2

Business Performance

Management's Discussion and Analysis

Strategy

Hysan continues to curate and expand its investment portfolio, which is predominantly located in Causeway Bay, one of Hong Kong's prime commercial districts. We also seek to complement our core business by investing in several strategic growth "pillars", with the aim of delivering a more balanced and diversified portfolio.

Review of Results

In HK$ million	**2023**	2022	Change
Turnover	**3,210**	3,460	-7.2%
– Office	**1,472**	1,578	-6.7%
– Retail	**1,533**	1,643	-6.7%
– Residential	**205**	239	-14.2%
Recurring Underlying Profit	**1,832**	2,063	-11.2%
Underlying Profit	**1,832**	2,129	-14.0%

Hysan's Hong Kong investment property portfolio comprises three sectors – office, retail and residential – covering a floor area of approximately 4.5 million square feet. As at 31 December 2023, office properties accounted for around 55% of the Group's investment portfolio by gross floor area, while retail properties made up around 30%. Our office and retail properties are located in Causeway Bay's Lee Gardens precinct. Approximately 15% of the Group's investment portfolio by gross floor area is residential, mainly comprising its Bamboo Grove apartments in Hong Kong's Mid-Levels.

Turnover and Recurring Underlying Profit saw year-on-year declines of 7.2% and 11.2% respectively. Structural changes continued to put pressure on the office and residential sector. On average approximately 10% of our retail area were closed for the major enhancement works of Lee Gardens rejuvenation project. The corresponding impact has been reflected in our retail turnover.

The Board of Directors has declared a second interim dividend of HK81 cents per share (2022: HK117 cents) which will be payable in cash.

The reconciliation of Recurring Underlying Profit, Underlying Profit and Reported Loss is as follows:

	2023 HK$ million	2022 HK$ million
Reported loss	**(872)**	(1,157)
Change in fair value of properties	**2,020**	2,858
Investment properties	**2,763**	3,213
Less: Effect of other non-controlling interests	**(732)**	(344)
Share of associates (net of tax)	**(11)**	(11)
Change in fair value of other financial investments	**267**	1
Imputed interest income on interest-free loan to a joint venture	**(24)**	(24)
Other gains and losses	**(1)**	1
Profit attributable to perpetual capital securities holders	**442**	450
Underlying Profit	**1,832**	2,129
One-off exchange gain	**–**	(66)
Recurring Underlying Profit	**1,832**	2,063

KEY PERFORMANCE INDICATORS

The Group's turnover growth and occupancy rates are the key measurements used for the assessment of our core leasing business performance. Cost effectiveness is assessed by the Group's management using the property expenses ratio (as a percentage of turnover).

		Business Performance		
Key Performance Indicators	Definition	Sector	**2023**	2022
Turnover Growth	Rental revenue in current year vs that in last year	Office	**-6.7%**	-8.7%
		Retail	**-6.7%**	+1.4%
		Residential	**-14.2%**	-8.1%
Occupancy Rate	Percentage of total lettable area leased / total lettable area of each portfolio at year-end	Office	**89%**	90%
		Retail	**97%**	99%
		Residential	**60%**	61%
Property Expenses Ratio	Property expenses divided by turnover	N/A	**19.3%**	16.4%

Review of Operations

OFFICE

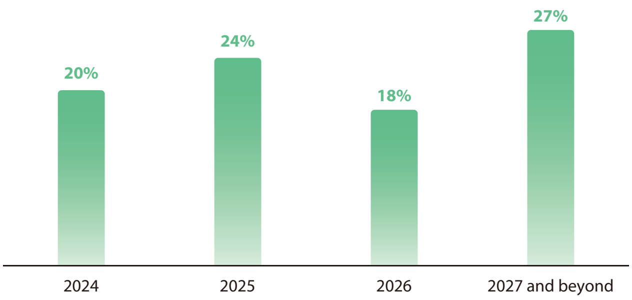
Turnover of the Group's office portfolio saw a decline of 6.7% to HK$1,472 million (2022: HK$1,578 million), including turnover rent of HK$5 million (2022: HK$11 million).

