

FINANCIAL REVIEW

Financial Performance

Profit attributable to shareholders for 2015 amounted to HK\$7,732 million, including a loss of HK\$532 million from the disposal of a 16.53% stake in HK Electric Investments and HK Electric Investments Limited (collectively known as "HKEI") in June 2015 (2014: HK\$61,005 million, including a one-time gain of HK\$52,928 million from the spin-off of the Hong Kong electricity business in January 2014). Excluding the one-time loss in 2015 and one-time gain in 2014, the Group's audited profits were HK\$8,264 million (2014: HK\$8,077 million), representing an increase of 2% that was mainly due to favourable deferred tax adjustments arising from a reduction of corporate tax rate in the United Kingdom and full year contributions from Australian Gas Networks Limited despite a reduction of interest in the Hong Kong electricity business from 100% to 49.9% since 29 January 2014 and a further reduction to 33.37% from 9 June 2015 and weakening of various currencies.

Our investments in the United Kingdom delivered satisfactory results, contributing earnings of HK\$4,899 million (2014: HK\$4,861 million), mainly due to favourable deferred tax adjustments as a result of a reduction in corporate tax rate but partly offset by a lower exchange rate of pound sterling when compared with last year. The United Kingdom remained the largest market of the Group.

Our Australian investments recorded slightly lower earnings of HK\$887 million (2014: HK\$908 million). The reduction of earnings was primarily due to a lower exchange rate of Australian dollar when compared with last year and unfavourable impact from the Australian Energy Regulator's preliminary determination for one of the operating companies despite full year contributions from Australian Gas Networks Limited which was acquired in August 2014.

Our investments in mainland China delivered stable results during the year mainly due to favourable tax adjustments for prior years, lower coal costs, savings in operating expenses and higher wind yields of the wind farms partly offset by the drop in electricity sales and tariff of the Jinwan Power plant.

Investment in Portugal, which was acquired in November 2015, commenced contribution to the Group with expected results. Our investment in the Netherlands delivered strong results during the year. Our investments in Canada, Thailand and New Zealand continued to contribute stable earnings to the Group.

Our investment in Hong Kong electricity business recorded lower earnings of HK\$1,364 million (2014: HK\$1,780 million) mainly due to reduction of our share from 100% to 49.9% since 29 January 2014 and a further reduction to 33.37% from 9 June 2015.

Secure earnings and a strong financial position allowed us to continue with a stable dividend policy. 2015 full year dividends of HK\$2.70 per share (2014: HK\$2.68 per share), represented a 0.7% 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 dropped by 10% to HK\$66,548 million (2014: HK\$74,066 million). In 2015, the Group disposed a 16.53% stake in HKEI but acquired a 50% stake in Iberwind. Total unsecured bank loans outstanding at the year end were HK\$9,405 million (2014: HK\$10,204 million). In addition, the Group had bank deposits and cash of HK\$68,149 million (2014: HK\$61,291 million) and no undrawn committed bank facility at the year end (2014: nil).

Treasury Policy, Financing Activities and Debt Structure

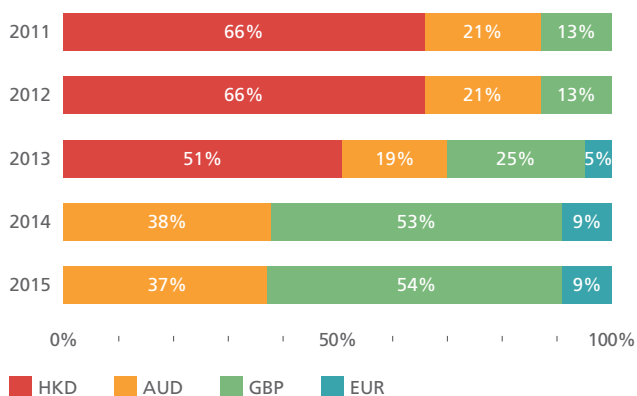
The Group manages its financial risks in accordance with guidelines laid down in its treasury policy, which is approved by the Board. The treasury policy is designed to manage the Group's currency, interest rate and counterparty risks. Surplus funds, which arise mainly from dividends and other repatriation 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. Following the divestment of a 16.53% stake in the share stapled units in HKEI on 9 June 2015, Standard and Poor's reaffirmed the "A-" long-term credit rating of the Company with a stable outlook.

