereby be and are hereby approved and confirmed; and
- (b) the chairman or 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 on) any such other documents, instruments and agreements and to do any such acts or things deemed by them to be incidental to, ancillary to or in connection with the matters contemplated under the Acquisition Arrangement.”

2. “**THAT:**

subject to passing of the ordinary resolution no. 1 above:

- (a) the Share Subscription Agreement (as defined in the Circular) (a copy of which is tabled at the meeting and marked “B” and initialled by the chairman of the meeting for identification purpose), the form and substance thereof and all the transactions contemplated thereby be and are hereby approved and confirmed;
- (b) conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, up to 520,713,219 ordinary shares (the “**Subscription Share(s)**”) at the subscription price of HK\$3.00 per Subscription Share (the

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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“**Subscription Price**”), the directors of the Company be and are hereby authorised to exercise the power of the Company to allot and issue the Subscription Shares at the Subscription Price pursuant to the terms and conditions of the Share Subscription Agreement; and

- (c) the chairman or 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 on) any such other documents, instruments and agreements and to do any such acts or things deemed by them to be incidental to, ancillary to or in connection with the matters contemplated in the Share Subscription Agreement, including but not limited to the allotment and issue of the Subscription Shares.”

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

Hong Kong, 2 October 2015

*Registered office:*

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

*Notes:*

1. A form of proxy for use at the meeting is enclosed herewith.
2. Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company.
3. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his/her attorney duly authorised in writing or, if the appointor is a corporation, either under its common seal or under the hand of an officer, attorney or other person authorised to sign the same.
4. In order to be valid, the form of proxy, together with the power of attorney (if any) or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, 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, as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof (as the case may be).
5. Where there are joint registered holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the meeting, whether in person or by proxy, the joint registered holders present whose name stands first on the register of members in respect of the shares shall be accepted to the exclusion of the votes of the other registered holders.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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6. Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting or at any adjourned meeting thereof (as the case may be) should they so wish, and in such event, the form of proxy shall be deemed to be revoked.
  
7. The register of members of the Company will be closed, for the purpose of determining the identity of members who are entitled to attend and vote at the meeting, from Thursday, 22 October 2015 to Friday, 23 October 2015, both days inclusive, during which period no transfers of shares will be effected. In order to be eligible to attend and vote at the meeting, all properly completed and duly stamped transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 20 October 2015.