

Financial Review

Capital Expenditure, Liquidity and Financial Resources

Capital expenditure in Hong Kong during the year amounted to HK\$2,890 million (2010: HK\$2,431 million), which was primarily funded by cash from operations. Total external borrowings outstanding at the year end were HK\$23,626 million (2010: HK\$25,773 million), comprising unsecured bank loans and debt securities in issue. In addition, the Group had undrawn committed bank facilities of HK\$6,500 million (2010: HK\$6,500 million) and bank deposits and cash of HK\$6,121 million (2010: HK\$5,839 million).

Treasury Policy, Financing Activities and Debt Structure

The Group manages its financial risks in accordance with guidelines laid down in its treasury policy, which is

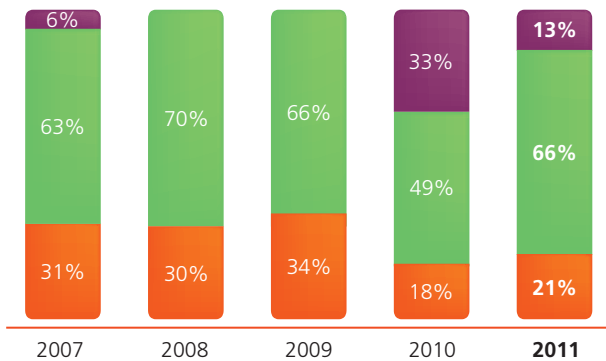
approved by the Board. The treasury policy is designed to manage the Group's currency, interest rate and counterparty risks. The Group aims to ensure that adequate financial resources are available for refinancing and business growth.

The Group's financial profile remained strong during the year. In December 2011, Standard and Poor's affirmed the "A+" long term credit ratings of Power Assets Holdings Limited and The Hongkong Electric Company, Limited with a stable outlook. As at 31st December 2011, the net debt of the Group was HK\$17,505 million (2010: HK\$19,934 million) with a net debt-to-equity ratio of 30% (2010: 36%) and a net debt-to-total capital ratio of 21% (2010: 24%).

The profile of the Group's external borrowings as at 31st December after taking into account interest rate and cross currency swaps, is set out in the tables below:-

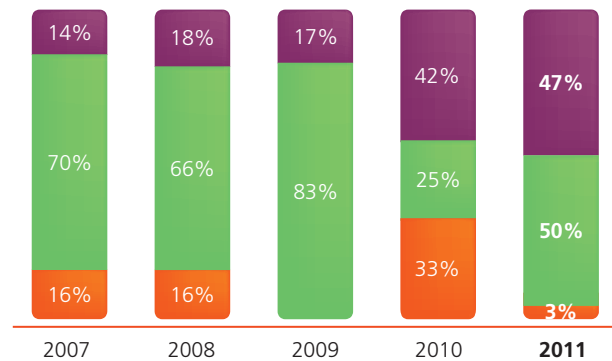
Debt Profile by Currency

- Australian Dollars
- Hong Kong Dollars
- Sterling Pounds



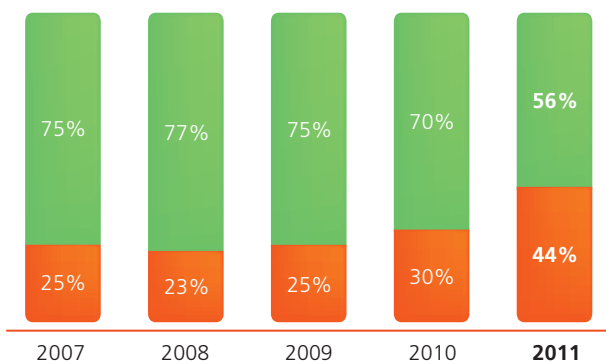
Debt Profile by Maturity

- Within 1 Year
- Between 2 and 5 Years
- Beyond 5 Years



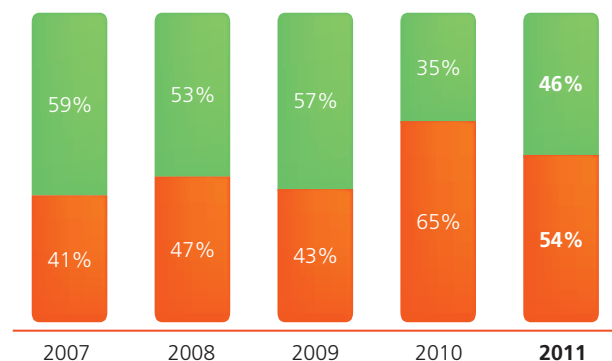
Debt Profile by Structure

- Capital Market Instruments
- Bank Loans



Debt Profile by Interest Rate Structure

- Floating Rate
- Fixed Rate



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.

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 counterparty risk exposure.

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 2011, over 90% of the Group's transaction exposure was either denominated in United States dollars or hedged into Hong Kong or United States dollars. Where considered appropriate, currency exposure arising from investments outside Hong Kong is mitigated by financing those investments in local currency borrowings and by entering into forward foreign exchange contracts. 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 2011 amounted to HK\$26,405 million (2010: HK\$15,918 million).

Charges on Group Assets

At 31st December 2011, the Group's interest in two associates of HK\$10,964 million (2010: HK\$9,982 million) had been pledged as part of the security to secure financing facilities granted to those associates.

At 31st December 2011, the Group's interest in a jointly controlled entity of HK\$3,120 million (2010: HK\$3,259 million) had been pledged as part of the security to secure financing facilities granted to that jointly controlled entity.

Contingent Liabilities

As at 31st December 2011, the Group had given guarantees and indemnities totalling HK\$1,149 million (2010: HK\$2,126 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\$8,161 million (2010: HK\$13,200 million). Out of this amount, HK\$8,156 million (2010: HK\$13,190 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 the pay levels are monitored to ensure competitiveness is maintained. The Group's total remuneration costs for the year ended 31st December 2011, excluding directors' emoluments, amounted to HK\$858 million (2010: HK\$828 million). As at 31st December 2011, the Group employed 1,861 (2010: 1,862) permanent employees. No share option scheme is in operation.