

FINANCIAL REVIEW

Financial Performance

Profit attributable to shareholders for 2014 amounted to HK\$61,005 million. This includes a one-time gain of HK\$52,928 million from the spin-off of the Hong Kong electricity business in January 2014. Excluding this one-time gain, the Group's audited profits were HK\$8,077 million (2013: HK\$11,165 million), representing a decrease of 28% that was mainly due to a reduction of interest in the Hong Kong electricity business from 100% to 49.9% and deferred tax credits arising from a reduction of the UK corporate tax rate in 2013.

Our investments in the United Kingdom contributed earnings of HK\$4,861 million (2013: HK\$5,865 million). The reduction of earnings was primarily due to deferred tax credits recorded in 2013 as a result of reduction in corporate tax rate. Excluding the impact on the deferred tax credits, all our four investments in the United Kingdom benefitted from stable performance and delivered satisfactory results in 2014.

Our Australian investments maintained its steady operational track record, contributing earnings of HK\$908 million (2013: HK\$838 million). It was higher than last year mainly due to contributions from Australian Gas Networks Limited (formerly known as Envestra Limited) which was acquired in August 2014 and higher regulated revenue due to higher tariffs but the overall contribution was impacted by a lower exchange rate of Australian dollar when compared with last year.

In mainland China, the performance of the coal-fired plants was higher than last year mainly due to lower coal costs and operating expenses partly offset by the drop in power sales and tariff.

Investment in the Netherlands, which was acquired in August 2013, maintained stable profitability and contributed first full year results to the Group. Our operations in Canada, Thailand and New Zealand delivered steady performances.

Our investment in Hong Kong electricity business, which our share has been reduced from 100% to 49.9% since 29 January 2014, contributed earnings of HK\$1,780 million.

Secure earnings and a strong financial position allowed us to continue with a stable dividend policy. 2014 full year dividends of HK\$2.68 per share (2013: HK\$2.55 per share) represented a 5.1% growth.

Financial Positions, Liquidity and Financial Resources

The Group's financial position remained strong. Capital expenditure and investments were primarily funded by cash from operations, dividends and other repatriation from investments. Interest in joint ventures and associates rose by 66% to HK\$74,066 million (2013: HK\$44,611 million). In 2014, we acquired a 27.5% stake in Australian Gas Networks Limited, one of Australia's largest natural gas distribution companies. Total unsecured bank loans outstanding at the year end were HK\$10,204 million (2013: unsecured bank loans and debt securities in issue totalling HK\$22,348 million). In addition, the Group had bank deposits and cash of HK\$61,291 million (2013: HK\$7,894 million) and no undrawn committed bank facility at the year end (2013: HK\$2,300 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, which arise mainly from dividends and other repatriation from investments, are generally placed on short term deposits denominated primarily in Australian dollars, Hong Kong dollars, pounds sterling and United States dollars. The Group aims to ensure that adequate financial resources are available for refinancing and business growth, whilst maintaining a prudent capital structure.

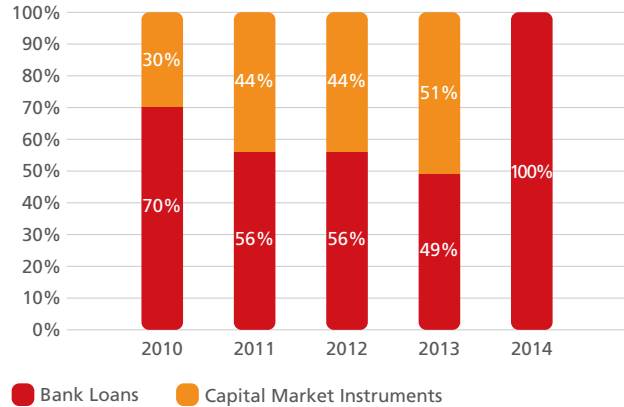
The Group's financial profile remained strong during the year. Upon the spin-off of The Hongkong Electric Company, Limited ("HK Electric"), Standard & Poor's ("S&P") assessed the Company's stand-alone credit profile to be "aa-" as the lower recurring cash flow was mitigated by the lower debt stemming from the deconsolidation. However, as S&P has adopted a new

group rating methodology which caps the rating of an entity to that of its controlling entity/major shareholders, the long term credit rating of the Company was lowered from "A+" to "A-" with a stable outlook on 29 January 2014.

