

# 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 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 for speculative purposes. It is also the policy of the Group not to invest liquidity in financial products, including 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 principally in Hong Kong, with transactions denominated in Hong Kong dollars. The Group endeavours to establish a natural hedge for debt financing with an appropriate level of borrowings in the same currency. 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, Macau Patacas, Renminbi, 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 prices movements, credit ratings and setting approved counterparty credit limits that are regularly reviewed.

The Group is also exposed to counterparties credit risk from its operating activities, which is continuously monitored by management.

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### Liquidity and Capital Resources

The Group is financed by share capital, internally-generated funds and external borrowings. As at 30 June 2015, the Group recorded share capital of HK\$1,205 million and total equity of HK\$11,890 million.

The cash and cash equivalents amounted to HK\$1,147 million as at 30 June 2015 (31 December 2014: HK\$359 million), 86% of which were denominated in Hong Kong dollars, 5% in United States dollars, 4% in Macau Patacas with remaining in various other currencies. As at 30 June 2015, the Group had bank borrowings of HK\$3,957 million (31 December 2014: HK\$3,952 million) which were denominated in Hong Kong dollars and repayable in November 2019. The gearing ratio, calculated by dividing net debt by net total capital, was 19% (31 December 2014: 23%) as at 30 June 2015, while the net debt to EBITDA was 1.0 time (31 December 2014: 1.3 times) as a result of better operating cashflow.

### Cash Flows

The Group maintains a healthy financial position, benefiting from solid operating cash inflows. During the six months ended 30 June 2015, net cash generated from operating activities and used in investing activities of the Group amounted to HK\$1,634 million (30 June 2014: HK\$1,302 million) and HK\$418 million (30 June 2014: HK\$329 million) respectively. Other than operating activities, major net outflow of funds under investing and financing activities during the period included payments for capital expenditure, payments relating to investments in joint ventures and dividends.

### Charges on Group Assets

As at 30 June 2015, 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 2015 was HK\$353 million (30 June 2014: HK\$420 million), of which the mobile and fixed-line businesses accounted for HK\$160 million (30 June 2014: HK\$220 million) and HK\$193 million (30 June 2014: HK\$200 million) respectively, reflecting the continued disciplined investment in network modernisation and expansion to support long-term business growth while implementing operating efficiency management.

### Contingent Liabilities

As at 30 June 2015, the Group had contingent liabilities in respect of performance guarantees and financial guarantees amounting to HK\$522 million (31 December 2014: HK\$520 million). Included in these contingent liabilities were mainly performance bonds issued to the Office of the Communications Authority of Hong Kong in respect of the spectrum licence obligations.

### Commitments

As at 30 June 2015, the Group had total capital commitments of property, plant and equipment and investments in joint ventures amounting to HK\$1,125 million (31 December 2014: HK\$1,568 million) and telecommunications licences of HK\$1,777 million (31 December 2014: HK\$1,777 million).

As at 30 June 2015, the Group had total operating lease commitments amounting to HK\$624 million (31 December 2014: HK\$760 million).

A subsidiary of the Group has acquired various blocks of spectrum bands for the provision of telecommunications services in Hong Kong, certain of which over various assignment periods up to year 2021 and variable licence fees are payable on those spectrum bands based on 5% of the network turnover or the Appropriate Fee (as defined in the Unified Carrier Licence) in respect of the relevant year whichever is greater. The net present value of the Appropriate Fee has already been recorded as licence fee liabilities.

### 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 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 2015, the Group employed 2,150 (31 December 2014: 1,909) full-time staff members. Staff costs during the six months ended 30 June 2015, including directors' emoluments, totalled HK\$386 million (30 June 2014: HK\$361 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. It delivers quality products and services to its customers by managing its businesses prudently, while executing management decisions with due care and attention. The Group demonstrates a strong sense of corporate social responsibility and believes such a commitment helps strengthen its relationship with the community. Operating as a sound corporate citizen via sponsorship and supporting socially-responsible projects at company level, the Group is committed to bringing positive impact to the general welfare of the community.

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### Review of Interim Financial Report

The unaudited condensed consolidated financial report of the Group for the six months ended 30 June 2015 has 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 25. The unaudited condensed consolidated financial report of the Group for the six months ended 30 June 2015 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 2015, 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 Monday, 31 August 2015.

In order to qualify for the entitlement to the interim dividend payable on Wednesday, 9 September 2015, 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 Monday, 31 August 2015.

### Past Performance and Forward-looking Statements

The performance and the results of operations of the Group contained in this interim report are historical in nature, and past performance is no guarantee for the future results of the Group. Any forward-looking statements and opinions contained in 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.