Financial Review

Financial Performance

The Group's 2013 turnover reached HK$10,222 million (2012: HK$10,415 million). The 1.9% drop in turnover was mainly due to a 2.4% decrease in unit sales of electricity in Hong Kong. Profit attributable to shareholders grew by 15% to HK$11,165 million (2012: HK$9,729 million), of which HK$6,386 million (2012: HK$5,108 million) came from operations outside Hong Kong and HK$4,779 million (2012: HK$4,621 million) was contributed by the Hong Kong operations.

Our investments in the United Kingdom delivered strong results in the year, providing a 39.8% higher earnings of HK$5,865 million (2012: HK$4,194 million). This was mainly contributed by the full year results of Wales and West Utilities which was acquired in October 2012 and deferred tax credits arising from the lowering of the UK corporation tax rate from 23% to 20%. Our Australian investments recorded slightly lower earnings of HK$838 million (2012: HK$847 million) due to weakening of the Australian dollar despite overall earnings being higher than 2012. Demand for electricity from our coal-fired plants in mainland China was still weak and they recorded less favourable results. Our operations in Canada, Thailand and New Zealand also delivered weaker performances compared with 2012 levels.

Profits from the Hong Kong operations grew by 3.4%, mainly contributed by the stable earnings of the electricity business regulated by the Scheme of Control Agreement with the Hong Kong SAR Government.

Secure earnings and a strong financial position allowed us to continue with a stable dividend policy. 2013 full year dividends of HK$2.55 per share (2012: HK$2.45 per share) represented a 4.1% growth.

Financial Positions, Liquidity and Financial Resources

The Group's financial position remained strong. Fixed assets in Hong Kong slightly decreased to HK$49,122 million (2012: HK$49,298 million). Capital expenditure during the year amounted to HK$1,973 million (2012: HK$2,613 million), which was primarily funded by cash from operations. Interest in joint ventures and associates rose by 7.5% to HK$44,611 million (2012: HK$41,511 million). In August 2013, we acquired a 20% stake in AVR-Afvalverwerking B.V., which is principally engaged in the business of waste processing and production and supply of renewable energy from the incineration of waste in the Netherlands. Total external borrowings outstanding at the year end were HK$22,348 million (2012: HK$24,599 million), comprising unsecured bank loans and debt securities in issue. In addition, the Group had undrawn committed bank facilities of HK$2,300 million (2012: HK$8,033 million) and bank deposits and cash of HK$7,894 million (2012: HK$6,140 million).

Treasury Policy, Financing Activities and Debt Structure

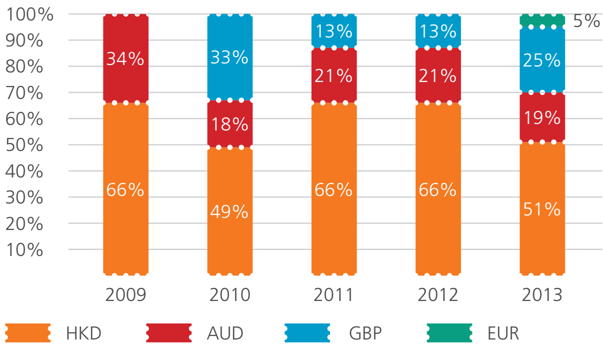
The Group manages its financial risks in accordance with guidelines laid down in its treasury policy, which is approved by the Board. The treasury policy is designed to manage the Group's currency, interest rate and counterparty risks. Surplus funds are generally placed on short term deposits denominated mostly in United States dollars, sterling pounds and Hong Kong dollars. The Group aims to ensure that adequate financial resources are available for refinancing and business growth whilst maintaining a prudent capital structure.

The Group's financial profile remained strong during the year and the latest long term credit rating of Power Assets Holdings Limited issued by Standard & Poor's in January 2014 is "A-" with a stable outlook.

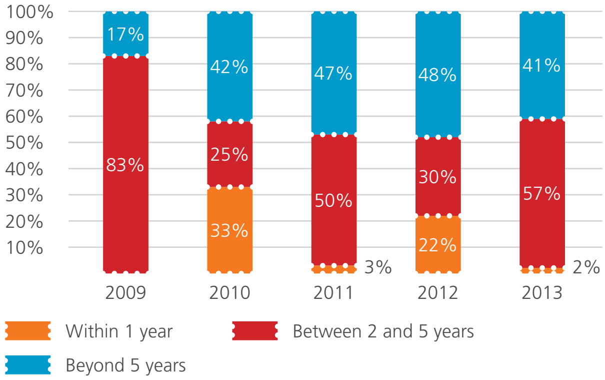
As at 31 December 2013, the net debt of the Group was HK$14,454 million (2012: HK$18,459 million) with a net debt-to-net total capital ratio of 17% (2012: 23%). After completion of the spin-off, the Group has a net cash position.

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

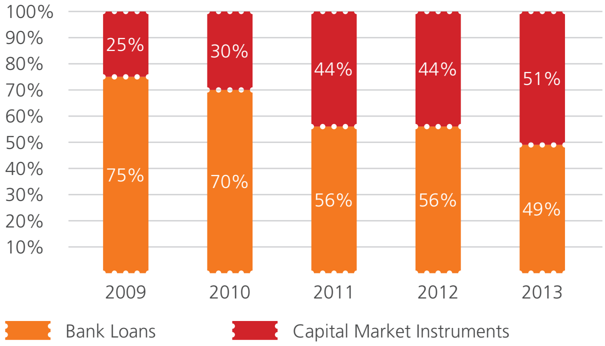
Debt Profile by Currency



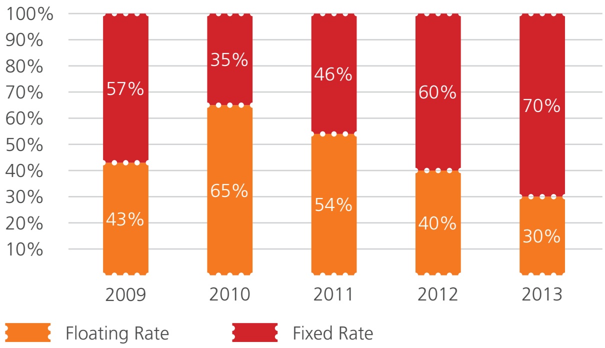
Debt Profile by Maturity



Debt Profile by Types of Borrowings



Debt Profile by Interest Rate Structure



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 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 foreign exchange contracts. As at 31 December 2013, over 90% of the Group's transaction exposure from the import of fuel and capital equipment was either denominated in United States dollars or hedged into Hong Kong or United States dollars. Currency exposure arising from investments outside Hong Kong is, where considered appropriate, 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 31 December 2013 amounted to HK$29,107 million (2012: HK$32,467 million).

Charges on Assets

At 31 December 2013, the Group's interest in an associate of HK$529 million (2012: HK$630 million) had been pledged as part of the security to secure financing facilities granted to the associate.

Contingent Liabilities

As at 31 December 2013, the Group had given guarantees and indemnities totalling HK$909 million (2012: HK$979 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$11,507 million (2012: HK$8,889 million), while being a contingent liability of the Company, are 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 31 December 2013, excluding directors' emoluments, amounted to HK$1,068 million (2012: HK$910 million). As at 31 December 2013, the Group employed 1,839 (2012: 1,832) permanent employees. No share option scheme is in operation.