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. The treasury function of the Group operates as a centralised service for managing group funding needs and monitoring 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. It is the policy of the Group not to enter into derivative transactions or 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 US dollars and Euro.

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 risks. 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. During the year ended 31 December 2011, an additional 2,250,000 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 2011, the Group recorded share capital of HK$1,205 million and total equity of HK$10,413 million.

The cash and cash equivalents amounted to HK$182 million as at 31 December 2011 (2010: HK$180 million), 63% of which were denominated in Hong Kong dollars, 10% in US dollars with remaining in various other currencies. As at 31 December 2011, the Group had bank borrowings of HK$3,853 million (2010: HK$3,566 million) which were denominated in Hong Kong dollars and repayable in late 2012. Subsequent to year end, the Group has obtained a short-term bridge loan facility of HK$500 million and has received various refinancing offers from a number of financial institutions and is in the process of considering and evaluating these offers in the best interests of its shareholders. The gearing ratio, calculated by dividing net debt by total equity, was 35% as at 31 December 2011 (2010: 35%).

Cash Flows

The Group maintains a healthy financial position, benefiting from steady growth in operating cash flows. During the year ended 31 December 2011, net cash generated from operating activities and used in investing activities of the Group amounted to HK$2,590 million (2010: HK$2,296 million) and HK$2,292 million (2010: HK$1,128 million) respectively. Major net outflows of funds during 2011 included payments for the additions to property, plant and equipment, spectrum utilisation fee for a block of radio spectrum acquired and dividends.

Charges on Group Assets

As at 31 December 2011, 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 ended 31 December 2011 was HK$1,148 million, compared to HK$1,119 million in 2010, reflecting our continued investment in network upgrade and expansion to support business growth.

Acquisition of Radio Spectrum

During the year ended 31 December 2011, the Group acquired a block of radio spectrum in the 900MHz band with a cost of HK$1,080 million for the provision of mobile telecommunications services in Hong Kong for a period of 15 years.

Contingent Liabilities

As at 31 December 2011, the Group had contingent liabilities in respect of performance guarantees and financial guarantees amounting to HK$810 million (2010: HK$704 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 spectrum licence obligations.

Capital Commitments

As at 31 December 2011, the Group had total capital commitments of property, plant and equipment, radio spectrum and investments in jointly controlled entities amounting to HK$2,204 million (2010: HK$1,388 million).