Due to global economic uncertainties, high interest rates, geopolitical tensions and financial stress among corporates on the Mainland, Hong Kong's office market remained weak. Coupled with a slower-than-expected economic recovery, the demand for Grade A offices softened, resulting in a city-wide Grade A office vacancy rate of 13% as of the end of 2023. Furthermore, the increasing number of landlords willing to offer more flexible lease terms, enhanced rental incentives, and higher agency fees has contributed to the challenging environment for Hong Kong's office market. Looking ahead, the office market in Hong Kong is expected to continue facing downward pressure due to a substantial increase in the supply of new projects in 2023 and 2024.

The average rental reversion rate on renewals, rent review and new lettings for Hysan's Lee Gardens portfolio remained negative. Occupancy was at 89% as at 31 December 2023 (2022: 90%).

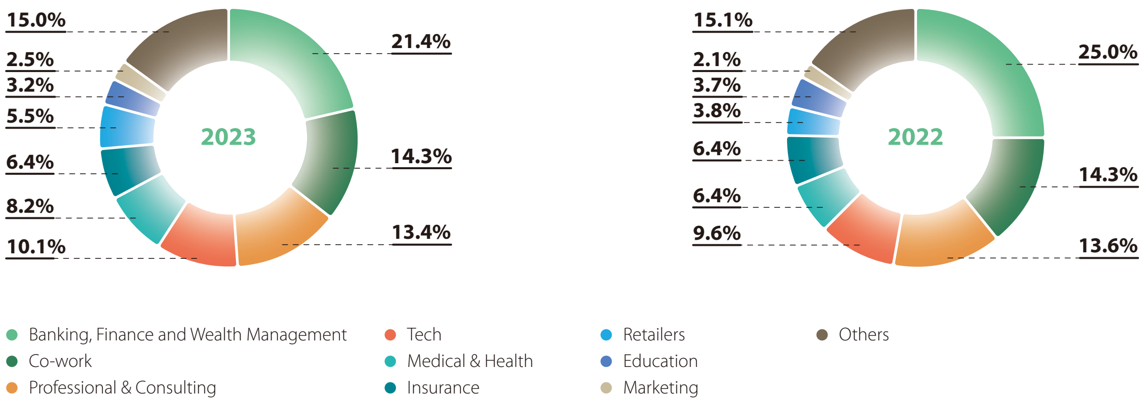
In light of lower rents and increased availability of new supply, there is a growing trend among corporates to consider relocating to better quality buildings in prime locations. The unique features of Lee Gardens, a well-connected and vibrant community that offers top-quality office facilities and an abundance of popular retail offerings, further enhance our appeal to tenants from the finance, wealth management, high-end retail, medical and health services sectors. For instance, Hermes and the medical group Adventist & Procare leased new floors in Lee Garden One and Lee Garden Two respectively. UOB and Chanel also expanded their offices in Lee Gardens. We will capitalise on this opportunity and attract more new tenants from these sectors.

Office Lease Expiry Profile by Area Occupied
(As at 31 December 2023)



As at the end of 2023, the Banking, Finance and Wealth Management sector continued to occupy the largest share 21.4% (2022: 25.0%) of our tenant portfolio by floor area. The Co-work sector and Professional and Consulting sectors were second and third. Office demand from the medical and health sector has risen due to the uptick in business performance following the resumption of normal travel with the Mainland.

