

Group Capital Resources and Other Information

Treasury Management

The primary treasury and funding policies of the Group focus on liquidity management and maintaining an optimum level of liquidity, while funding subsidiary operations in a cost-efficient manner. Operating as a centralised service, the treasury function manages group funding needs and monitors financial risks, such as those relating to interest and foreign exchange rates, as well as counterparty risks.

The Group cautiously plans to use derivatives - principally interest rate and foreign currency swaps plus forward currency contracts, as appropriate for risk management purposes only - for hedging transactions and managing group assets and liabilities. Our policy is not to enter into derivative transactions and invest in financial products, such as hedge funds or similar vehicles, as part of any speculative exercise.

Cash management and funding

In general, financing is raised mainly in the form of bank borrowings to meet the funding requirements of the operating subsidiaries of the Group. Close monitoring of the overall debt position of the Group involves regular reviews of funding costs and maturity profile in order to facilitate refinancing.

Interest rate exposure

The Group is exposed to interest rate changes that affect Hong Kong dollar borrowings. The Group manages its interest rate exposure with a focus on reducing its overall cost of debt.

Foreign currency exposure

The Group runs telecommunications operations in Hong Kong and Macau, with transactions denominated in Hong Kong dollars and Macau Patacas. The Group is exposed to other currency movements, primarily in terms of certain trade receivables/payables and bank deposits denominated in United States dollars and Euros.

Credit exposure

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

The Group is also exposed to counterparty credit risks in relation to operating activities, which are continuously monitored by management.

Liquidity and Capital Resources

The Group is financed by share capital, internally-generated funds and external borrowings. 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 authorised share capital of the Company was increased by HK\$2,500 million by the creation of 10 billion shares of HK\$0.25 each. Then, 32 shares of HK\$0.25 each were issued at par for cash to Hutchison Telecommunications International (Cayman) Holdings Limited ("HTI Cayman"), the then immediate holding company of the Company. On the same date, the original issued one share of US\$1 was repurchased by the Company at par for cancellation, and all unissued shares of US\$1 each in original authorised share capital of the Company of US\$50,000 were cancelled.

On 6 April 2009, the Company entered into an agreement with HTI Cayman that, subject to approval of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the spin-off of the Company, as well as approval from the Listing Committee of the Stock Exchange for the listing of shares of the Company on the Main Board of the Stock Exchange, 4,814,346,176 shares of HK\$0.25 each of the Company would be allotted and issued, credited as fully paid, to HTI Cayman as consideration for the capitalisation of the amount payable to HTI Cayman of approximately HK\$12,418 million. The above conditions were met and the aforesaid shares were issued on 7 May 2009.

During the year ended 31 December 2010, an additional 1,410,000 shares of HK\$0.25 each were issued upon exercise of share options under the share option scheme of the Company. As at 31 December 2010, the Group recorded share capital of HK\$1,204 million and total equity of HK\$9,802 million.

The cash and cash equivalents amounted to HK\$180 million as at 31 December 2010 (2009: HK\$268 million), 43% of which were denominated in Hong Kong dollars, 23% in United States dollars with remaining in various other currencies. As at 31 December 2010, the Group had bank borrowings of HK\$3,566 million (2009: HK\$4,358 million) which were denominated in Hong Kong dollars and repayable in late 2012. The gearing ratio, calculated by dividing net debt by total equity, was 35% as at 31 December 2010 (2009: 44%).

Cash Flows

The Group maintains a healthy financial position benefiting from steady growth in cash flows. During the year ended 31 December 2010, the Group's net cash generated from operating activities and used in investing activities amounted to HK\$2,296 million (2009: HK\$2,153 million) and HK\$1,128 million (2009: HK\$1,202 million) respectively. Major outflows of funds during 2010 included payments for the purchase of property, plant and equipment and dividends, as well as repayment of borrowings.

Charges on Group Assets

As at 31 December 2010, except for certain shares of a 50:50 joint venture owned by the Group which were pledged as security in favour of another joint venture partner under a cross share pledge arrangement, no material assets of the Group was under any charge.

Capital Expenditure

Capital expenditure on property, plant and equipment for the year of 2010 was HK\$1,119 million, compared to HK\$1,035 million in 2009, reflecting our continued investment in network upgrade and expansion to support business growth.

Contingent Liabilities

As at 31 December 2010, the Group had contingent liabilities in respect of performance guarantees and financial guarantees amounting to HK\$704 million (2009: HK\$653 million). Included in these contingent liabilities were mainly performance bonds issued to the Office of the Telecommunications Authority of Hong Kong in respect of our 3G and Broadband Wireless Access spectrum licence obligations.