

# FINANCIAL REVIEW

## FINANCIAL RESOURCES, TREASURY ACTIVITIES AND GEARING RATIO

The Group's capital expenditure and investments were funded from cash on hand, internal cash generation, syndicated loans, notes, bonds, share placement and other project loans.

As at 31st December, 2017, cash and bank deposits on hand amounted to HK\$9,781 million and the total borrowings of the Group amounted to HK\$35,036 million, which included Hong Kong dollar notes of HK\$260 million and foreign currency borrowings of HK\$34,776 million. Of the total borrowings, 31 per cent were repayable in 2018, 49 per cent were repayable between 2019 and 2022 and 20 per cent were repayable beyond 2022. Part of the borrowings repayable in 2018 has been refinanced in January 2018. To refinance the remaining borrowings repayable in 2018, the Group is in discussion with certain banks with good progress. The Group's financing activities continue to be well received and fully supported by its bankers.

The Group adopts conservative treasury policies in cash and financial management. To achieve better risk control and minimise the cost of funds, the Group's treasury activities are centralised. Cash is generally placed in short-term deposits mostly denominated in U.S. dollars, Hong Kong dollars, Australian dollars, New Zealand dollars, British pound, Canadian dollars or Euro. The Group's liquidity and financing requirements are reviewed regularly. The Group will continue to maintain a strong capital structure when considering financing for new investments or maturity of bank loans.

As at 31st December, 2017, the Group maintained a net debt position with a net debt to net total capital ratio of 17.6 per cent, which was based on its net debt of HK\$25,255 million and net total capital, which represents the total borrowings plus total equity net of cash and bank deposits, of HK\$143,447 million. This ratio was higher than the net debt to net total capital ratio of 4.5 per cent at the year end of 2016. This change was mainly due to the funds utilised for the investments in a business that owns and operates energy utility assets in Australia, the United States, the United Kingdom and Europe, a business engaged in building equipment services in Canada and the United States, and an energy management services provider in Europe, which were partially compensated by the funds raised in the issues of perpetual capital securities during the year.

The fluctuations in currencies and in particular, the devaluation of the British pound arising from the United Kingdom referendum vote to leave the European Union had an impact on all businesses in the market that have exposure in the United Kingdom and/or to British pound. While the Group is not immune from such impact, there is no material change beyond market expectation.

To minimise currency risk exposure in respect of its investments in other countries, the Group generally hedges those investments with (i) currency swaps and (ii) the appropriate level of borrowings denominated in the local currencies. The Group also entered into certain interest rate swaps to mitigate interest rate risks. As at 31st December, 2017, the notional amounts of these derivative instruments amounted to HK\$65,227 million.

## CHARGE ON GROUP ASSETS

As at 31st December, 2017:

- the Group's obligations under finance leases totalling HK\$24 million were secured by charges over the leased assets with carrying value of HK\$23 million; and
- the shares of a subsidiary were pledged to secure bank borrowings totalling HK\$1,284 million granted to the Group.

## CONTINGENT LIABILITIES

As at 31st December, 2017, the Group was subject to the following contingent liabilities:

HK\$ million	
Guarantee in respect of bank loan drawn by affiliated companies	1,312
Other guarantee given in respect of an affiliated company	760
Performance bond indemnities	92
Total	2,164

## EMPLOYEES

The Group, including its subsidiaries but excluding affiliated companies, employs a total of 2,042 employees. Employees' cost (excluding directors' emoluments) amounted to HK\$770 million. The Group ensures that the pay levels of its employees are competitive and that its employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system.

Preferential subscription of 2,978,000 new shares of the Company was given to those employees who had subscribed for shares of HK\$1.00 each in the Company at HK\$12.65 per share on the flotation of the Company in 1996. The Group does not have any share option scheme for employees.