Office Tenant Profile by Area Occupied as at Year-end



RETAIL

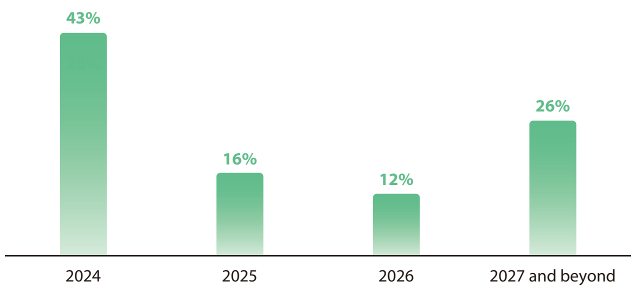
The Group's retail portfolio turnover decreased by 6.7% to HK$1,533 million (2022: HK$1,643 million). This included turnover rent of HK$154 million (2022: HK$106 million). Retail occupancy stood at a robust 97% as at 31 December 2023 (2022: 99%). The rental reversion rate on renewals, rent review and new lettings was predominantly positive during 2023.

During the year, Hong Kong's retail sales showed signs of improvement, thanks to the revival of inbound tourism, the continued improvement in household income, and the implementation of various promotional campaigns and activities by the Hong Kong Government. However, the recovery was impeded by a challenging external environment and a strong Hong Kong dollar. Additionally, the strong inclination of residents to travel and spend in nearby cities in the Greater Bay Area and overseas resulted in an imbalance in tourist flows, further impacting Hong Kong's retail sector. As a result, only a moderate increase in sales was observed from the second quarter of the year, and Hong Kong's retail industry has yet to return to pre-pandemic level.

The retail sector in Hong Kong is undergoing a transformation driven by changes in consumer behaviour, particularly a shift in tourist focus from extravagant shopping to experience-based tourism. In view of this, Hysan Place unveiled a brand-new lifestyle hub on the basement floors. This hub showcases nearly 40 lifestyle, entertainment, and food and beverage brands from various Asian cities, including some making their debut in Hong Kong. This transformation was inspired by the concept of #URBANHOOD, which aims to engage a creative and lifestyle focused generation, connecting them with popular culture. Together with #UrbanSky, #UrbanPark, and over a hundred local and international brands and dining outlets in Hysan Place and the nearby area, #URBANHOOD offers an engaging experience that caters for all generations.

The rejuvenation of Lee Gardens also made significant progress throughout the year. Major enhancement works at Lee Garden One were completed with the arcade area reopened in late 2023. The flagship stores of our key luxury anchor tenants are undergoing renovation and will be completed in stages by 2024 and 2025. The reopening of these flagship stores will reinforce Lee Gardens as the premier destination for top luxury brands in Hong Kong.

Retail Lease Expiry Profile by Area Occupied (As at 31 December 2023)



MARKETING INITIATIVES AND LOYALTY PROGRAMMES

In 2023, we implemented a range of diversified marketing programmes to enhance our core business and promote inclusivity in Lee Gardens.

Despite the global economic uncertainties, we implemented various initiatives to sustain members' traffic and sales. These included refining the lounge service, providing personalised services for top-tier members, and launching sales boosting programmes targeting different transaction levels. As a result, the retention rate of top-tier members returned to pre-covid levels, and Club Avenue achieved a modest increment in total member sales.

The introduction of #UrbanPark and Playdot at Lee Gardens brought novelty and unique experiences to cater to the diverse interests and needs of our customers. At the beginning of the year, we unveiled #UrbanPark, the first-ever covered skatepark in Hong Kong, at Hysan Place with an exciting opening party featuring a world-renowned skateboarder. This campaign received support from international luxury and skateboarding brands through sponsorships and a premium crossover pop-up shop. Throughout the year, we also hosted collaborative skateboarding events with I.T. and Chivas to further engage trendsetters. In August, we launched Playdot, an exclusive indoor play space in Lee Garden Two. This introduction extended the range of activities available for our members and their children, providing them a unique and immersive experience. Parent-child activities and learning workshops were also regularly held at Playdot to create enjoyable moments for our members and their children while allowing the children to learn through play.

