Power Assets Holdings Ltd.
電能實業有限公司
於香港註冊成立的有限公司
Incorporated in Hong Kong with limited liability
股份代號 Stock Code: 6

香港堅尼地道四十四號港燈中心
Hongkong Electric Centre, 44 Kennedy Road, Hong Kong
電話 / Tel 2843 3111 傳真 / Fax 2810 0506
電郵 / Email mail@powerassets.com
www.powerassets.com



# 2012 ANNUAL RESULTS

# CHAIRMAN'S STATEMENT

## *A year of continued growth*

2012 has been a year of continued success for Power Assets. The Group has once again reported increases in both revenues and profits, driven by growth in our global portfolio, despite macro-economic volatility around the world. We see this as a validation of our long-term strategy of seeking steady earnings growth via carefully selected global investments, which in 2012 once again surpassed Hong Kong earnings.

The strategy underlying our global investment is to build up a robust, diverse portfolio of assets that deliver predictable income streams over the long term. Today we have investments in power generation, transmission and distribution, as well as gas distribution in the UK, Australia, mainland China, New Zealand, Thailand and Canada, apart from our strong base in Hong Kong. Our international businesses, spearheaded by our operations in the UK, now account for over half of our total earnings.

HK Electric, our electricity business in Hong Kong, maintained its focus on achieving excellence in supplying power to Hong Kong. The business maintained 2011 earning levels while surpassing our own standards in supply reliability, emission reduction and customer service. We continued with our programme of prudent capital investment to enhance our service to customers.

Before I elaborate upon our performance during the year I must pause to express our continuing grief at the tragic accident on 1 October 2012, in which seven employees of HK Electric and 32 others lost their lives when our ferry was hit by a public ferry off Hong Kong’s Lamma Island. Our thoughts and condolences stay with those affected.

***Results***

The Group's 2012 profits attributable to shareholders increased by 7% to HK$9,729 million (2011: HK$9,075 million). Of these profits, HK$5,108 million (2011: HK$4,563 million) came from our operations outside Hong Kong and HK$4,621 million (2011: HK$4,512 million) was generated by Hong Kong operations. Earnings per share have grown to HK$4.56 (2011: HK$4.25). Total assets increased by 7% to HK$101,646 million (2011: HK$94,730 million) due to new investments in the UK and Australia as well as an increase in the value of existing assets.

Operations outside Hong Kong achieved satisfactory results with a 12% increase in profits, representing 53% of the Group's total earnings for 2012. Hong Kong earnings were 2% higher than last year while softening of fuel prices has lowered the fuel clause recovery account balance.

***Dividends***

The Directors will recommend a final dividend of HK$1.83 per share, payable on 4 June 2013 to those persons registered as shareholders on 28 May 2013. This, together with the interim dividend of HK$0.62 per share, will add up to a total dividend of HK$2.45 per share for the year (2011: HK$2.32 per share).

***Judicious global investments yield positive results***

Over a decade ago, Power Assets made a strategic decision to seek growth in segments of expertise within stable, well-structured international markets. We therefore have focussed mainly on electricity and gas distribution, supplemented by a select portfolio of generation businesses. All of our networks yield stable revenues under government regulation, while the income from the majority of our power plants and wind farms is safeguarded by long-term power purchase agreements.

Power Assets Investments Limited, our international investment arm, jointly with our partners, has spearheaded our efforts in identifying and rigorously evaluating suitable opportunities against operational, financial, legal and risk parameters. Once on board, we join the managements of our associates to oversee performance and share best practice. The Group's low gearing ratio and A+ credit rating give us sufficient financial power to be agile while leveraging opportunities.

In 2012 our existing international investments performed well through a combination of increased revenues and operational efficiencies, despite an unfavourable global economic environment.

In the UK, strong fundamentals of our investments in electricity and gas distribution, namely UK Power Networks and Northern Gas Networks yielded satisfactory performance in 2012. UK Power Networks was commended for its faultless delivery of power to the London Olympics. The business won the Utility of the Year and Team of the Year awards for its impressive performance in building and operating the power network for the Olympic Park, without detraction from performance elsewhere. Northern Gas Networks delivered increased throughput and enhanced customer service standards. Seabank Power Limited, our generation business, achieved improved profits through operational efficiencies.

