

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 uses interest rate and foreign currency swaps and forward currency contracts as appropriate for risk management purposes only, for hedging transactions and managing the assets and liabilities of the Group. 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 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. The Group's holding of surplus funds are managed in a prudent manner, usually in the form of deposits with banks or financial institutions, which exposes the Group to credit risk of counterparties. The Group controls its credit risk to non-performance by its counterparties through monitoring their equity share price movements, credit ratings and setting approved counterparty credit limits that are regularly reviewed.

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 2012, an additional 890,000 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 2012, the Group recorded share capital of HK\$1,205 million and total equity of HK\$11,091 million.

The cash and cash equivalents amounted to HK\$182 million as at 31 December 2012 (2011: HK\$182 million), 39% of which were denominated in Hong Kong dollars, 30% in United States dollars, 11% in Renminbi with remaining in various other currencies. As at 31 December 2012, the Group had bank borrowings of HK\$3,746 million (2011: HK\$3,853 million) which were denominated in Hong Kong dollars and repayable in June 2015 (2011: repayable in December 2012). During the year ended 31 December 2012, the Group completed a refinancing of its credit facilities. Previous facilities have been replaced with a revolving and term credit facility of HK\$5,500 million, available from a group of international commercial banks up to 14 June 2015. The gearing ratio, calculated by dividing net debt by net total capital, was 24% (2011: 26%) as at 31 December 2012 as a result of repayment of borrowings.

Cash Flows

The Group maintains a healthy financial position, benefiting from solid operating cash inflows. During the year ended 31 December 2012, net cash generated from operating activities and used in investing activities of the Group amounted to HK\$2,888 million (2011: HK\$2,590 million) and HK\$1,945 million (2011: HK\$2,292 million) respectively. Major outflow of funds during 2012 included payments for capital expenditure, spectrum utilisation fee for a block of radio spectrum acquired, investments in jointly controlled entities, repayment of borrowings and dividends.

Charges on Group Assets

As at 31 December 2012, except for all of the shares of a jointly controlled entity owned by the Group which were pledged as security in favour of the jointly controlled entity partner under a cross share pledge arrangement, no material asset of the Group was under any charge.

Capital Expenditure

Capital expenditure on property, plant and equipment for the year ended 31 December 2012 was HK\$1,604 million (2011: HK\$1,148 million), of which mobile and fixed-line businesses accounted for HK\$879 million (2011: HK\$619 million) and HK\$725 million (2011: HK\$529 million) respectively, reflecting our continued investment in network modernisation and expansion to support long-term business growth.

Acquisition of Radio Spectrum

During the year ended 31 December 2012, the Group acquired a block of radio spectrum in the 2300MHz band with a consideration of HK\$150 million for the provision of mobile telecommunications services in Hong Kong for a period of 15 years.

On 19 March 2013, Genius Brand Limited, a jointly controlled entity that the Group has 50% interest, successfully bid for a block of 10MHz spectrum in the 2500/2600MHz band for the provision of mobile telecommunications services in Hong Kong for a period of 15 years.

Contingent Liabilities

As at 31 December 2012, the Group had contingent liabilities in respect of performance guarantees and financial guarantees amounting to HK\$847 million (2011: HK\$810 million). Included in these contingent liabilities were mainly performance bonds issued to the Office of the Communications Authority of Hong Kong in respect of our spectrum licence obligations.

Capital Commitments

As at 31 December 2012, the Group had total capital commitments of property, plant and equipment, radio spectrum and investments in jointly controlled entities amounting to HK\$2,051 million (2011: HK\$2,204 million).

Past Performance and Forward Looking Statements

The performance and the results of operations of the Group contained within this annual report are historical in nature, and past performance is no guarantee of the future results of the Group. Any forward-looking statements and opinions contained within this annual report are based on current plans, estimates and projections, and therefore involve risks and uncertainties. Actual results may differ materially from expectations discussed in such forward-looking statements and opinions. The Group, the Directors, employees and agents of the Group assume (a) no obligation to correct or update the forward-looking statements or opinions contained in this annual report; and (b) no liability in the event that any of the forward-looking statements or opinions do not materialise or turn out to be incorrect.