Throughout the year, we organised thematic campaigns, incorporating installations and sales promotions, to attract more visitors and boost sales during festive seasons. In January, we held the "Unfold Your Aesthetic Stories" Chinese New Year campaign, which combined traditional paper art with immersive experiences and digital interactions, creating a memorable and festive atmosphere for our members during the holidays. In March, we organised the Kids Carnival, which garnered support from 30 children's and homeware brands, reinforcing the position of Lee Garden Two and Three as destinations for families and children. In December, we collaborated with renowned visual artist and illustrator, Jirayu Koo, for the "Glom Glom All The Way" Christmas campaign. This campaign offered a captivating visual experience with art, lifestyle and fashion. A series of engagement programmes, including family portraits with Santa Claus and enchanting performance, were also held to enhance the overall Christmas shopping experience in Lee Gardens.

Furthermore, we implemented a diverse range of rewards programmes to enhance awareness and sales on our e-Commerce hy! Platform. The iconic Power Up campaign offered discounts on e-vouchers from over 100 participating tenants this year, and we once again, partnered with Hang Seng Bank to provide additional rewards. This campaign returned with great success, generating promising sales and reactivating inactive members.

RESIDENTIAL

In 2023, the increased demand from an influx of young professionals and graduates through various talent schemes had a positive impact on Hong Kong's mass residential leasing market. However, the luxury residential leasing market continued to face challenges and remained sluggish. Despite some sporadic big-ticket lease transactions, overall demand, particularly for older developments, remained low primarily due to the lack of demand from expatriates. As a result, Hysan's residential leasing portfolio turnover saw a decline of 14.2% to HK$205 million (2022: HK$239 million). Occupancy was at 60% as at 31 December 2023 (2022: 61%). The average rental reversion in the sector was negative for renewals, rent reviews and new lettings.

Core Expansion and Strategic Pillars

COMMERCIAL PROPERTY DEVELOPMENT – CAROLINE HILL ROAD PROJECT

The construction works for the Caroline Hill Road project, our strategic joint venture development with Chinachem Group, are on track. The entire project is progressing on schedule for opening in late 2026. This is an important milestone in our long-term growth plans and will reinforce the Lee Gardens precinct as one of Hong Kong's most unique destinations.

The Caroline Hill Road Project is included under "investment properties" in our consolidated statement of financial position.

RESIDENTIAL PROPERTY DEVELOPMENT – VILLA LUCCA IN TAI PO AND TO KWA WAN RESIDENTIAL PROJECT

Our joint-venture luxury residential project, VILLA LUCCA, was granted a Certificate of Compliance in the first quarter of 2023. This development of 262 garden houses and apartments is the first residential project on Tai Po's prestigious Lo Fai Road in recent years. It was honoured with a Merit Award at the Hong Kong Institute of Architects Annual Awards 2022-23, recognising its exceptional craftsmanship and visionary design.

Hong Kong's luxury residential sales market cooled down for most of 2023 due to interest rate hikes and stresses in the global financial sector. Despite the poor market sentiment, we adopted a price adjustment strategy in Q4 2023 to boost transactions. As a result, over 60 houses and apartments were sold or leased during the year, with over half of the transactions completed in the last quarter of 2023. Looking ahead, we will prepare more show flats to attract potential buyers who are seeking a "ready" home in Hong Kong.

Hysan owns a 25% stake in a joint venture to develop the Urban Renewal Authority's residential project at Bailey Street/Wing Kwong Street in Kowloon's To Kwa Wan district. The development plan was approved during the year and is targeted for completion in 2027. Hysan will apply our expertise by overseeing the design and operation of the retail portion of the project.

The VILLA LUCCA Project and To Kwa Wan Residential Project are included under "investments in joint ventures" in our consolidated statement of financial position.

SHANGHAI INVESTMENT PROPERTY – LEE GARDENS SHANGHAI

Lee Gardens Shanghai features approximately 0.7 million square feet of gross floor area for commercial activities, with 375 parking spaces available. Enhancement work on the office tower was completed in 2023, and tenants began moving in during the first quarter of 2023. Enhancement of the retail space started in 2023 and is expected to be completed in 2024. Pre-leasing activities for the retail space began in 2023, and the first tenant is expected to move in during the first half of 2024.