We made our second investment in the UK gas distribution market in October 2012 by acquiring a 30% stake in Wales and West Utilities Ltd, one of the eight major gas distribution networks in the UK.

In Australia, our businesses remained stable despite unfavourable weather conditions and an adverse economic environment. ETSA Utilities rebranded itself as SA Power Networks to reemphasise its identity as a network provider. CitiPower and Powercor were recognised for their commitment to excellent customer service through the receipt of the prestigious “Best of the Best Service Organisation” award.

In September 2012, we forayed into renewable energy transmission in Australia through a new joint venture called Transmission Operations Australia which will construct, own and operate a power transmission link to transport renewable energy to Victoria’s power grid.

In mainland China, overall earnings and total units sold declined, mainly because of relatively low demand for the coal-fired units. Our wind farms and coal generation plants focussed on delivering operating efficiencies and preparing to meet new, stricter emission targets scheduled for 2014.

Our operations in Canada, Thailand and New Zealand delivered weaker performances compared with 2011 levels.

***Maintain operational and service excellence in Hong Kong***

Profit from HK Electric remained stable at HK$4,542 million (2011: HK$4,480 million) for the year. Unit sales of electricity were slightly higher than in 2011.

Our tariff is competitive vis-a-vis other deregulated markets such as New York, Singapore or Sydney. Power costs account for only about 1.8% of household expenditure in Hong Kong, and are more affordable than in many metropolitan cities.

We consider it imperative to maintain high efficiency while complying with all regulatory requirements. We have undertaken regular upgrades, applied state-of-the art predictive and detective maintenance for generation, transmission and distribution equipment and commissioned sophisticated information technology control systems to meet supply reliability standards.

We consumed about 3.2 million tonnes of coal in 2012. The proportion of natural gas in the fuel mix remains at over 30%. We are now evaluating the installation of a new combined cycle gas turbine to take up the base-load generation role of an existing one in order to improve fuel efficiency and emission performance.

Our pioneering efforts to bring renewable energy to Hong Kong on a commercial scale continued. The one-full-year wind measurement at the proposed offshore wind farm at Southwest Lamma was completed in February 2013. The measurement results will be presented in the feasibility study report to be submitted to the HKSAR Government later this year. If approved, the project is scheduled for completion in 2017 when the green energy produced at the wind farm will represent around 1.5% of HK Electric's annual electricity output. It is expected to offset 62,000 tonnes of coal usage and 150,000 tonnes of carbon dioxide emissions annually.

In 2012, we almost doubled the capacity of the solar power system at Lamma Power Station to 934 kW, and maintained satisfactory generation levels at Lamma Winds.

Our efforts on corporate social responsibility and sustainability reporting are recognised at the global level and we are pleased to have been included in the Dow Jones Sustainability Asia Pacific Index and Global 500 Carbon Disclosure Leadership Index.

We will strive to continue to offer the ideal workplace and deploy best practices in recruitment, training, remuneration, communication, and career development. Besides, we continued to contribute to the community through a number of carefully chosen projects.

***<u>Outlook</u>***

Investors with a long-term perspective will recognise that Power Assets has grown progressively in the last decade despite worldwide economic turmoil and tightening environmental requirements. Key indicators such as earnings and total assets have grown consistently over the past decade, and share performance has been strong. Our active yet prudent investment strategy outside Hong Kong has helped build a balanced portfolio of assets which now provide more than half of the Group's earnings and will continue to expand at a measured pace.

We believe that the volatility in the global economy will persist in 2013, together with periods of instability in the prices of coal and natural gas. The ever-increasing focus on minimising emissions will continue in the next five years, not only in Hong Kong but also in all our markets, which will necessitate continuous capital investment in green technology and processes.

