

# Financial Review

## Capital Expenditure, Liquidity, Financial Resources and Gearing Ratio

Capital expenditure during the year amounted to HK\$2,106 million, which was primarily funded by cash from operations. As at 31st December 2003, total external borrowings were HK\$13,599 million (2002 : HK\$16,354 million), comprising unsecured bank loans, unsecured deferred creditors and debt securities in issue. In addition, the Group has undrawn committed bank facilities of HK\$3,443 million (2002 : HK\$4,480 million). Gearing ratio (net debt/ shareholders' funds) at 31st December 2003 was 37% (2002 : 50%).

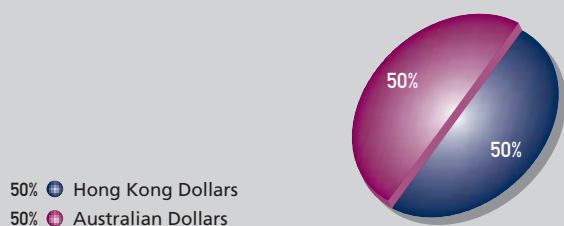
## Treasury Policies, Financing Activities and Capital Structure

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.

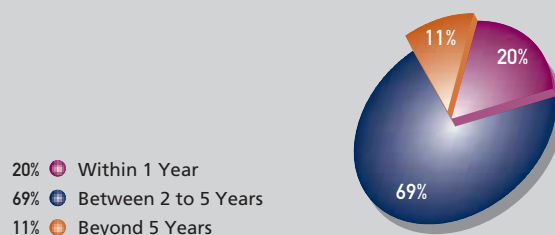
No additional term financing was put in place during the year with the focus being refinancing of existing borrowings at more competitive terms. In June 2003, the Group, through its Australian subsidiary, secured an A\$700 million 5-year dual currency loan facility to refinance a portion of the bank borrowings for its Australian electricity distribution business. Influenced by the pace of the capital expenditure programme in Hong Kong, the HK\$4.5 billion syndicated loan facility arranged in 2001 was replaced with a HK\$3 billion 5-year revolving credit facility in December 2003.

As at 31st December 2003, external borrowings of the Group amounted to HK\$13,599 million with the following profile, after taking into account currency and interest rate swaps:-

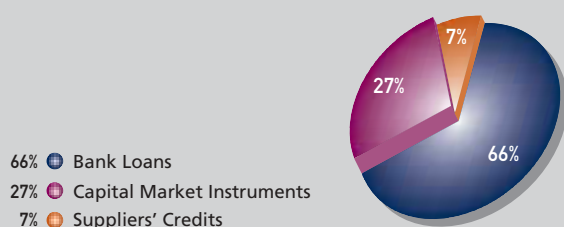
### By Currency



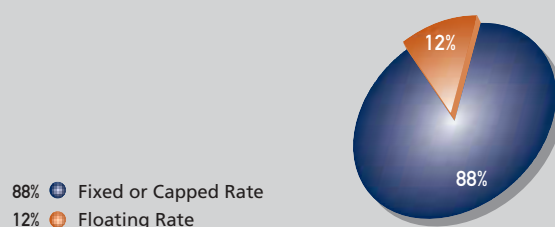
### By Maturity



### By Structure

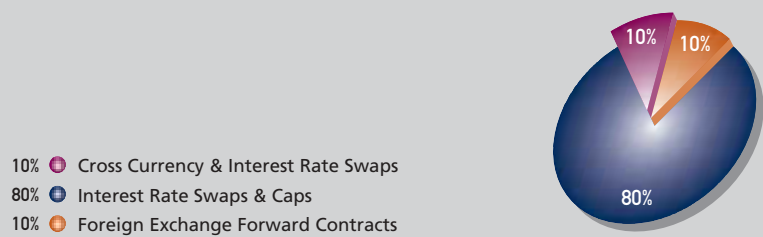


### By Interest Rate Structure



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 rate and currency swaps. As at 31st December 2003, over 85% 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. The Group's policy is to maintain a substantial portion of its debt in fixed or capped rate. Interest rate risk is managed by either fixed or floating rate borrowings or by the use of interest rate swaps and caps. The contractual notional amounts of derivative instruments outstanding at 31st December 2003 amounted to HK\$21,394 million (2002 : HK\$18,358 million) equivalent.

### Off-balance Sheet Financial Instruments



### Contingent Liabilities

As at 31st December 2003, the Company has issued performance guarantees and letters of awareness to banks in respect of banking facilities available to associates amounting to HK\$44 million (2002 : HK\$41 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 totaling HK\$11,227 million (2002 : HK\$12,691 million) equivalent. Out of this amount, HK\$10,399 million, while being a contingent liability of the Company, is reflected in the Consolidated Balance Sheet of the Group.

During the year, a wholly owned subsidiary of the Company, The Hongkong Electric Company, Limited, has given guarantees to third parties in respect of a loan scheme for electricity charges of HK\$5 million and the value of leased equipment of HK\$210 million at expiry of the lease.

### 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 2003, excluding directors' emoluments, amounted to HK\$1,034 million (2002: HK\$1,098 million). As at 31st December 2003, the Group employed 2,117 (2002: 2,204) 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, and the latest technology relevant to our industry as well as numerous job-related courses to enhance other more general skills and knowledge of our employees.