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 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 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 six months ended 30 June 2012, an additional 650,000 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 2012, the Group recorded share capital of HK$1,205 million and total equity of HK$10,602 million.

The cash and cash equivalents amounted to HK$224 million as at 30 June 2012 (31 December 2011: HK$182 million), 66% of which were denominated in Hong Kong dollars, 12% in Macau Patacas, 11% in United States dollars with remaining in various other currencies. As at 30 June 2012, the Group had bank borrowings of HK$3,775 million (31 December 2011: HK$3,853 million) which were denominated in Hong Kong dollars and repayable in June 2015. During the six months ended 30 June 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 total equity, was 33% as at 30 June 2012 (31 December 2011: 35%).

Cash Flows

The Group maintains a healthy financial position, benefiting from robust operating cash flows. During the six months ended 30 June 2012, net cash generated from operating activities and used in investing activities of the Group amounted to HK$1,403 million (30 June 2011: HK$1,578 million) and HK$750 million (30 June 2011: HK$1,571 million) respectively. Major net outflows of funds during the period under review included payments for the additions to property, plant and equipment, spectrum utilisation fee for a block of radio spectrum acquired, repayment of borrowings and final dividend for the year 2011.

Charges on Group Assets

As at 30 June 2012, 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 2012 was HK$567 million, compared to HK$464 million in the same period of 2011, 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 a block of radio spectrum in the 2.3GHz band with a consideration of HK$150 million for the provision of mobile telecommunications services in Hong Kong for a period of 15 years.

Contingent Liabilities

As at 30 June 2012, the Group had contingent liabilities in respect of performance guarantees and financial guarantees amounting to HK$960 million (31 December 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 30 June 2012, the Group had total capital commitments of property, plant and equipment, radio spectrum and investments in jointly controlled entities amounting to HK$1,442 million (31 December 2011: HK$2,204 million).

Staff

As at 30 June 2012, the Group employed 1,892 full-time staff members. Staff costs during the six months ended 30 June 2012, including directors' emoluments, totalled HK$346 million.

The Group fully recognises the importance of high-quality human resources 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.

Environmental, Social and Governance Responsibility

The Group is committed to the long-term sustainability of its businesses and the communities with which it engages. We deliver quality products and services to our customers by managing our business prudently and diligently and executing management decisions via our hard-working and dedicated employees. The Group demonstrates a strong sense of corporate social responsibility and believes such a commitment helps strengthen our relationship with the community. Operating as a sound corporate citizen via sponsorship and supporting socially-responsible projects at company level, we are committed to bringing positive impact to the general welfare of the community.

Review of Accounts

The unaudited condensed consolidated accounts of the Group for the six months ended 30 June 2012 have been reviewed by the auditor of the Company, PricewaterhouseCoopers, in accordance with International Standard on Review Engagements 2410 – "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board. The independent review report of the auditor is set out on page 22. The unaudited condensed consolidated accounts of the Group for the six months ended 30 June 2012 have also been reviewed by the Audit Committee of the Company.

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

During the six months ended 30 June 2012, 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 Wednesday, 29 August 2012 to Wednesday, 5 September 2012, both days inclusive. In order to qualify for the interim dividend payable on Thursday, 6 September 2012, 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 p.m. on Tuesday, 28 August 2012.