However we remain confident of the continued effectiveness of our long-term strategy. Despite overall uncertainty we remain cautiously optimistic about the long-term stability of key markets, which will in turn ensure income growth and positive returns for the Group.

We will continue to utilise our capital in expanding our portfolio outside Hong Kong through systematic, timely and prudent investment. As ever, our asset choice will be guided by the principles of stable return and a predictable income stream.

In Hong Kong, our priority will be to maintain outstanding supply reliability, enhance operational and environmental performance, continue to excel in customer service while ensuring that tariff remains at an affordable level.

We will continue to control operating costs in our current businesses through stringent monitoring and delivery of efficiencies while meeting all environmental requirements.

As we embark on the interim review of the Scheme of Control Agreement with the HKSAR Government, we will maintain an ongoing and constructive dialogue with our stakeholders with a view to delivering sustainable and optimal performance for our shareholders, our customers and our environment.

I thank the board of directors, the management and all employees of Power Assets for their diligence and commitment, without which none of our achievements would be possible.

I particularly extend my heartfelt gratitude to Mr Tso Kai-sum, who retired from his position as Group Managing Director on 1 January 2013. His wisdom, vision and dedication were invaluable in transforming the company from a Hong Kong utility to a global energy player. I welcome Mr Wan Chi-tin to his new role as he succeeds Mr Tso. Mr Wan's wide-ranging experience and knowledge render him ideally positioned to maintain the company's growth momentum.

In closing, it is impossible to sufficiently express how grateful I am to everyone who supported us during the difficult times of the Lamma ferry accident but I particularly wish to acknowledge the unstinting efforts of Hong Kong's rescue, medical, and welfare teams, the outpouring of sympathy and assistance from the community, and the selfless help from all our colleagues.

***Fok Kin Ning, Canning***
Chairman
Hong Kong, 6 March 2013

## FINANCIAL REVIEW

### *Financial Performance*

The Group's 2012 turnover reached HK$10,415 million (2011: HK$10,201 million). The 2% growth in turnover was due to a 1% increase in average basic tariff coupled with a 1% increase in unit sales of electricity in Hong Kong. Profit attributable to shareholders grew by 7% to HK$9,729 million (2011: HK$9,075 million), of which HK$5,108 million (2011: HK$4,563 million) came from operations outside Hong Kong and HK$4,621 million (2011: HK$4,512 million) was contributed by Hong Kong operations.

Our investments in the United Kingdom, providing an 18% higher earnings of HK$4,203 million (2011: HK$3,558 million), was the main driver of earnings growth. We immensely benefited from these electricity and gas distribution assets operating in a stable regulatory regime. Our Australian investments recorded slightly higher earnings of HK$848 million (2011: HK$843 million) despite unfavourable weather conditions and an adverse economic environment. Generation assets in mainland China faced soft electricity demand and notched less favourable results. Our operations in Canada, Thailand and New Zealand also delivered weaker performances compared with 2011 levels.

Profits from Hong Kong operations grew by 2%, 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. 2012 full year dividends of HK$2.45 per share (2011: HK$2.32 per share) represented a 5.6% growth.

