

# FINANCIAL RESOURCES REVIEW

## Liquidity and Capital Resources

As at 31st December 2018, the Group had a net current borrowings position of HK\$1,573 million (31st December 2017: HK\$2,927 million) and long-term borrowings of HK\$27,609 million (31st December 2017: HK\$21,162 million). In addition, banking facilities available for use amounted to HK\$13,300 million (31st December 2017: HK\$13,200 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. Up to 31st December 2018, the Group issued notes in the total amount of HK\$14,398 million (31st December 2017: HK\$13,371 million) with maturity terms of 3 years, 10 years, 12 years, 15 years, 30 years and 40 years in Renminbi, Australian dollar, Japanese yen and Hong Kong dollar under the Programme (the "MTNs"). The carrying value of the issued MTNs as at 31st December 2018 was HK\$13,708 million (31st December 2017: HK\$12,748 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 and the carrying value was HK\$7,734 million. The Guaranteed Notes were matured and fully repaid in August 2018.

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 were accounted for as equity in the financial statements up to serving of the redemption notice in December 2018. The Perpetual Capital Securities were guaranteed by the Company. The issuance helps strengthen the Group's financial position, improve its financing maturity profile and diversify its funding sources. On 17th December 2018, a redemption notice was issued that the issuer would redeem all of the Perpetual Capital Securities on 28th January 2019 (the "First Call Date") at their principal amount together with any distribution accrued to the First Call Date. In such case, the Perpetual Capital Securities at carrying value of HK\$2,350 million are reclassified to Redeemable Perpetual Securities under current liabilities as at 31st December 2018.

As at 31st December 2018, the Group's borrowings (including Redeemable Perpetual Securities) amounted to HK\$38,022 million (31st December 2017: HK\$36,919 million). While the notes and the Redeemable Perpetual Securities mentioned above together with the bank and other loans of HK\$3,624 million (31st December 2017: HK\$4,003 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\$12,453 million (31st December 2017: HK\$6,363 million) were long-term bank loans and HK\$5,887 million (31st December 2017: HK\$6,071 million) had maturities within one year on revolving credit or term loan facilities. As at 31st December 2018, the maturity profile of the Group's borrowings was 27 per cent within 1 year, 5 per cent within 1 to 2 years, 44 per cent within 2 to 5 years and 24 per cent over 5 years (31st December 2017: 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).

The RMB Note, 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.

The gearing ratio [net borrowing less Redeemable Perpetual Securities / (shareholders' funds + Perpetual Capital Securities + net borrowing)] for the Group as at 31st December 2018 remained healthy at 29 per cent (31st December 2017: 28 per cent).

In February 2019, the Group issued new perpetual capital securities and the proceeds are mainly used to refinance the Redeemable Perpetual Securities redeemed in January 2019 as mentioned above. The newly issued US\$300 million perpetual capital securities are able to keep a distribution rate of 4.75 per cent per annum for the first five years and thereafter at fixed distribution rate. With no fixed maturity and the distribution payment can be deferred at the discretion of the Group, these perpetual capital securities are redeemable at the Group's option on or after 12th February 2024 and are accounted for as equity in the financial statements.

## Contingent Liabilities

As at 31st December 2018 and 31st December 2017, 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 2018, the relevant investments in securities amounted to HK\$812 million (31st December 2017: HK\$752 million). The performance of the Group's financial investments in securities was satisfactory.