The investment is included under "investment properties" in our consolidated statement of financial position.

SHANGHAI INVESTMENT PROPERTY – GRAND GATEWAY 66

This investment property, in which Hysan owns a 26% stake, demonstrated resilient performance despite the impact of COVID measures in Shanghai. The investment is included under "investments in associates" under our consolidated statement of financial position.

GREATER BAY AREA FLEX – JOINT VENTURE WITH IWG PLC

All of IWG's flexible workspace brands in Hong Kong and the Greater Bay Area are exclusively operated by a Hysan-IWG joint venture.

Following the easing of COVID-19 restrictions, the performance of our flexible workspace business has further improved. Despite the overall challenges in the office market, occupancy has grown. This growth can be attributed to the increasing demand for flexible workspaces as "hybrid working" continues to proliferate. Through our partnership with one of the world's largest flexible workspace platforms, we are confident and optimistic about our Greater Bay Area Flex business.

With the addition of five new centres in Hong Kong and Shenzhen during the year, the joint venture now operates 39 centres across the Greater Bay Area as of the end of 2023. We will continue to expand IWG's brand within the region's growing flexible workspace market.

The investment is included under "investments in joint ventures" in our consolidated statement of financial position.

MEDICAL AND HEALTH – NEW FRONTIER GROUP

New Frontier Group is a leading private healthcare services provider based in the Mainland that operates a system of acute hospitals, an online hospital, rehabilitation and geriatric hospitals, oncology centres, ambulatory centres, outpatient clinics, a home health network, doctor groups, training centres and health insurance services across the country. Its growth momentum continued in 2023.

Hysan's minority stake investment in New Frontier Group provides strategic exposure for the Group in the Mainland's fast-growing healthcare sector where demand for premium healthcare facilities and services is on the rise.

The investment is included as part of the "other financial investments" in our consolidated statement of financial position.

Financial Review

A review of the Group's results and operations is featured in the preceding sections. This section deals with other significant financial matters.

OPERATING COSTS

The Group's operating costs are generally classified as property expenses (direct costs and front-line staff wages and benefits) and administrative expenses (indirect costs, largely comprising payroll related costs of management and head office staff).

In response to the economic situation, the Group adopted rigorous cost control measures and kept our operating cost down during the year. However, the significant increase in electricity tariff and the turnover impact of the Lee Gardens rejuvenation project drove up our operating costs to turnover ratio to 29% (2022: 26%). Excluding the negative turnover impact of Lee Gardens rejuvenation project, the Group's operating costs to turnover ratio would be approximately 27.3% on a like-for-like basis.

FINANCE COSTS

Finance costs increased to HK$478 million, as compared with HK$423 million in 2022, contributed by the interest rate hike during the year. The effective interest rate for the year was 4.2%, as compared with 2.8% in 2022.

Further explanation of the Group's treasury activities and policy, including debt and interest rate management, is set out in the "Treasury Policy" section.

REVALUATION OF INVESTMENT PROPERTIES

As at 31 December 2023, the Group's investment real estate portfolio was valued at HK$96,005 million, a decrease of 0.8% from the HK$96,787 million recorded at the prior year-end.

The valuation was carried out by Knight Frank Petty Limited, an independent professional valuer, on the basis of market value. A fair value loss on investment properties (after considering capital expenditure spent on the Group's investment properties) of HK$2,763 million (2022: HK$3,213 million) was recognized in the Group's consolidated statement of profit or loss for the year. The loss mainly reflects heightened market risk in the office sector weakened by continued global economic uncertainties.

The following shows the property valuation of each portfolio at year-end.

