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.

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, 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 valued at 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 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 from 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 Company shares 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 six months ended 30 June 2010, an additional 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 30 June 2010, the Group recorded share capital of HK$1,204 million and total equity of HK$9,472 million. The cash and cash equivalents amounted to HK$173 million as at 30 June 2010 (31 December 2009: HK$268 million), 61% of which were denominated in Hong Kong dollars, 16% in United States dollars and the remainder in various other currencies. As at 30 June 2010, the Group recorded bank borrowings of HK$3,702 million (31 December 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 shareholders' equity, was 37% as at 30 June 2010 (31 December 2009: 44%).

Cash Flows

The Group maintains a healthy financial position, benefiting from steady growth in cash flows. During the six months ended 30 June 2010, net cash generated from operating activities and used in investing activities amounted to HK$1,353 million and HK$491 million respectively (30 June 2009: HK$1,164 million and HK$702 million respectively). Major outflow of funds during the period under review included payments for the purchase of property, plant and equipment and final dividend, as well as repayment of borrowings.

Charges on Group Assets

As at 30 June 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, none of the assets of the Group was under any charge.

Capital Expenditure

Capital expenditure on property, plant and equipment for the first six months of 2010 was HK$488 million, compared to HK$560 million in the same period of 2009, mainly incurred for the network upgrades and expansion to support business growth.

Contingent Liabilities

As at 30 June 2010, the Group had contingent liabilities in respect of performance guarantees amounting to HK$641 million (31 December 2009: HK$637 million) and financial guarantees amounting to HK$13 million (31 December 2009: HK$16 million), which mainly represented 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.

Staff

As at 30 June 2010, the Group and subsidiaries employed 1,730 staff members. Related costs during the six-month period ended 30 June 2010, including directors' emoluments, totalled HK$314 million (30 June 2009: HK$310 million).

The Group fully recognises the importance of high-quality human resource in sustaining market leadership. Salary and benefits are kept at competitive levels, while individual performance is rewarded within the general framework of the salary, bonus and incentive system of the Group, which is reviewed annually. Employees are provided with a wide range of benefits that include medical coverage, provident funds, retirement plans, long-service awards and share option plan. The Group places strong emphasis on staff development and provided training programmes on an ongoing process throughout the period. Employees are also encouraged to play an active role in community care activities arranged by the Group.

Corporate Social Responsibility

The Group demonstrates a strong sense of corporate social responsibility and believes such a commitment to the community helps to differentiate our brand among competitors. We promote our Group as a sound corporate citizen via sponsorship and marketing campaigns to help those less fortunate and in need of care. During the period under review, for example, we launched special telephony plans for the elderly that included a tailored handset with bargain-price tariff plans.

Purchase, Sale or Redemption of the Listed Securities of the Company

During the six months ended 30 June 2010, neither the Company nor any of its subsidiaries has purchased or sold any of the listed securities of the Company. In addition, the Company has not redeemed any of its listed securities during the period.

Closure of Register of Members

The register of members of the Company will be closed from Friday, 20 August 2010 to Tuesday, 24 August 2010, both days inclusive. In order to qualify for the interim dividend payable on Thursday, 2 September 2010, all transfers, accompanied by the relevant share certificates, must be lodged with the Hong Kong Share Registrar of the Company, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 pm on Thursday, 19 August 2010.