

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 or 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. As at 30 June 2013, the Group recorded share capital of HK\$1,205 million and total equity of HK\$11,152 million.

The cash and cash equivalents amounted to HK\$249 million as at 30 June 2013 (31 December 2012: HK\$182 million), 67% of which were denominated in Hong Kong dollars, 10% in United States dollars with remaining in various other currencies. As at 30 June 2013, the Group had bank borrowings of HK\$4,307 million (31 December 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 27% (31 December 2012: 24%) as at 30 June 2013 as a result of increased borrowings.

Cash Flows

The Group maintains a healthy financial position, benefiting from solid operating cash inflows. During the six months ended 30 June 2013, net cash generated from operating activities and used in investing activities of the Group amounted to HK\$900 million (30 June 2012: HK\$1,403 million) and HK\$747 million (30 June 2012: HK\$750 million) respectively. Major net outflow of funds during the period under review included payments for capital expenditure and other non-current assets, investments in joint ventures and final dividend for the year 2012.

Charges on Group Assets

As at 30 June 2013, same as prior period, 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 first six months of 2013 was HK\$562 million (30 June 2012: HK\$567 million), of which mobile and fixed-line businesses accounted for HK\$326 million (30 June 2012: HK\$272 million) and HK\$236 million (30 June 2012: HK\$295 million) respectively, reflecting our continued investment in network modernisation and expansion to support long-term business growth.

Acquisition of Radio Spectrum

During the period under review, a joint venture that the Group has 50% interest acquired a block of 10MHz spectrum in the 2500/2600MHz 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 30 June 2013, the Group had contingent liabilities in respect of performance guarantees and financial guarantees amounting to HK\$871 million (31 December 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 30 June 2013, the Group had total capital commitments of property, plant and equipment and investments in joint ventures amounting to HK\$1,773 million (31 December 2012: HK\$2,051 million).

Corporate Strategy

The strategy of the Group is to deliver sustainable returns with solid financial fundamentals, so as to enhance long-term total return for our shareholders. Please refer to the Chairman's Statement and Management Discussion and Analysis for discussions and analyses of the performance of the Group and the basis on which the Group generates or preserves value over the longer term and the strategy for delivering the objective of the Group.

Human Resources

As at 30 June 2013, the Group employed 1,907 full-time staff members. Staff costs during the six months ended 30 June 2013, including directors' emoluments, totalled HK\$373 million (30 June 2012: HK\$352 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 and 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 businesses prudently and diligently, while 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 Financial Report

The unaudited condensed consolidated financial report of the Group for the six months ended 30 June 2013 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 financial report of the Group for the six months ended 30 June 2013 has 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 2013, 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.

Record Date for Interim Dividend

The record date for the purpose of determining shareholders' entitlement to the interim dividend is Tuesday, 27 August 2013.

In order to qualify for the entitlement to the interim dividend payable on Thursday, 5 September 2013, 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, 27 August 2013.

Past Performance and Forward-looking Statements

The performance and the results of operations of the Group contained within this interim 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 interim 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 interim 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.