	2023 HK$ million	2022 HK$ million	Change
Office	**35,688**	36,906	-3.3%
Retail	**32,480**	31,517	+3.1%
Residential	**8,647**	8,724	-0.9%
Property under development	**19,190**	19,640	-2.3%
	96,005	96,787	-0.8%

INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The Group's investments in associates are primarily represented by its interest in Grand Gateway 66, a retail, office and residential complex in Shanghai, China. The share of results of associates decreased to HK$270 million (2022: HK$274 million). The Group's share of the revaluation gain (net of deferred tax) amounting to HK$11 million (2022: revaluation gain of HK$11 million). The properties at Grand Gateway 66 were revalued at fair value by an independent professional valuer for both years ended 31 December 2022 and 2023.

The Group's investment in joint ventures comprises interests in a Tai Po residential project, To Kwa Wan residential project and the IWG Flex business.

OTHER FINANCIAL INVESTMENTS

Investment in New Frontier Group was one of the key initiatives which provides strategic exposure for the Group in the fast-growing healthcare sector in Mainland. As at 31 December 2023, other financial investments totalled HK$1,557 million (2022: HK$2,035 million). The decrease was mainly due to the fair value loss of HK$525 million (2022: fair value loss of HK$43 million).

BANK DEPOSITS

In addition to placing surplus funds as time deposits in banks with strong credit ratings, the Group also invested in investment grade debt securities.

Excluding imputed interest income of HK$24 million (2022: HK$24 million) recognized on an interest-free loan to a joint venture company for a residential site development in Tai Po, like-for-like interest income increased to HK$198 million (2022: HK$121 million) resulting from higher deposit rate on the bank deposits placed.

CASH FLOW

Cash flow of the Group during the year is summarized below. Cash includes liquid cash and bank deposits with less than 3 months' tenor.

	2023 **HK$ million**	2022 HK$ million
Cash generated from operations	**2,431**	2,591
Net investment and advance to joint ventures and other financial investments	**(531)**	(2,530)
Net (repayments) borrowings	**(1,334)**	5,516
Repurchase and distribution of perpetual capital securities	**(442)**	(857)
Movements in time deposits, other receivables and payables	**4,166**	(3,100)
Interest and taxation	**(1,014)**	(833)
Dividends paid	**(1,585)**	(1,593)
Considerations for share repurchase	**(1)**	(162)
Capital expenditure	**(1,669)**	(3,081)
Net cash inflow (outflow)	**21**	(4,049)

The Group's cash generated from operations was HK$2,431 million (2022: HK$2,591 million), HK$160 million lower than that in 2022, reflecting lower Recurring Underlying Profit from our core leasing business.

Net investment and advance to joint ventures and other financial investments, amounted to HK$531 million (2022: HK$2,530 million) related to advance to the residential site development in Tai Po.

Net repayments amounted to HK$1,334 million in 2023, reflecting issuance and repayment of fixed rate notes, drawdown and repayment of bank loans and drawdown of loan from non-controlling interest. In 2022, total net borrowings were HK$5,516 million.

In 2020, the Group through a wholly owned subsidiary of the Company (the "Issuer") issued US$850 million (equivalent to approximately HK$6,604 million) 4.10% subordinated perpetual capital securities, which are unconditionally and irrevocably guaranteed by the Company. Further, the Issuer issued US$500 million (equivalent to approximately HK$3,875 million) 4.85% senior perpetual capital securities, which are unconditionally and irrevocably guaranteed by the Company. The proceeds of the capital securities are for general corporate purposes and the capital securities are listed on The Stock Exchange of Hong Kong Limited. In 2023, the distribution paid to perpetual capital securities holders amounted to HK$442 million (2022: HK$458 million).

In 2022, the Group repurchased perpetual capital securities with principal amount of HK$425 million with cash consideration at HK$399 million.

Cash from bank deposits was HK$4,166 million (2022: cash placed in bank deposits: HK$3,100 million), which was mainly attributable to reduction in deposits with longer tenor.