### *Financial Positions, Liquidity and Financial Resources*

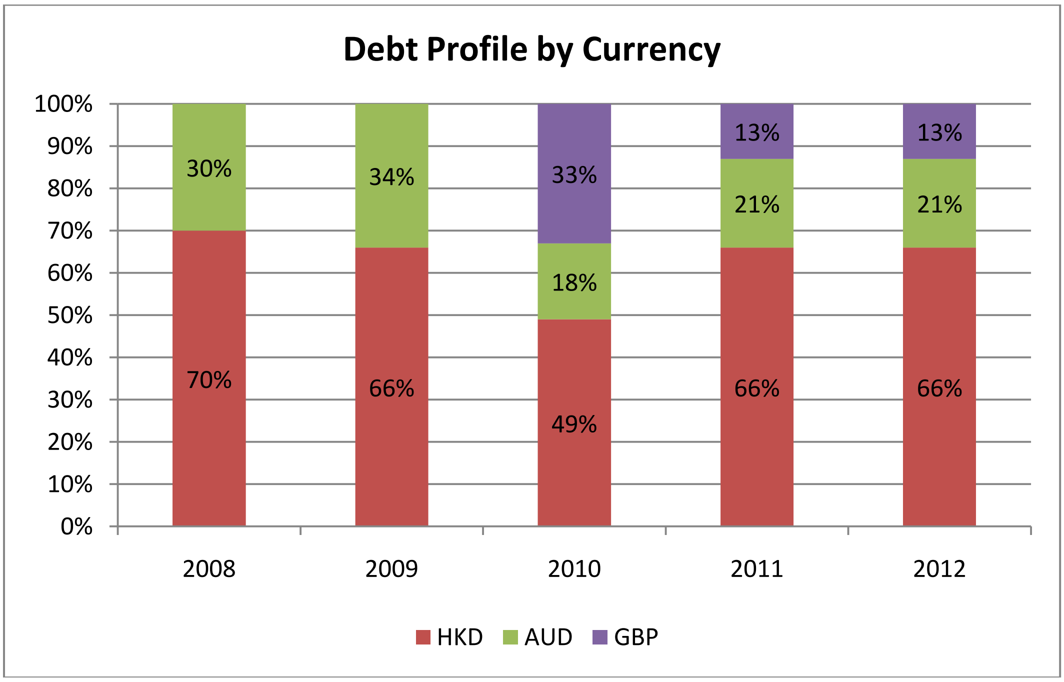
The Group's financial position remained strong. Fixed assets in Hong Kong grew to HK$49,298 million (2011: HK$48,799 million). Capital expenditure during the year amounted to HK$2,613 million (2011: HK$2,890 million), which was primarily funded by cash from operations. Interest in associates and jointly controlled entities rose by 16% to HK$41,511 million (2011: HK$35,697 million). In September 2012, we invested in a new joint venture called Transmission Operations Australia which will construct, own and operate a power transmission link to transport renewable energy to Victoria's power grid. In October 2012 we acquired a 30% stake in Wales and West Utilities Ltd, one of the United Kingdom's eight major gas distribution networks. Total external borrowings outstanding at the year end were HK$24,599 million (2011: HK$23,626 million), comprising unsecured bank loans and debt securities in issue. In addition, the Group had undrawn committed bank facilities of HK$8,033 million (2011: HK$6,500 million) and bank deposits and cash of HK$6,140 million (2011: HK$6,121 million).

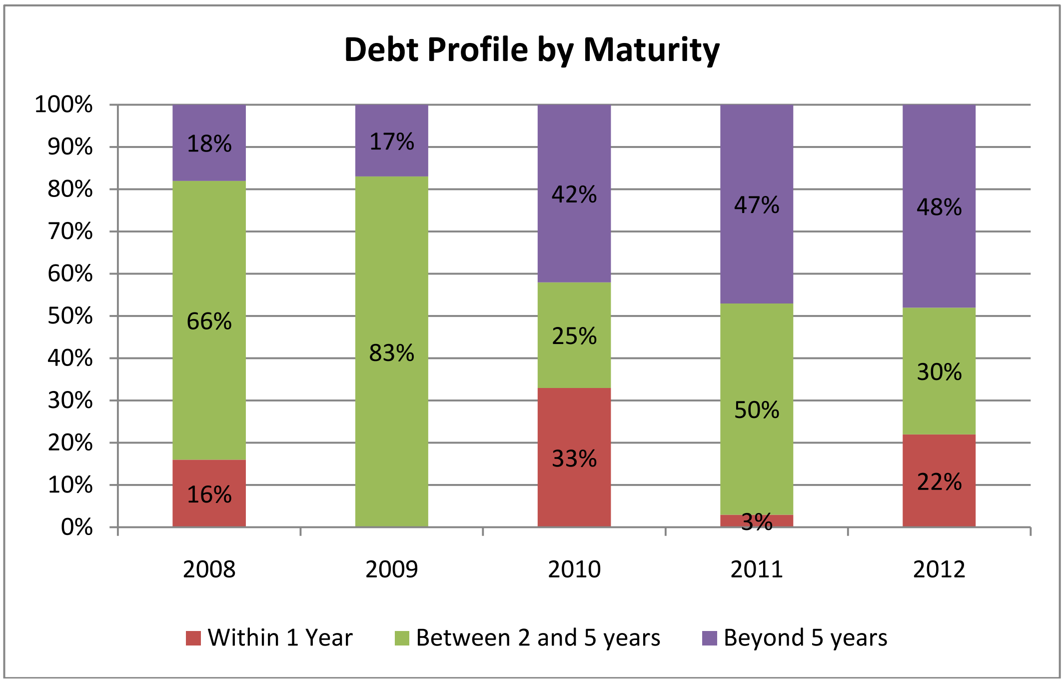
***<u>Treasury Policy, Financing Activities and Debt Structure</u>***

