

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.

Liquidity and Capital Resources

The Group is financed by share capital, internally-generated funds and external borrowings. As at 31 December 2014, the Group recorded share capital of HK\$1,205 million and total equity of HK\$11,709 million.

The cash and cash equivalents amounted to HK\$359 million as at 31 December 2014 (2013: HK\$209 million), 74% of which were denominated in Hong Kong dollars, 7% in Macau Patacas, 6% in Renminbi, 5% in United States dollars with remaining in various other currencies. As at 31 December 2014, the Group had bank borrowings of HK\$3,952 million (2013: HK\$4,571 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 23% (2013: 28%) as at 31 December 2014, while the net debt to EBITDA was 1.3 times (2013: 1.6 times) as a result of net repayment of borrowings of HK\$650 million during the year with better operating cashflow.

Cash Flows

The Group maintains a healthy financial position, benefiting from solid operating cash inflows. During the year ended 31 December 2014, net cash generated from operating activities and used in investing activities of the Group amounted to HK\$2,483 million (2013: HK\$1,735 million) and HK\$1,083 million (2013: HK\$1,571 million) respectively. Other than operating activities, major net outflow of funds under investing and financing activities during 2014 included payments for capital expenditure, investments in joint ventures, repayment of borrowings and dividends.

Charges on Group Assets

As at 31 December 2014, same as prior year, 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 year ended 31 December 2014 was HK\$1,198 million (2013: HK\$1,280 million), of which mobile and fixed-line businesses accounted for HK\$664 million (2013: HK\$657 million) and HK\$534 million (2013: HK\$623 million) respectively, reflecting continuation of a disciplined approach to investment in network modernisation and expansion to support long-term business growth while implementing efficient cost management.

Acquisition of Radio Spectrum

During the year ended 31 December 2014, Hutchison Telephone Company Limited, a subsidiary of the Group, acquired 9.8 MHz spectrum in the 1.9 - 2.2 GHz band with a consideration of HK\$470.4 million through re-auction. Together with a total of 19.8 MHz spectrum obtained by exercising a right of first refusal offered by the Communications Authority of Hong Kong with a consideration of HK\$1,306.8 million, the Group has a total of 29.6 MHz spectrum in the 1.9 - 2.2 GHz band for the provision of mobile telecommunications services in Hong Kong for a period of 15 years from 2016.

Contingent Liabilities

As at 31 December 2014, the Group had contingent liabilities in respect of performance guarantees, financial guarantees and others amounting to HK\$520 million (2013: HK\$649 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 31 December 2014, the Group had total capital commitments of property, plant and equipment and investments in joint ventures amounting to HK\$1,568 million (2013: HK\$1,626 million) and telecommunications licences of HK\$1,777 million (2013: Nil).

As at 31 December 2014, the Group had total operating lease commitments for buildings and other assets amounting to HK\$760 million (2013: HK\$647 million).

A subsidiary of the Group has a unified carrier licence for the provision of telecommunications services in Hong Kong over various periods of time up to year 2021 (the "Licence") and variable licence fees are payable based on 5% of the network turnover or the Appropriate Fee (as defined in the Licence) in respect of the relevant year whichever is greater. The net present value of the Appropriate Fees has already been recorded as licence fee liabilities.