

Group Capital Resources and Other Information

Treasury Management

The Group's treasury function sets financial risk management policies in accordance with policies and procedures that are approved by the Executive Director, and which are also subject to periodic review by the Group's internal audit function. The Group's treasury policies are designed to mitigate the impact of fluctuations in interest rates and exchange rates on the Group's overall financial position and to minimise the Group's financial risks. The Group's treasury function operates as a centralised service for managing financial risks, including interest rate and foreign exchange risks, and for providing cost-efficient funding to the Group and its companies. It manages the majority of the Group's funding needs, interest rate, foreign currency and credit risk exposures. The Group uses interest rate and foreign currency swaps and forward contracts as appropriate for risk management purposes only, for hedging transactions and for managing the Group's assets and liabilities' exposure to interest rate and foreign exchange rate fluctuations. It is the Group's policy not to enter into derivative transactions for speculative purposes. It is also the Group's policy not to invest liquidity in financial products, including hedge funds or similar vehicles, with significant underlying leverage or derivative exposure.

Cash management and funding

The Group operates a central cash management system for all of its subsidiaries. In general, financing is raised mainly in the form of bank borrowings to meet funding requirements of the operating subsidiaries of the Group. The Group regularly and closely monitors its overall debt position and reviews its funding costs and maturity profile to facilitate refinancing.

Interest rate exposure

The Group manages its interest rate exposure with a focus on reducing the Group's overall cost of debt and exposure to changes in interest rates. When considered appropriate, the Group uses derivatives such as interest rate swaps and forward rate agreements to manage its interest rate exposure. The Group is exposed to interest rate changes that affect Hong Kong dollar borrowings which are at floating rates.

Foreign currency exposure

The Group runs telecommunications operations principally in Hong Kong, with transactions denominated in Hong Kong dollars. The Group generally endeavours to establish a natural hedge for debt financing with an appropriate level of borrowings in those same currencies. 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's holdings of surplus funds with financial institutions expose 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 and credit ratings as well as setting approved counterparty credit limits that are regularly reviewed.

The Group is also exposed to counterparties credit risk from its operating activities, such risks are continuously monitored by the management.

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Capital and Net Debt

As at 30 June 2016, the Group recorded share capital of HK\$1,205 million and total equity of HK\$12,014 million.

The cash and cash equivalents of the Group amounted to HK\$1,362 million as at 30 June 2016 (31 December 2015: HK\$1,021 million), 84% of which were denominated in Hong Kong dollars, 7% in United States dollars, 5% in Macau Patacas, with remaining in various other currencies. The Group's carrying amount of bank borrowings amounted to HK\$3,967 million at 30 June 2016 (31 December 2015: HK\$3,962 million), which were denominated in Hong Kong dollars and repayable in November 2019.

As at 30 June 2016, the consolidated net debt of the Group was HK\$2,605 million (31 December 2015: HK\$2,941 million). The Group's net debt to net total capital ratio at 30 June 2016 was 18% (31 December 2015: 20%).

Charges on Group Assets

As at 30 June 2016 and 31 December 2015, 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.

Borrowing Facilities Available

Committed borrowing facilities available to the Group but not drawn as at 30 June 2016 amounted to HK\$1,000 million (31 December 2015: HK\$1,000 million).

Contingent Liabilities

As at 30 June 2016, the Group provided performance and other guarantees of HK\$631 million (31 December 2015: HK\$326 million).

Commitments

As at 30 June 2016, the Group had total capital commitments of property, plant and equipment amounting to HK\$702 million (31 December 2015: HK\$748 million) and telecommunications licences of HK\$1,777 million (31 December 2015: HK\$1,777 million).

As at 30 June 2016, the Group had total operating lease commitments for building and other assets amounting to HK\$547 million (31 December 2015: HK\$575 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 years up to year 2021 and variable licence fees are payable on those spectrum bands based on 5% of the network revenue 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.

Past Performance and Forward-looking Statements

The performance and the results of operations of the Group contained in this 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 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 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.

Human Resources

As at 30 June 2016, the Group employed 2,251 (31 December 2015: 2,355) full-time staff members. Staff costs during the six months ended 30 June 2016, including directors' emoluments, totalled HK\$446 million (30 June 2015: HK\$386 million) as a result of insourcing of certain functions, e.g. IT and network management, to enhance governance and operational efficiency as reflected in savings of other operating expenses.

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 2016 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 will be included in the Interim Report to shareholders. The unaudited condensed consolidated financial report of the Group for the six months ended 30 June 2016 has also been reviewed by the Audit Committee of the Company.

Record Date for Interim Dividend

The record date for the purpose of determining shareholders' entitlement to the interim dividend is Wednesday, 31 August 2016.

In order to qualify for the entitlement to interim dividend payable on Friday, 9 September 2016, 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 Wednesday, 31 August 2016.

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

During the six months ended 30 June 2016, 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.