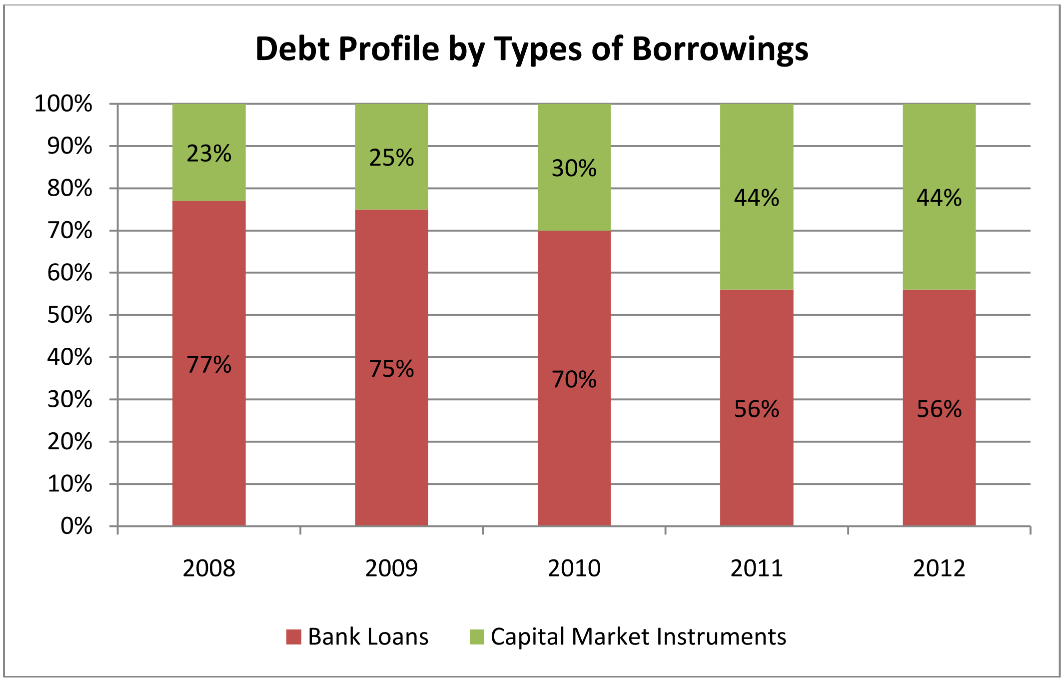
The Group manages its financial risks in accordance with guidelines laid down in its treasury policy, which is approved by the Board. The treasury policy is designed to manage the Group's currency, interest rate and counterparty risks. Surplus funds are generally placed on short term deposits denominated mostly in United States dollars or 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.

