

# 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 which are at floating rates. 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 or payables and bank deposits denominated in United States dollars, Euros and British pounds.

## 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. As at 31 December 2013, the Group recorded share capital of HK\$1,205 million and total equity of HK\$11,336 million.

The cash and cash equivalents amounted to HK\$209 million as at 31 December 2013 (2012: HK\$182 million), 62% of which were denominated in Hong Kong dollars, 10% in Renminbi, 9% in United States dollars, 9% in Macau Patacas with remaining in various other currencies. As at 31 December 2013, the Group had bank borrowings of HK\$4,571 million (2012: HK\$3,746 million) which were denominated in Hong Kong dollars and repayable in June 2015. The gearing ratio, calculated by dividing net debt by net total capital, was 28% (2012: 24%) as at 31 December 2013, while the net debt to EBITDA was 1.6 times (2012: 1.2 times) as a result of net increase in borrowings of HK\$800 million.

## Cash Flows

The Group maintains a healthy financial position, benefiting from solid operating cash inflows. During the year ended 31 December 2013, net cash generated from operating activities and used in investing activities of the Group amounted to HK\$1,735 million (2012: HK\$2,888 million) and HK\$1,571 million (2012: HK\$1,945 million) respectively. Other than operating activities, major net outflow of funds under investing and financing activities during 2013 included payments for capital expenditure, investments in joint ventures for acquisition of radio spectrum and dividends.

## Charges on Group Assets

As at 31 December 2013, same as prior year, except for all of the shares of a joint venture owned by the Group which were pledged as security in favour of the joint venture 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 2013 was HK\$1,280 million (2012: HK\$1,604 million), of which mobile and fixed-line businesses accounted for HK\$657 million (2012: HK\$879 million) and HK\$623 million (2012: HK\$725 million) respectively, reflecting our continued disciplined investment in network modernisation and expansion to support long-term business growth while implementing efficient cost management.

## Acquisition of Radio Spectrum

During the year ended 31 December 2013, a joint venture that the Group has 50% interest, acquired a block of 10MHz spectrum in the 2600MHz band with a consideration of HK\$290 million for the provision of mobile telecommunications services in Hong Kong for a period of 15 years.

## Contingent Liabilities

As at 31 December 2013, the Group had contingent liabilities in respect of performance guarantees and financial guarantees amounting to HK\$649 million (2012: HK\$847 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 2013, the Group had total capital commitments of property, plant and equipment and investments in joint ventures amounting to HK\$1,626 million (2012: HK\$2,051 million).