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, loans, notes, bonds, share placement and other project loans.

As at 31st December, 2018, cash and bank deposits on hand amounted to HK$6,090 million and the total borrowings of the Group amounted to HK$30,139 million, which included Hong Kong dollar borrowings of HK$2,440 million and foreign currency borrowings of HK$27,699 million. Of the total borrowings, 5 per cent were repayable in 2019, 73 per cent were repayable between 2020 and 2023 and 22 per cent were repayable beyond 2023. 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, 2018, the Group maintained a net debt position with a net debt to net total capital ratio of 16.5 per cent, which was based on its net debt of HK$24,049 million and net total capital, which represents the total borrowings plus total equity net of cash and bank deposits, of HK$145,953 million. This ratio was slightly improved when compared with the net debt to net total capital ratio of 17.6 per cent at the year end of 2017 mainly due to cash inflows from the investment portfolios.

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, 2018, the notional amounts of these derivative instruments amounted to HK$60,117 million.
CHARGE ON GROUP ASSETS

As at 31st December, 2018:

• the Group’s obligations under finance leases totalling HK$14 million were secured by charges over the leased assets with carrying value of HK$13 million; and

• the shares of a subsidiary were pledged to secure bank borrowings totalling HK$1,228 million granted to the Group.

CONTINGENT LIABILITIES

As at 31st December, 2018, the Group was subject to the following contingent liabilities:

<table>
<thead>
<tr>
<th>HK$ million</th>
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<tbody>
<tr>
<td>Guarantee in respect of bank loan drawn by an affiliated company</td>
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<tr>
<td>Other guarantee given in respect of an affiliated company</td>
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<tr>
<td>Performance bond indemnities</td>
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<tr>
<td><strong>Total</strong></td>
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</table>

EMPLOYEES

The Group, including its subsidiaries but excluding affiliated companies, employs a total of 2,056 employees. Employees’ cost (excluding directors’ emoluments) amounted to HK$790 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.