

Financial Resources Review

Liquidity and Capital Resources

As at 31st December 2021, the Group had a net current borrowings position of HK\$7,620 million (31st December 2020: HK\$3,224 million) and long-term borrowings of HK\$36,856 million (31st December 2020: HK\$31,286 million). In addition, banking facilities available for use amounted to HK\$20,900 million (31st December 2020: HK\$21,200 million).

The operating and capital expenditures of the Group are funded by cash flow from operations, internal liquidity, banking facilities, bond 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 June 2021, the Programme was updated with the size increased to US\$5 billion. In addition, our major listed subsidiary company Towngas Smart Energy Company Limited (“Towngas Smart Energy”, formerly known as Towngas China Company

Limited) also established its Medium Term Note Programme of US\$2 billion in June 2021, which will add flexibility and capacity to its financing in future. As at 31st December 2021, the Group issued notes in the total nominal amount of HK\$21,876 million (31st December 2020: HK\$20,742 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 Programmes (the “MTNs”). The carrying value of the issued MTNs as at 31st December 2021 was HK\$21,299 million (31st December 2020: HK\$20,165 million).

As at 31st December 2021, the Group’s borrowings amounted to HK\$55,111 million (31st December 2020: HK\$42,139 million). The increase in borrowings was mainly contributed by the drawdown of bridging loans by Towngas Smart Energy to fund its acquisition of 25% of the enlarged capital of Shanghai Gas Co., Ltd. (“Shanghai Gas”) at RMB4,700 million in June 2021 and the issue of convertible bonds (“CB”) of nominal amount at RMB1,836 million by Towngas Smart Energy to a strategic investor in November 2021. The carrying value of the debt component of the issued CB as at 31st December 2021 was HK\$1,957 million. While the notes

and CB mentioned above together with the bank and other loans of HK\$9,522 million (31st December 2020: HK\$8,139 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\$10,221 million (31st December 2020: HK\$6,935 million) were long-term bank loans and HK\$12,112 million (31st December 2020: HK\$6,900 million) had maturities within one year on revolving credit or term loan facilities. As at 31st December 2021, the maturity profile of the Group’s borrowings was 33 per cent within 1 year, 13 per cent within 1 to 2 years, 33 per cent within 2 to 5 years and 21 per cent over 5 years (31st December 2020: 26 per cent within 1 year, 20 per cent within 1 to 2 years, 22 per cent within 2 to 5 years and 32 per cent over 5 years).

The RMB, AUD and JPY notes 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 the Chinese mainland. The Group therefore has no significant exposure to foreign exchange risk.

In February 2019, the Group re-issued Perpetual Subordinated Guaranteed Capital Securities (the “Perpetual Capital Securities”) of US\$300 million and the proceeds were mainly used to refinance the 2014 first-issued perpetual capital securities redeemed in January 2019.

The Perpetual Capital Securities are at 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, and the Perpetual Capital Securities are redeemable at the Group’s option on or after 12th February 2024, they 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 borrowings / (total equity + net borrowings)] for the Group as at 31st December 2021 remained healthy at 35 per cent (31st December 2020: 30 per cent). The increase in gearing was mainly contributed by the drawdown of bridging loans by Towngas Smart Energy to fund its acquisition of 25% of the enlarged capital of Shanghai Gas and the issue of CB by Towngas Smart Energy to a strategic investor as mentioned above.

Contingent Liabilities

As at 31st December 2021 and 2020, 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 the Chinese mainland. 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 the Chinese mainland 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 2021, the relevant investments in securities amounted to HK\$360 million (31st December 2020: HK\$685 million). The performance of the Group’s financial investments in securities was satisfactory.