

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 Cash

As at 31 December 2019, the Group recorded share capital of HK\$1,205 million and total equity of HK\$11,963 million.

As at 31 December 2019, the net cash of the Group was HK\$5,416 million (2018: HK\$9,555 million), 99% of which was denominated in Hong Kong dollars with remaining in various other currencies. The reduction in net cash balance was mainly due to the settlement of special interim dividend, final dividend and interim dividend of HK\$4,150 million in total and the acquisition of non-controlling interests of the key subsidiaries of the Group for US\$60 million (approximately HK\$471 million) in May 2019.

Charges on Group Assets

As at 31 December 2019, 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 2019 (2018: Nil).

Radio Spectrum

During the year ended 31 December 2019, Hutchison Telephone Company Limited, a subsidiary of the Group, acquired 40 MHz in the 3500 MHz band (for a 15-year period commencing April 2020) and 30 MHz in the 3300 MHz band (for a 15-year period commencing December 2019) for an aggregate of spectrum utilisation fees of HK\$402 million through auctions.

Contingent Liabilities

As at 31 December 2019, the Group provided performance, financial and other guarantees of HK\$106 million (2018: HK\$5 million).

Commitments

As at 31 December 2019, the Group had capital commitments of property, plant and equipment of HK\$271 million (2018: HK\$396 million) and telecommunications licences of HK\$2,242 million (2018: HK\$2,040 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/periods up to year 2021. The variable 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.