Financial review

Capital expenditure, liquidity and financial resources

Capital expenditure during the year amounted to HK$2,751 million (2008: HK$2,084 million), which was primarily funded by cash from operations. Total external borrowings outstanding at the year end were HK$12,247 million (31st December 2008: HK$10,667 million), comprising unsecured bank loans and debt securities in issue. In addition, the Group had undrawn committed bank facilities of HK$6,500 million (31st December 2008: HK$7,450 million) and bank deposits and cash of HK$5,093 million (31st December 2008: HK$8,962 million).

Treasury policies, financing activities and capital structure

The Group manages its financial risks in accordance with guidelines laid down in its treasury policy, which is approved by the Board. The treasury policy is designed to manage the Group's currency, interest rate and counterparty risks. The Group aims to ensure that adequate financial resources are available for refinancing and business growth.

The Group's financial profile remained strong during the year. In December 2009, Standard and Poor's affirmed the A+ long term credit ratings of Hongkong Electric Holdings Limited and The Hongkong Electric Company, Limited with a stable outlook. As at 31st December 2009, the net debt of the Group was HK$7,154 million (31st December 2008: HK$1,705 million) with a net debt-to-equity ratio of 14% (31st December 2008: 4%).

The profile of the Group's external borrowings, after taking into account interest rate swaps was as follows:-

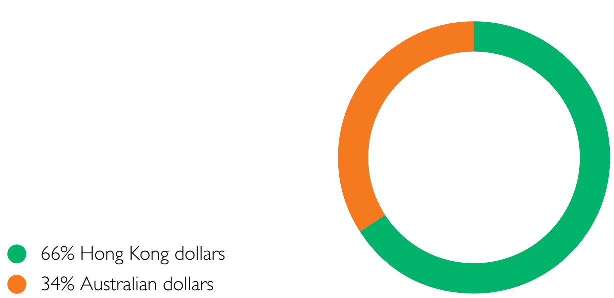
(1) 66% was in Hong Kong dollars and 34% in Australian dollars;

(2) 75% was bank loans and 25% was capital market instruments;

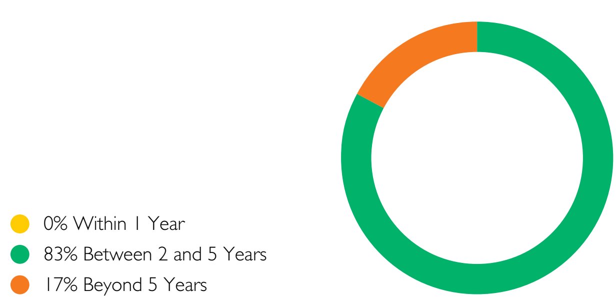
(3) 0% was repayable within 1 year, 83% was repayable between 2 and 5 years and 17% was repayable beyond 5 years;

(4) 57% was at fixed interest rates and 43% was at floating interest rates.

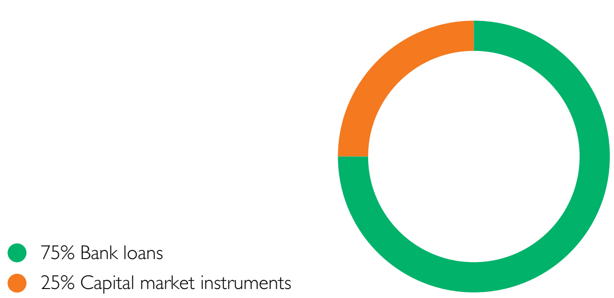
By currency



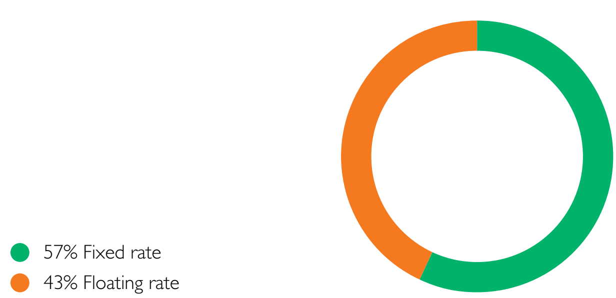
By maturity



By structure



By interest rate structure



Currency and interest rate risks are actively managed in accordance with the Group's treasury policy. Derivative financial instruments are used primarily for managing interest rate and foreign currency risks and not for speculative purposes. Treasury transactions are only executed with counterparties with acceptable credit ratings to control credit risk exposure.

The Group's policy is to maintain a portion of its debt at fixed interest rates. Interest rate risk is managed by either securing fixed or floating rate borrowings or by using interest rate derivatives. As at 31st December 2009, 57% of the Group's total borrowings were at fixed interest rates.

The Group's principal foreign currency exposures arise from its investments outside Hong Kong and from the import of fuel and capital equipment. Foreign currency transaction exposure is managed mainly through forward contracts. As at 31st December 2009, over 85% of the Group's transaction exposure was either denominated in US dollars or hedged into Hong Kong or US dollars. Where considered appropriate, currency exposure arising from investments outside Hong Kong is mitigated by financing those investments in local currency borrowings. Foreign currency fluctuations will affect the translated value of the net assets of investments outside Hong Kong and the resultant translation difference is included in the Group's reserve account. Income received from the Group's investments outside Hong Kong which is not denominated in Hong Kong dollars is, unless otherwise determined, converted into Hong Kong dollars on receipt.

The contractual notional amounts of derivative financial instruments outstanding at 31st December 2009 amounted to HK$7,891 million (31st December 2008: HK$7,763 million).

Charges on group assets

At 31st December 2009, the Group's interests in an associate of HK$740 million (31st December 2008: HK$552 million) have been pledged as part of the security to secure bank borrowings granted to that associate.

At 31st December 2009, the Group's interests in a jointly controlled entity of HK$2,991 million (31st December 2008: Nil) have been pledged as part of the security to secure bank borrowings granted to that jointly controlled entity.

Contingent liabilities

As at 31st December 2009, the Group had given guarantees and indemnities totalling HK$1,642 million (31st December 2008: HK$1,262 million).

The Company had given guarantees and indemnities in respect of bank and other borrowing facilities made available to and financial commitments of subsidiaries totalling HK$4,212 million (2008: HK$3,217 million). Out of this amount, HK$4,202 million (2008: HK$3,207 million), while being a contingent liability of the Company, is reflected in the consolidated balance sheet of the Group.

Employees

The Group continues its policy of pay for performance and market pay levels are monitored to ensure competitiveness is maintained. The Group's total remuneration costs for the year ended 31st December 2009, excluding directors' emoluments, amounted to HK$798 million (2008: HK$877 million). As at 31st December 2009, the Group employed 1,879 permanent staff (2008: 1,864). No share option scheme is in operation.

The Group provides training for employees in management and functional skills, language skills, computer knowledge and technology relevant to the Group's industry by both classroom training and e-learning platforms. Training schemes for university graduates, trainee technicians and apprentices and other job-related programmes are also available for employees to develop and enhance their skills and abilities. In addition, talks are arranged to provide updates on company developments and wellness information.