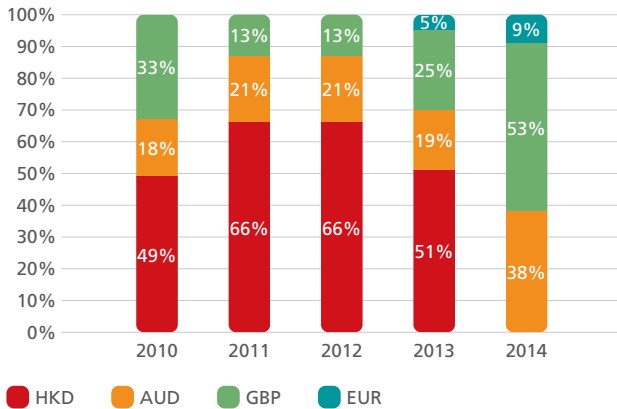
As at 31 December 2014, the net cash position of the Group was HK\$51,087 million (2013: net debt at HK\$14,454 million).

The profile of the Group's external borrowings as at 31 December 2014, after taking into account interest rate swaps, is set out in the tables below:

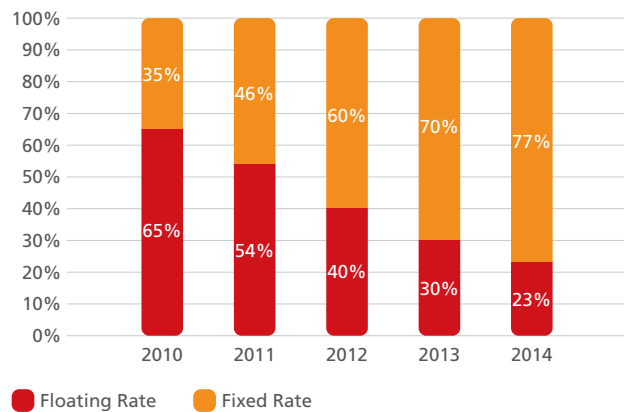
Debt Profile by Types of Borrowings



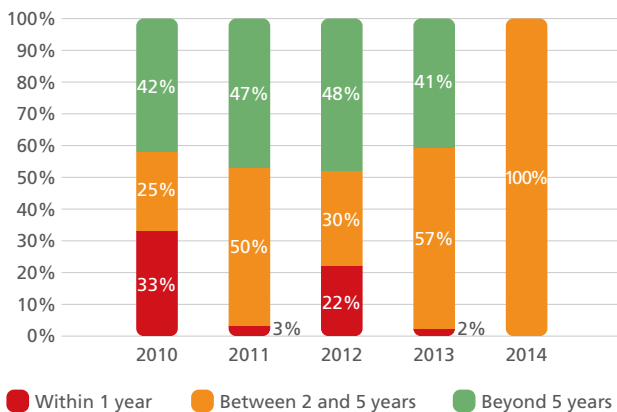
Debt Profile by Currency



Debt Profile by Interest Rate Structure



Debt Profile by Maturity



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.

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The Group's principal foreign currency exposures arise from its investments outside Hong Kong. Foreign currency transaction exposure also arises from settlement to vendors which is not material and is managed mainly through purchases in the spot market or utilisation of foreign currency receipts of the Group. 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 2014 amounted to HK\$22,869 million (2013: HK\$29,107 million).

Charges on Assets

At 31 December 2014, the Group's interest in an associate of HK\$504 million (2013: HK\$529 million) had been pledged as part of the security to secure financing facilities granted to the associate.

Contingent Liabilities

As at 31 December 2014, the Group had given guarantees and indemnities totalling HK\$836 million (2013: HK\$909 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\$10,374 million (2013: HK\$11,507 million). The entire amount, while being a contingent liability of the Company, are reflected in the Consolidated Statement of Financial Position 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 2014, excluding directors' emoluments, amounted to HK\$103 million (2013: HK\$1,068 million). As at 31 December 2014, the Group employed 12 (2013: 1,839) permanent employees. The reduction in the remuneration costs and the number of permanent employees arose due to the spin-off of HK Electric and the resulting transfer of most employees to HK Electric on 1 January 2014. No share option scheme is in operation.