The Group paid dividends of HK$1,479 million (2022: HK$1,486 million), via a 2022 second interim dividend of HK117 cents per share (2022: HK117 cents) and a 2023 first interim dividend of HK27 cents per share (2022: HK27 cents).

During the year, the Group purchased a total of 48,400 ordinary shares for a total of consideration of approximately HK$1 million on the Stock Exchange for a one-off share award plan adopted by the Company on 15 October 2023 in commemoration of the momentous occasion of the 100th anniversary of the establishment of the Group in Hong Kong. In 2022, the Group repurchased 7.3 million of its own shares as part of its capital management programme for an aggregate consideration of approximately HK$162 million.

CAPITAL EXPENDITURE AND MANAGEMENT

Total cash outlay of capital expenditure decreased to HK$1,669 million during the year (2022: HK$3,081 million). The capital expenditure during the year was mainly related to Caroline Hill Road project and enhancement works in Lee Gardens area. The Group is committed to enhancing the asset value of its investment property portfolio through selective enhancement and redevelopment.

Treasury Policy

CAPITAL STRUCTURE MANAGEMENT

To ensure a healthy financial position and a suitable capital structure servicing its financing needs and sustainable growth, the Group always strives to diversify its funding sources, and to maintain an appropriate debt maturity profile relative to the overall use of funds. The Group also aims to maintain adequate liquidity, keep a low borrowing margin relative to market conditions, and adopt suitable hedging and forex management strategies.

Funding Sources

The Group's total Gross Debt[1] level as at 31 December 2023 decreased to HK$25,717 million (31 December 2022: HK$27,487 million), mainly resulting from the debts repayment during the year.

As at 31 December 2023, bank loans accounted for approximately 39% of the Group's total Gross Debt with the remaining 61% from capital market financing (31 December 2022: 39% : 61%).

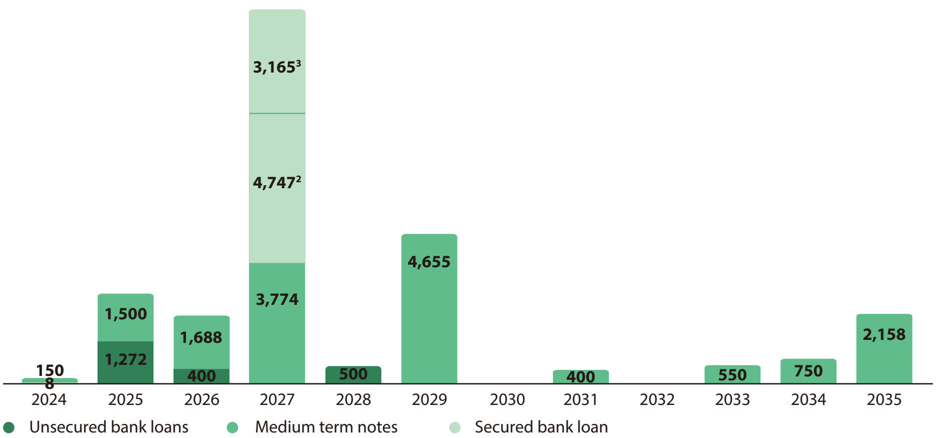
The following table shows the Group's sources of debt financing as at 31 December 2023 (in HK$ million):

	Available	Drawn	Undrawn
Secured term loans	12,951	7,912	5,039
Unsecured term loans	2,150	2,150	–
Committed revolving loans	6,369	–	6,369
Capital market issuances	15,625	15,625	–
Total committed facilities	**37,095**	**25,687**	**11,408**
Uncommitted loans	2,500	30	2,470
Total source of debts financing	**39,595**	**25,717**	**13,878**

Maturity Profile

The Group maintains a well-staggered debts maturity profile in the coming 12 years to match with the nature of our assets and operations. As at 31 December 2023, the average maturity of debt portfolio was about 4.5 years (2022: 4.8 years) and have approximately HK$158 million debts maturing in 2024.

