Capital Expenditure, Liquidity, Financial Resources and Gearing Ratio

Capital expenditure during the year amounted to HK$3,145 million, which was primarily funded by cash from operations. As at 31st December 2002, total external borrowings were HK$16,354 million (2001: HK$14,338 million), comprising unsecured bank loans, unsecured deferred creditors and debt securities in issue. In addition, undrawn committed credit facilities available to the Group totalled HK$4,480 million (2001: HK$5,744 million). Gearing ratio (net debt/shareholders' funds) at 31st December 2002 was 44% (2001: 41%).

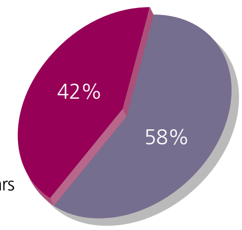
Treasury Policies, Financing Activities and Capital Structure

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.

During the year, the Group has arranged a bridge facility for A$650 million to finance the acquisition of 50% interest in CitiPower, its third electricity distribution business acquisition in Australia. The facility is for 364 days and will be refinanced with longer term funds in 2003. As for its local financing activity, the Group issued HK$2,000 million debt securities with 3-year and 8-year maturities in the local capital market to refinance existing debts more cost effectively and at the same time, improve its debt maturity profile.

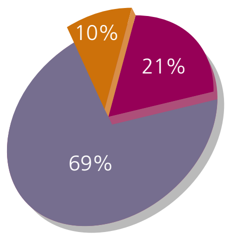
As at 31st December 2002, external borrowings of the Group amounted to HK$16,354 million with the following profile:

By Currency



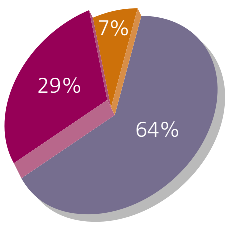
58% Hong Kong Dollars / hedged into Hong Kong Dollars
42% Australian Dollars

By Maturity



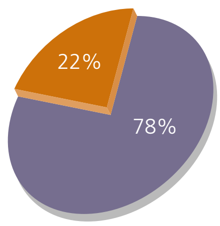
21% Within 1 Year
69% Between 2 to 5 Years
10% Beyond 5 Years

By Structure



64% Bank Loans
29% Capital Market Instruments
7% Suppliers' Credits

By Interest Rate Structure

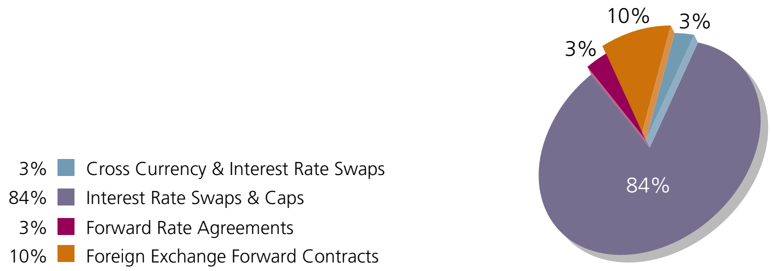


78% Fixed or Capped Rate
22% Floating Rate

Hongkong Electric Finance Limited, a wholly-owned subsidiary of The Hongkong Electric Company, Limited, established a US$1 billion Medium Term Note Programme in December 2002. The Programme is rated "A+" by Standard & Poor's and notes issued are eligible for listing on the Luxembourg Stock Exchange. The establishment of the Programme will further facilitate the Group's future financing plans, enabling it to access the international debt capital markets in a more efficient manner.

It is the Group's treasury policy not to engage in speculative transactions. Foreign currency transaction exposure is managed in accordance with treasury guidelines, utilising forward contracts and interest and currency swaps. As at 31st December 2002, over 95% 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 comparable level of borrowings in the same currency as the underlying investments. Interest rate risk is managed by maintaining a substantial portion of the Group's debt portfolio in fixed rate. This is achieved either directly by means of fixed rate debt issues or by the use of interest rate swaps and caps. The contractual notional amounts of derivative instruments outstanding at 31st December 2002 amounted to HK$18,358 million (2001: HK$14,034 million) equivalent.

Off-balance Sheet Financial Instruments



Contingent Liabilities

As at 31st December 2002, the Company has issued performance guarantees and letters of awareness to banks in respect of banking facilities available to associates amounting to HK$41 million (2001: HK$40 million).

The Company has given guarantees and counter indemnities in respect of bank and other borrowing facilities available to subsidiaries and financial commitments of subsidiaries totalling HK$12,691 million (2001: HK$8,587 million) equivalent. Out of this amount HK$11,854 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 2002, excluding directors' emoluments, amounted to HK$1,098 million (2001: HK$1,083 million). As at 31st December 2002, the Group employed 2,204 (2001: 2,318) 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.