HONGKONG ELECTRIC HOLDINGS LIMITED

FINANCIAL REVIEW

Capital Expenditure, Liquidity, Financial Resources and Gearing Ratio

Capital expenditure for the year amounted to HK$4,134 million, which was primarily funded by cash from operations and bank loans. Total net external borrowings decreased from HK$17,189 million at the beginning of the year to HK$13,758 million at year end. The decrease was due to the refinancing of bridge loans secured from the acquisition of Powercor Australia and a net positive cashflow. In addition, undrawn committed credit facilities available to the Group totalled HK$5,744 million (2000: HK$4,981 million). The gearing ratio (net debt/shareholders' funds) at 31st December 2001 was 41% (2000:56%).

Treasury Policies, Financing Activities and Capital Structure

The Group continues to ensure that its businesses are financed from a variety of competitive sources and that committed facilities are available for refinancing and business growth. In addition, currency and interest risks are actively managed on a conservative basis.

The A$844 million bridge loans were completely refinanced at both the sponsors' and project level. An A$405 million 5-year syndicated term loan facility was raised to refinance the Group's equity contribution, while the balance was replaced by commercial paper and debt issuance in the name of Powercor Australia Limited.

During the year, the Group secured committed funds of HK$6,200 million for refinancing and corporate funding requirements. The largest transaction was a Dual Tranche Syndicated Loan Facility, with 5 and 7 years terms. Strong demand in the banking market for credit worthy companies allowed us to raise the amount from an original HK$2,500 million to HK$4,500 million. The Group also secured HK$1,200 million in bilateral loans and a further HK$500 million via a privately placed 3-year fixed rate notes issue. The proceeds from these facilities were used in part to retire more expensive existing debt and partly to act as committed facilities for funding requirements over the next 12 months.

As at 31st December 2001, external borrowings of the Group amounted to HK$14,338 million with the following profile:

(1) 70% was either denominated or effectively hedged into Hong Kong dollars and 29% was denominated in Australian dollars;
(2) 68% was medium term loans, 22% was capital market instruments and 10% was suppliers' credits;
(3) 87% was repayable between 2 to 5 years and 6% was repayable beyond 5 years;
(4) 78% was fixed or capped rate based.

It is the Group's treasury policy not to engage in any speculative trading activity. Foreign currency transaction exposure, other than in US dollars, is managed in accordance with treasury guidelines, utilising forward contracts and currency and interest rate swaps. As at 31st December 2001, over 99% of the Group's transaction exposure was either hedged or denominated in Hong Kong or US dollars. Currency exposure arising from overseas investments is hedged by arranging a comparable level of borrowings in the same currency as the underlying investments. Interest rate risk is managed by using a spectrum of financial instruments to maintain a majority of the Group's debt at fixed rates. This is achieved either by means of fixed rate debt issues or by the use of interest rate swaps and caps. At 31st December 2001, the contractual notional amounts of derivative instruments outstanding amounted to HK$14,034 million (2000 : HK$9,885 million) equivalent.

Contingent Liabilities

As at 31st December 2001, the Company has given guarantees to banks in respect of banking facilities and development security available to associates amounting to HK$40 million (2000 : HK$8 million). The Company has also given guarantees in respect of bank and other borrowing facilities available to subsidiaries totaling HK$8,587 million (2000 : HK$9,663 million) equivalent. This HK$8,587 million (2000 : HK$9,663 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 by performance and market pay rates are monitored constantly to ensure competitiveness is maintained. The Group's total remuneration costs for the year ended 31st December 2001, excluding directors' emoluments, amounted to HK$1,083 million (2000: HK$1,096 million). As at 31st December 2001, the Group employed 2,318 (2000: 2,366) permanent staff. No share option scheme is in operation.

Apart from well-established training schemes for university graduates, trainee technicians and apprentices, the Group also provides training for staff in language, computer knowledge, the latest technology as well as numerous job-related courses to enhance the skills and knowledge of our employees.