Group Capital Resources and Other Information

Treasury Management

The Group's primary treasury and funding policies focus on liquidity management maintaining optimal level of liquidity with cost efficient funding of the operations of its subsidiaries. The treasury function operates as a centralised service for managing the Group's funding needs and monitoring the Group's financial risk, including interest rate and foreign exchange risks, and default credit risks.

The Group cautiously plans to use derivatives, principally interest rate and foreign currency swaps and forward currency contracts as appropriate for risk management purposes only, for hedging transactions and for managing the Group's assets and liabilities. It is the Group's policy not to enter into derivative transactions and invest in financial products, including hedge funds or similar vehicles for speculative purposes.

Cash Management and Funding

In general, financings are raised mainly in bank borrowings to meet the funding requirements of the Group's operating subsidiaries. The Group regularly and closely monitors its overall debt position and reviews its funding costs and maturity profile to facilitate refinancing.

Interest Rate Exposure

The Group exposes to interest rate risk relating to Hong Kong dollars borrowings. The Group manages its interest rate exposure with a focus on reducing its overall cost of debt including exposure to changes in interest rates.

Foreign Currency Exposure

The Group mainly operates telecommunications services in Hong Kong and Macau with transactions denominated in Hong Kong dollars and Macau Pataca. The Group is exposed to other currency exposures, primarily with certain trade receivables/payables and bank deposits denominated in United States dollars and Euro.

Credit Exposure

The Group operates a central cash management system for all of its subsidiaries. Surplus funds are to be managed in a prudent manner, usually in the form of deposits with banks or financial institutions attaining a minimum credit rating of AA-/Aa3 as rated by Standard & Poor's and Moody's to manage counterparty risk, any deviation of such rating is to be approved by senior management. Alternatively, surplus funds can be invested in marketable securities such as United States Treasury Bills or Commercial Papers/Certificates of Deposits issued by credit-worthy counterparties with short term ratings at or above A1/P1 and longterms ratings at or above AA-/Aa3 as rated by Standard & Poor's and Moody's. The selected counterparties and investment products must be approved by the Company's Chief Financial Officer.

The Group is also exposed to counterparties credit risk from its operating activities, which is continuously monitored by management.

Liquidity and Debt Profile

The cash and cash equivalents amounted to HK$268 million at 31 December 2009 (2008: HK$272 million), 78% of which were denominated in Hong Kong dollars, 15% in United States dollars with remaining in various other currencies. As at 31 December 2009, the Group had bank borrowings of HK$4,358 million (2008: HK$5,220 million) which was denominated in Hong Kong dollars and repayable in three years. The gearing ratio, calculated based on the net debt divided by total shareholders' equity, was 44% as at 31 December 2009.

Cash Flows

The Group maintains a healthy financial position benefiting from steady growth in cash flows. During the year ended 31 December 2009, the Group's net cash generated from operating activities and used in investing activities amounted to HK$2,153 million (2008: HK$1,694 million) and HK$1,202 million (2008: HK$904 million) respectively. The Group's major outflows of funds during the year under review included payments for the purchase of property, plant and equipment, repayment of borrowings and the investment in a jointly-controlled entity, which holds the Broadband Wireless Access ("BWA") spectrum licence.

Capital Structure

On 3 August 2007, the date of incorporation of the Company, the authorised share capital of the Company was US$50,000 divided into 50,000 shares of US$1 each. On the date of incorporation, one share was issued at par for cash. On 6 April 2009, the Company's authorised share capital was increased by HK$2,500 million by the creation of 10 billion shares of HK$0.25 each. 32 shares of HK$0.25 each were issued at par for cash to Hutchison Telecommunications International (Cayman) Holdings Limited ("HTI Cayman"). On the same date, the original issued one share of US$1 was repurchased by the Company at par for cancellation; and all the unissued shares of US$1 each in the Company's original authorised share capital of US$50,000 were cancelled. On 6 April 2009, the Company entered into an agreement with HTI Cayman that, subject to the approval of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the spin-off of the Company and the Listing Committee of the Stock Exchange granting approval for the listing of the shares of the Company on the Main Board of the Stock Exchange, 4,814,346,176 shares of the Company would be allotted and issued, credited as fully paid, to HTI Cayman as consideration for the capitalisation of the payable to HTI Cayman amounting to approximately HK$12,418 million. The above conditions were fulfilled and the aforesaid shares were issued on 7 May 2009. As a result, HK$1,204 million and HK$11,214 million were recognised as share capital and share premium during the year ended 31 December 2009, respectively.

Charges on Group Assets

As at 31 December 2009, none of the Group's assets is under financial charges.

Capital Expenditure

Capital expenditure on property, plant and equipment for the year of 2009 was HK$1,035 million, compared to HK$1,108 million in 2008, reflecting our continued investment in network upgrade and expansion to support business growth.

Contingent Liabilities

As at 31 December 2009, the Group had contingent liabilities in respect of performance guarantees amounting to HK$637 million (2008: HK$512 million) and financial guarantees amounted to HK$16 million (2008: HK$39 million). Included in contingent liabilities were mainly performance bonds issued to the Office of the Telecommunications Authority of Hong Kong in respect of our 3G and BWA spectrum licence obligations.