The following shows the debts maturity profile of the Group at 2023 year-end (in HK$ million):



1 The Gross Debt represents the contractual principal payment obligations as at 31 December 2023. However, in accordance with the Group's accounting policies, the debt is measured at amortized costs, using the effective interest method. As disclosed in the Group's consolidated statement of financial position as at 31 December 2023, the book value of the outstanding debt of the Group was HK$25,564 million (31 December 2022: HK$27,277 million).

2 60% secured term loans of Caroline Hill Road project (guaranteed by Hysan).

3 40% secured term loans of Caroline Hill Road project (guaranteed by Chinachem Group).

Gearing ratio and net interest coverage

The Group's gearing ratio, as measured by Net Debt to Equity ratio[4], was 27.2% at year-end 2023 (31 December 2022: 23.4%). The Group's Net Interest Coverage[5] decreased to 9.6 times for 2023 (2022: 13.1 times).

Credit Rating

The Group keeps an active dialogue with credit rating agencies and aims at maintaining investment-grade credit ratings. As at 31 December 2023, the Group's credit ratings were maintained at Baa1 from Moody's and BBB+ from Fitch, reflecting the Group's strong financial position and prudent capital management strategy.

LIQUIDITY MANAGEMENT

As at 31 December 2023, the Group has cash and bank deposits totalling about HK$3,854 million (31 December 2022: HK$7,771 million). In order to preserve liquidity and for yields enhancement, the Group invested HK$994 million (2022: HK$992 million) in investment-grade debts securities.

Further liquidity, if needed, is available from the undrawn committed facilities offered by the Group's relationship banks. These facilities amounted to HK$6,369 million at the year-end of 2023 (31 December 2022: HK$4,900 million).

INTEREST RATE MANAGEMENT

Interest expenses represent one of the key cost drivers of the Group's business. The Group monitors its interest rate exposure closely and adopts an appropriate hedging strategy in light of market conditions. The fixed rate debt ratio (after taking into account interest rate swap) as at 31 December 2023 was 62% (31 December 2022: 61%). The effective interest rate increased to 4.2% at year-end 2023 from 2.8% at year-end 2022.

FOREIGN EXCHANGE MANAGEMENT

The Group aims to achieve minimal currency exposure and does not speculate in currency movements for asset and liability management. The Group monitors and manages its foreign currency exposure, including USD and RMB, where appropriate, by applying systematic measures to mitigate foreign currency risks.

All USD fixed rate notes were hedged via cross-currency swaps to effectively convert the debts into HKD. A USD bank loan has also been drawn down as a natural hedge against the Group's outstanding foreign currency balances in the investment in debts securities.

USE OF DERIVATIVES

As at 31 December 2023, outstanding derivatives were all related to the hedging of foreign exchange exposures and interest rates. Strict internal guidelines have been established to ensure derivatives are used to manage volatility or to adjust the appropriate risk profile of the Group's treasury assets and liabilities.

COUNTERPARTY CREDIT RISK

All deposits are placed with banks with strong credit ratings and counterparty risk is monitored on a regular basis.

Before entering into any hedging transaction, the Group will ensure that its counterparty possesses strong investment-grade ratings to control credit risk. As part of our risk management, a limit on maximum risk-adjusted credit exposure is assigned to each counterparty, which basically reflects the credit quality of the counterparty.

SUSTAINABLE FINANCE INITIATIVES

The sustainable finance transactions at year-end were approximately HK$19,300 million, representing around 49% of the Group's total debts and facilities. We aim to increase gradually the sustainable finance portion of the Group's total indebtedness.

4 Net Debt to Equity is defined as borrowings less time deposits, cash and cash equivalents divided by total equity.

5 Net Interest Coverage is defined as gross profit less administrative expenses before depreciation divided by net interest expenses after interest capitalization.