

Group Capital Resources and Liquidity

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.

Cash management and funding

The Group operates a central cash management system for all of its subsidiaries. In general, financing is mainly derived from operating income to meet funding requirements of the operating subsidiaries of the Group. The Group regularly and closely monitors its overall cash position and determines when external source of finance is needed.

Foreign currency exposure

The Group runs telecommunications operations principally in Hong Kong, with transactions denominated in Hong Kong dollars. 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 share price movements and credit ratings as well as setting approved counterparty credit limits that are regularly reviewed.

Capital and Net Debt

As at 31 December 2018, the Group recorded share capital of HK\$1,205 million and total equity of HK\$16,147 million.

As at 31 December 2018, the net cash of the Group was HK\$9,555 million (2017: HK\$9,817 million), 99% of which was denominated in Hong Kong dollars with remaining in various other currencies. As at 31 December 2017, the cash and cash equivalents of the Group amounted to HK\$13,717 million and the bank loan of HK\$3,900 million under loan facilities maturing in 2019 was fully prepaid in January 2018.

Charges on Group Assets

As at 31 December 2018, 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.

Borrowing Facilities Available

The Group has no committed borrowing facilities as at 31 December 2018 (2017: HK\$900 million available but not drawn).

Radio Spectrum

During the year ended 31 December 2018, Hutchison Telephone Company Limited, a subsidiary of the Group, acquired 10 MHz in the 900 MHz band and 10 MHz in the 1800 MHz band for a total consideration of HK\$960 million through auction. Together with 20 MHz in the 1800 MHz band obtained by exercising a right of first refusal offered by the Communications Authority of Hong Kong with a consideration of HK\$1,080 million, the Group acquired 40 MHz in total in the 900 MHz band and 1800 MHz band for a total consideration of HK\$2,040 million through auction and licence renewal for the provision of mobile telecommunications services in Hong Kong for a period of 15 years from 2021.

Contingent Liabilities

As at 31 December 2018, the Group provided performance and other guarantees of HK\$5 million (2017: HK\$5 million).

Commitments

As at 31 December 2018, the Group had total capital commitments of property, plant and equipment amounting to HK\$396 million (2017: HK\$444 million) and telecommunications licences of HK\$2,040 million (2017: Nil).

As at 31 December 2018, the Group had total operating lease commitments for building and other assets amounting to HK\$265 million (2017: HK\$335 million).

A subsidiary of the Group 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. The licence fees for these spectrum bands were charged on 5% of the network revenue or the Appropriate Fee (as defined in the Unified Carrier Licence), whichever is greater. The net present value of the Appropriate Fee has already been recorded as licence fee liabilities.