

Financial Resources Review

Liquidity and Capital Resources

As at 31st December 2022, the Group had a net current borrowings position of HK\$6,387 million (31st December 2021: HK\$7,620 million) and long-term borrowings of HK\$39,623 million (31st December 2021: HK\$36,856 million). In addition, banking facilities available for use amounted to HK\$21,400 million (31st December 2021: HK\$20,900 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. Medium term notes totalling HK\$3,819 million, with a tenor of 2 to 10 years, have been issued in 2022. In line with the Group's long-term business investments, as at 31st December 2022, the total nominal amount of medium term notes issued has reached HK\$21.6 billion with tenors ranging from 2 to 40 years, mainly at fixed interest rates with an average of 3.0 per cent per annum and an average tenor of 14 years. In addition, our major listed subsidiary company Towngas Smart Energy Company Limited ("Towngas Smart Energy")

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, and thus strengthening its financial position. In April 2022, Towngas Smart Energy issued its first 5-year Sustainability-Linked Bond (the "SLB") and raised a total of US\$200 million at a coupon rate at 4.0 per cent per annum. As at 31st December 2022, the total nominal amount of medium term notes issued has reached RMB2.0 billion with tenors ranging from 3 to 5 years, mainly at fixed interest rates with an average of 4.2 per cent per annum and an average tenor of 4 years. As at 31st December 2022, the Group issued notes in the total nominal amount of HK\$24,107 million (31st December 2021: HK\$21,876 million) in Renminbi, Australian dollar, Japanese yen, United States dollar and Hong Kong dollar under the Programmes (the "MTNs"). The carrying value of the issued MTNs as at 31st December 2022 was HK\$23,850 million (31st December 2021: HK\$21,299 million).

As at 31st December 2022, the Group's borrowings amounted to HK\$59,304 million (31st December 2021: HK\$55,111 million). Convertible bonds ("CB") of nominal amount at RMB1,836 million were issued by Towngas Smart Energy to a strategic investor in November 2021 and the carrying value of the debt component of the issued CB as at 31st December 2022 was HK\$1,855 million (31st December 2021: HK\$1,957 million). While the vast majority of the notes and CB mentioned above together with the bank and other loans of HK\$11,860 million (31st December 2021: HK\$9,522 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\$8,295 million (31st December 2021: HK\$10,221 million) were long-term bank loans and HK\$13,444 million (31st December 2021: HK\$12,112 million) had maturities within one year on revolving credit or term loan facilities. As at 31st December 2022, the maturity profile of the Group's borrowings was 33 per cent within 1 year, 13 per cent within 1 to 2 years, 36 per cent within 2 to 5 years and 18 per cent over 5 years (31st December 2021: 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).

The RMB, AUD and JPY notes issued and the USD SLB issued by Towngas Smart Energy are hedged to Hong Kong dollars or Renminbi respectively 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 12th February 2024 or thereafter every six months on the coupon payment date, 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 2022 remained healthy at 38 per cent (31st December 2021: 35 per cent).

Guarantee

As at 31st December 2022 and 2021, 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 2022, the relevant investments in securities amounted to HK\$222 million (31st December 2021: HK\$360 million). The performance of the Group’s financial investments in securities was satisfactory.