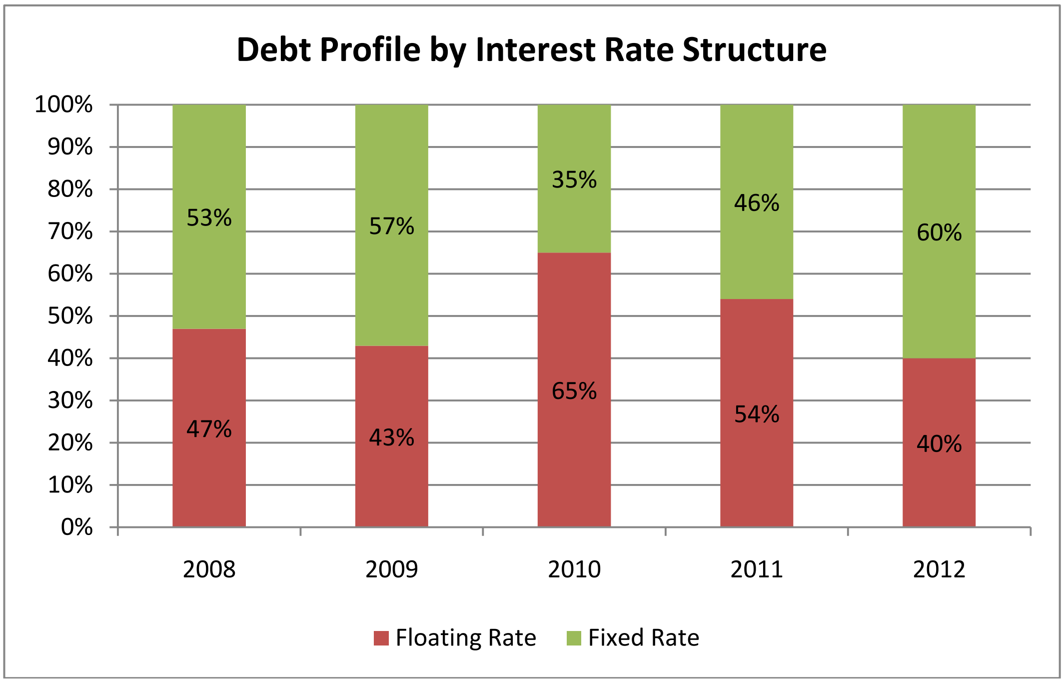
The Group's financial profile remained strong during the year. In December 2012, Standard and Poor's affirmed the "A+" long term credit ratings of Power Assets Holdings Limited and The Hongkong Electric Company, Limited with a stable outlook. As at 31st December 2012, the net debt of the Group was HK$18,459 million (2011: HK$17,505 million) with a net debt-to-equity ratio of 29% (2011: 30%).

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




Debt Profile by Maturity
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
18%
66%
16%
17%
83%
42%
25%
33%
47%
50%
3%
48%
30%
22%
2008
2009
2010
2011
2012
Within 1 Year
Between 2 and 5 years
Beyond 5 years


Debt Profile by Types of Borrowings
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
23%
77%
25%
75%
30%
70%
44%
56%
44%
56%
2008
2009
2010
2011
2012
Bank Loans
Capital Market Instruments




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 contracts. As at 31st December 2012, 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 31st December 2012 amounted to HK$32,467 million (2011: HK$26,405 million).

***Charges on Assets***

At 31st December 2012, the Group's interest in an associate of HK$630 million (2011: two associates and a jointly controlled entity of HK$14,084 million) had been pledged as part of the security to secure financing facilities granted to the associate.

***Contingent Liabilities***

As at 31st December 2012, the Group had given guarantees and indemnities totalling HK$979 million (2011: HK$1,149 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$8,889 million (2011: HK$8,161 million). Out of this amount, HK$8,889 million (2011: HK$8,156 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-for-performance and the pay levels are monitored to ensure competitiveness is maintained. The Group's total remuneration costs for the year ended 31st December 2012, excluding directors' emoluments, amounted to HK$910 million (2011: HK$858 million). As at 31st December 2012, the Group employed 1,832 (2011: 1,861) permanent employees. No share option scheme is in operation.

