

FINANCIAL RESOURCES REVIEW

Liquidity and Capital Resources

As at 31st December 2017, the Group had a net current borrowings position of HK\$2,927 million (31st December 2016: net current deposits HK\$5,505 million) and long-term borrowings of HK\$21,162 million (31st December 2016: HK\$27,296 million). The change from net current deposits as of 31st December 2016 to net current borrowings as of 31st December 2017 was due to US\$995 million Guaranteed Notes maturing in August 2018. In addition, banking facilities available for use amounted to HK\$13,200 million (31st December 2016: HK\$11,500 million).

The operating and capital expenditures of the Group are funded by cash flow from operations, internal liquidity, banking facilities, debt and equity financing. The Group has adequate and stable sources of funds and unutilised banking facilities to meet its future capital expenditures and working capital requirements.

Financing Structure

In May 2009, the Group established a US\$1 billion Medium Term Note Programme (the "Programme") which gives the Group the flexibility to issue notes at favourable terms and timing. In May 2012, the Programme was updated with the size increased to US\$2 billion. In November 2017, under the Programme, the Group issued its inaugural green bonds based on a newly established Towngas Green Bond Framework, which was prepared in accordance with the Green Bond Principles 2017 of the International Capital Market Association. The inaugural 10-year green bonds, amounting to HK\$600 million and JPY2 billion, has allowed the Group to tap into a new base of green bond investors as an additional funding source for financing the Group's environmentally green projects under the Towngas Green Bond Framework. Up to 31st December 2017, the Group issued notes in the total amount of HK\$13,371 million (31st December 2016: HK\$11,934 million) with maturity terms of 10 years, 12 years, 15 years, 30 years and 40 years in Australian dollar, Japanese yen and Hong Kong dollar under the Programme (the "MTNs"). The carrying value of the issued MTNs as at 31st December 2017 was HK\$12,748 million (31st December 2016: HK\$11,196 million).

As at 31st December 2017, the outstanding principal amount of the 10-year US dollar Guaranteed Notes (the "Guaranteed Notes") issued in August 2008 at a fixed coupon rate of 6.25 per cent per annum was US\$995 million (31st December 2016: US\$995 million) and the carrying value was HK\$7,734 million (31st December 2016: HK\$7,701 million).

As at 31st December 2017, the Group's borrowings amounted to HK\$36,919 million (31st December 2016: HK\$33,248 million). While the Notes mentioned above together with the bank and other loans of HK\$4,003 million (31st December 2016: HK\$4,381 million) had fixed interest rate and were unsecured, the remaining bank and other loans were unsecured and had a floating interest rate, of which HK\$6,363 million (31st December 2016: HK\$6,496 million) were long-term bank loans and HK\$6,071 million (31st December 2016: HK\$3,474 million) had maturities within one year on revolving credit or term loan facilities. As at 31st December 2017, the maturity profile of the Group's borrowings was 43 per cent within 1 year, 11 per cent within 1 to 2 years, 21 per cent within 2 to 5 years and 25 per cent over 5 years (31st December 2016: 18 per cent within 1 year, 28 per cent within 1 to 2 years, 22 per cent within 2 to 5 years and 32 per cent over 5 years).

The US dollar Guaranteed Notes, the AUD Note and JPY Note issued are hedged to Hong Kong dollars by currency swaps. Except for some borrowings of certain subsidiaries are arranged in or hedged to their functional currency in Renminbi, the Group's borrowings are primarily denominated in Hong Kong dollars and local currency of subsidiaries in mainland China. The Group therefore has no significant exposure to foreign exchange risk.

In January 2014, the Group issued its first Perpetual Subordinated Guaranteed Capital Securities (the "Perpetual Capital Securities") amounting to US\$300 million with distribution rate of 4.75 per cent per annum for the first five years and thereafter at floating distribution rate. With no fixed maturity and the distribution payment can be deferred at the discretion of the Group, the Perpetual Capital Securities are redeemable at the Group's option on or after 28th January 2019 and are accounted for as equity in the financial statements. The Perpetual Capital Securities are guaranteed by the

Company. The issuance helps strengthen the Group's financial position, improve its financing maturity profile and diversify its funding sources.

The gearing ratio [net borrowing / (shareholders' funds + perpetual capital securities + net borrowing)] for the Group as at 31st December 2017 remained healthy at 28 per cent (31st December 2016: 28 per cent).

Contingent Liabilities

As at 31st December 2017 and 31st December 2016, the Group did not provide any guarantee in respect of bank borrowing facilities made available to any associates, joint ventures or third parties.

Currency Profile

The Group's operations and activities are predominantly based in Hong Kong and mainland China. As such, its cash, cash equivalents or borrowings are mainly denominated in Hong Kong dollars, Renminbi or United States dollars, whereas borrowings for the Group's subsidiaries, associates and joint ventures in mainland China are predominantly denominated in the local currency, Renminbi, in order to provide natural hedging for the investment there.

Group's Financial Investments in Securities

Under the guidance of the Group's Treasury Committee, financial investments have been made in equity and debt securities. As at 31st December 2017, the investments in securities amounted to HK\$752 million (31st December 2016: HK\$1,649 million). The performance of the Group's financial investments in securities was satisfactory.