

Financial Resources Review

Liquidity and Capital Resources

As at 31st December 2010, the Group had a net current deposits position of HK\$1,356 million (31st December 2009: HK\$8,422 million) and long-term borrowings of HK\$11,746 million (31st December 2009: HK\$15,672 million). After taking into account a portfolio of financial assets at fair value through profit or loss of HK\$529 million (31st December 2009: HK\$405 million), net current funds as at 31st December 2010 amounted to HK\$1,885 million (31st December 2009: HK\$8,827 million). In addition, banking facilities available for use amounted to HK\$6,966 million (31st December 2009: HK\$5,897 million).

In February 2011, the Group concluded a HK\$3.8 billion 5-year syndicated term loan and revolving credit facility, the first syndicated financing transaction for the Group since 2006. The response to the syndication was overwhelming with an over-subscription of more than 70 per cent. This enabled the facility amount to be increased from an initial HK\$3.0 billion to HK\$3.8 billion backed by a total of 11 international and regional financial institutions including Japanese, American, Taiwanese, Spanish and Hong Kong banks. The success of this syndicated facility demonstrates the banking community's strong confidence in the Group's business development prospects.

The operating and capital expenditures of the Group are funded by cash flow from operations, internal liquidity, banking facilities and debt financing. The Group has adequate and stable sources of funds and unutilised banking facilities to meet its future capital expenditures and working capital requirements.

Borrowing 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 favorable terms and timing under the Programme. Up to 31st December 2010, the Group issued notes in the total amount of HK\$3,010 million (31st December 2009: HK\$2,760 million) with maturity terms of 10 years,

15 years, 30 years and 40 years in Hong Kong dollar under the Programme (the "MTNs"). The carrying value of the MTNs as at 31st December 2010 was HK\$2,951 million (31st December 2009: HK\$2,710 million).

As at 31st December 2010, 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 (31st December 2009: US\$995 million) and the carrying value was HK\$7,654 million (31st December 2009: HK\$7,626 million).

As at 31st December 2010, the outstanding principal amount of the 7-year US dollar Guaranteed Senior Notes due 2011 (the "Guaranteed Senior Notes") issued in September 2004 by a subsidiary of the Group, Towngas China Company Limited, was US\$141 million (31st December 2009: HK\$141 million) and the carrying value was HK\$1,114 million (31st December 2009: HK\$1,110 million). The Guaranteed Senior Notes are listed on the Singapore Exchange Securities Trading Limited.

As at 31st December 2010, the Group's borrowings amounted to HK\$21,728 million (31st December 2009: HK\$20,420 million). The increase was mainly due to new issue of MTNs of HK\$250 million and net drawn down of bank loans for the rest. Other than the Notes mentioned on above which had fixed interest rate while the Guaranteed Senior Notes were secured by a pledge of shares of certain subsidiaries of Towngas China Company Limited, all bank and other loans were unsecured and had a floating interest rate, of which HK\$1,141 million (31st December 2009: HK\$4,226 million) were long-term bank loans while HK\$8,868 million (31st December 2009: HK\$4,748 million) had maturities within one year on revolving credit or term loan facilities. As at 31st December 2010, the maturity profile of the Group's borrowings was 46 per cent within 1 year, 5 per cent within 2 to 5 years and 49 per cent over 5 years (31st December 2009: 23 per cent within 1 year; 23 per cent within 1 to 2 years, 3 per cent within 2 to 5 years and 51 per cent over 5 years).

The US dollar Guaranteed Notes issued are hedged to Hong Kong dollars by currency swaps and the Group's bank borrowings are primarily denominated in Hong Kong dollars; thus, the Group has no significant exposure to foreign exchange risk. The gearing ratio [net borrowing / (shareholders' funds + net borrowing)] for the Group as at 31st December 2010 remained healthy at 22 per cent (31st December 2009: 18 per cent). After taking into account a portfolio of financial assets at fair value through profit or loss of HK\$529 million as at 31st December 2010 (31st December 2009: HK\$405 million), the net gearing ratio [net debt / (shareholders' funds + net debt)] stood at 21 per cent (31st December 2009: 17 per cent).

Contingent Liabilities

As at 31st December 2010, the Group did not provide any guarantee in respect of bank borrowing facilities made available to any associated companies, jointly controlled entities or third parties (31st December 2009: Nil).

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 either Hong Kong dollars or United States dollars, whereas borrowings for the Group's subsidiaries 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 Investments in Securities

Under the guidance of the Group's Treasury Committee, investments have been made in equity and debt securities. As at 31st December 2010, the investments in securities amounted to HK\$3,970 million (31st December 2009: HK\$3,401 million). The performance of the Group's investments in securities was satisfactory.