**POWER ASSETS HOLDINGS LIMITED**
**CONSOLIDATED INCOME STATEMENT**
**FOR THE YEAR ENDED 31ST DECEMBER 2012**
(Expressed in Hong Kong dollars)

| | Note | **2012 $ million** | 2011 $ million |
|---|---|---|---|
| **Turnover** | 3 | **10,415** | 10,201 |
| Direct costs | | **(4,162)** | (4,032) |
| | | **6,253** | 6,169 |
| Other revenue and other net income | 4 | **1,515** | 1,625 |
| Other operating costs | | **(1,292)** | (1,482) |
| **Operating profit** | | **6,476** | 6,312 |
| Finance costs | 5 | **(648)** | (617) |
| Share of profits less losses of associates | | **4,274** | 3,717 |
| Share of profits less losses of jointly controlled entities | | **391** | 476 |
| **Profit before taxation** | 6 | **10,493** | 9,888 |
| Income tax: | 7 | | |
| Current | | **(676)** | (595) |
| Deferred | | **(159)** | (263) |
| | | **(835)** | (858) |
| **Profit after taxation** | | **9,658** | 9,030 |
| Scheme of Control transfers from/(to): | 8 | | |
| Tariff Stabilisation Fund | | **72** | 46 |
| Rate Reduction Reserve | | **(1)** | (1) |
| | | **71** | 45 |
| **Profit attributable to equity shareholders of the Company** | | | |
| Operations outside Hong Kong | | **5,108** | 4,563 |
| Hong Kong operations | | **4,621** | 4,512 |
| **Profit for the year** | | **9,729** | 9,075 |
| **Earnings per share** | | | |
| Basic and diluted | 9 | **$4.56** | $4.25 |

Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 19.

**POWER ASSETS HOLDINGS LIMITED**
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
**FOR THE YEAR ENDED 31ST DECEMBER 2012**
(Expressed in Hong Kong dollars)

| | **2012** **$ million** | 2011 $ million |
|---|---|---|
| **Profit for the year** | **9,729** | 9,075 |
| **Other comprehensive income/(loss) for the year** | | |
| Exchange differences on translating operations outside Hong Kong, including associates and jointly controlled entities | **1,022** | 183 |
| Net investment hedge | **(355)** | (355) |
| Cash flow hedges: | | |
| Effective portion of changes in fair value of hedging instruments recognised during the year | **(100)** | (267) |
| Reclassification adjustments for amounts transferred to the income statement | **(2)** | (1) |
| Amounts transferred to the initial carrying amount of hedged items | **(7)** | (22) |
| Net deferred tax credited to other comprehensive income | **15** | 80 |
| | **(94)** | (210) |
| Defined benefit retirement schemes: | | |
| Actuarial losses, net of tax | **(32)** | (801) |
| Share of other comprehensive loss of associates: | | |
| Other comprehensive loss | **(205)** | (2,269) |
| Net deferred tax credited to other comprehensive income | **48** | 616 |
| | **(157)** | (1,653) |
| | **384** | (2,836) |
| **Total comprehensive income for the year attributable to equity shareholders of the Company** | **10,113** | 6,239 |

**POWER ASSETS HOLDINGS LIMITED**
**CONSOLIDATED BALANCE SHEET**
**AT 31ST DECEMBER 2012**
(Expressed in Hong Kong dollars)

