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. During the six months ended 30 June 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 30 June 2011, the Group recorded share capital of HK$1,205 million and total equity of HK$10,076 million.

The cash and cash equivalents amounted to HK$220 million as at 30 June 2011 (31 December 2010: HK$180 million), 47% of which were denominated in Hong Kong dollars, 11% in United States dollars with remaining in various other currencies. As at 30 June 2011, the Group had bank borrowings of HK$3,929 million (31 December 2010: HK$3,566 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 37% as at 30 June 2011 (31 December 2010: 35%).

Cash Flows

The Group maintains a healthy financial position, benefiting from steady growth in operating cash flows. During the six months ended 30 June 2011, net cash generated from operating activities and used in investing activities of the Group amounted to HK$1,578 million (30 June 2010: HK$1,353 million) and HK$1,571 million (30 June 2010: HK$491 million) respectively. Major net outflows of funds during the period under review included payments for the purchases of property, plant and equipment, spectrum utilisation fee to the Office of the Telecommunications Authority of Hong Kong (the "OFTA") and final dividend for the year 2010.

Charges on Group Assets

As at 30 June 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 first six months of 2011 was HK$464 million, compared to HK$488 million in the same period of 2010, reflecting our continued investment in network upgrade and expansion to support business growth.

Acquisition of Radio Spectrum

During the period under review, the Group acquired the 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 30 June 2011, the Group had contingent liabilities in respect of performance guarantees and financial guarantees amounting to HK$754 million (31 December 2010: HK$704 million). Included in these contingent liabilities were mainly performance bonds issued to the OFTA in respect of our 3G and Broadband Wireless Access spectrum licence obligations.

Staff

As at 30 June 2011, the Group employed 1,722 full-time staff members. Staff costs during the six months ended 30 June 2011, including directors' emoluments, totalled HK$307 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 a share option plan. The Group stresses the importance of staff development and provides training programmes on an ongoing basis. 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 differentiate our brand among competitors. We promote our Group as a sound corporate citizen, via sponsorship and marketing campaigns, committed to helping those less fortunate and in need of care.

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

During the six months ended 30 June 2011, 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 Monday, 29 August 2011 to Monday, 5 September 2011, both days inclusive. In order to qualify for the interim dividend payable on Tuesday, 6 September 2011, 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 Friday, 26 August 2011.