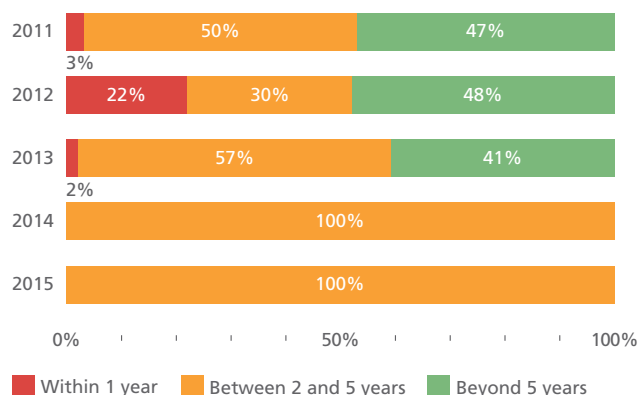
As at 31 December 2015, the net cash position of the Group was HK\$58,744 million (2014: HK\$51,087 million).

The profile of the Group's external borrowings as at 31 December 2015, after taking into account interest rate swaps, is set out in the tables below:

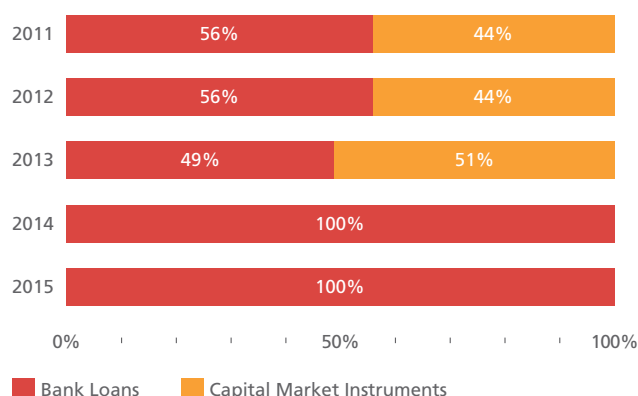
Debt Profile by Currency



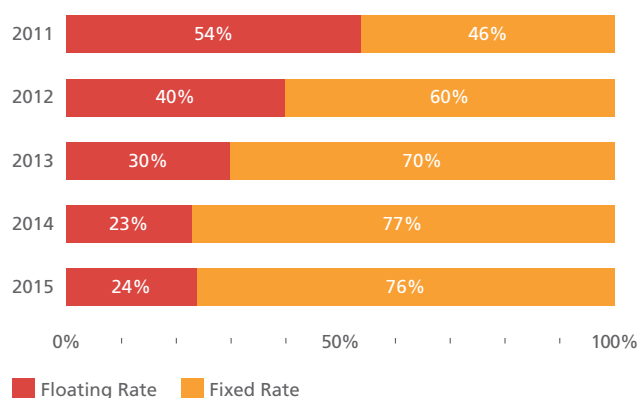
Debt Profile by Maturity



Debt Profile by Types of Borrowings



Debt Profile by Interest Rate Structure



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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. 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. The fair value of such borrowings at 31 December 2015 was HK\$9,426 million (2014: HK\$10,241 million). The fair value of forward foreign exchange contracts at 31 December 2015 was an asset of HK\$203 million (2014: asset HK\$109 million). 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 placed as foreign currency deposits, converted into Hong Kong dollars on receipt.

The contractual notional amounts of derivative financial instruments outstanding at 31 December 2015 amounted to HK\$21,967 million (2014: HK\$22,869 million).

Charges on Assets

At 31 December 2015, the Group's interest in an associate of HK\$422 million (2014: HK\$504 million) had been pledged as part of the security to secure financing facilities granted to the associate.

Contingent Liabilities

As at 31 December 2015, the Group had given guarantees and indemnities totalling HK\$792 million (2014: HK\$836 million).

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 2015, excluding directors' emoluments, amounted to HK\$24 million (2014: HK\$103 million). The reduction in the remuneration costs was due to the spin-off of Hong Kong electricity business in January 2014. As at 31 December 2015, the Group employed 11 (2014: 12) permanent employees. No share option scheme is in operation.