| | Note | **2012** **$ million** | 2011 $ million |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed assets | | | |
| – Property, plant and equipment | | **44,408** | 43,727 |
| – Assets under construction | | **2,852** | 2,976 |
| – Interests in leasehold land held for own use under finance leases | | **2,038** | 2,096 |
| | 10 | **49,298** | 48,799 |
| Interest in associates | 11 | **36,282** | 30,071 |
| Interest in jointly controlled entities | 12 | **5,229** | 5,626 |
| Other non-current financial assets | | **67** | 67 |
| Derivative financial instruments | 17 | **646** | 433 |
| Deferred tax assets | | **86** | 87 |
| Employee retirement benefit assets | | **217** | 273 |
| | | **91,825** | 85,356 |
| **Current assets** | | | |
| Inventories | | **1,114** | 1,115 |
| Trade and other receivables | 13 | **1,740** | 1,101 |
| Fuel Clause Recovery Account | | **820** | 1,035 |
| Current tax recoverable | | **7** | 2 |
| Bank deposits and cash | 14 | **6,140** | 6,121 |
| | | **9,821** | 9,374 |
| **Current liabilities** | | | |
| Trade and other payables | 15 | **(3,760)** | (3,451) |
| Bank overdrafts – unsecured | 14 | **(6)** | - |
| Current portion of bank loans and other interest-bearing borrowings | 16 | **(5,311)** | (617) |
| Current tax payable | | **(333)** | (218) |
| | | **(9,410)** | (4,286) |
| **Net current assets** | | **411** | 5,088 |
| **Total assets less current liabilities** | | **92,236** | 90,444 |
| **Non-current liabilities** | | | |
| Bank loans and other interest-bearing borrowings | 16 | **(19,282)** | (23,009) |
| Derivative financial instruments | 17 | **(708)** | (357) |
| Customers' deposits | | **(1,839)** | (1,801) |
| Deferred tax liabilities | | **(5,911)** | (5,883) |
| Employee retirement benefit liabilities | | **(1,034)** | (1,023) |
| | | **(28,774)** | (32,073) |
| **Rate Reduction Reserve** | | **(2)** | (1) |
| **Tariff Stabilisation Fund** | | **(425)** | (497) |
| **Net assets** | | **63,035** | 57,873 |
| **Capital and reserves** | | | |
| Share capital | 18 | **2,134** | 2,134 |
| Reserves | | **60,901** | 55,739 |
| **Total equity attributable to equity shareholders of the Company** | | **63,035** | 57,873 |

**POWER ASSETS HOLDINGS LIMITED**
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**FOR THE YEAR ENDED 31ST DECEMBER 2012**
(Expressed in Hong Kong dollars)

| $ million | Share capital | Share premium | Exchange reserve | Hedging reserve | Revenue reserve | Proposed/ declared dividend | Total |
|---|---|---|---|---|---|---|---|
| | **Attributable to equity shareholders of the Company** | | | | | | |
| Balance at 1st January 2011 | 2,134 | 4,476 | 1,090 | 114 | 45,143 | 3,180 | 56,137 |
| Changes in equity for 2011: | | | | | | | |
| Profit for the year | - | - | - | - | 9,075 | - | 9,075 |
| Other comprehensive loss | - | - | (172) | (901) | (1,763) | - | (2,836) |
| Total comprehensive income | - | - | (172) | (901) | 7,312 | - | 6,239 |
| Final dividend in respect of the previous year approved and paid (see note19) | - | - | - | - | - | (3,180) | (3,180) |
| Interim dividend paid (see note 19) | - | - | - | - | (1,323) | - | (1,323) |
| Proposed final dividend (see note 19) | - | - | - | - | (3,628) | 3,628 | - |
| **Balance at 31st December 2011 and 1st January 2012** | **2,134** | **4,476** | **918** | **(787)** | **47,504** | **3,628** | **57,873** |
| Changes in equity for 2012: | | | | | | | |
| Profit for the year | **-** | **-** | **-** | **-** | **9,729** | **-** | **9,729** |
| Other comprehensive income/ (loss) | **-** | **-** | **667** | **(337)** | **54** | **-** | **384** |
| Total comprehensive income | **-** | **-** | **667** | **(337)** | **9,783** | **-** | **10,113** |
| Final dividend in respect of the previous year approved and paid (see note 19) | **-** | **-** | **-** | **-** | **-** | **(3,628)** | **(3,628)** |
| Interim dividend paid (see note 19) | **-** | **-** | **-** | **-** | **(1,323)** | **-** | **(1,323)** |
| Proposed final dividend (see note 19) | **-** | **-** | **-** | **-** | **(3,905)** | **3,905** | **-** |
| **Balance at 31st December 2012** | **2,134** | **4,476** | **1,585** | **(1,124)** | **52,059** | **3,905** | **63,035** |

**POWER ASSETS HOLDINGS LIMITED**
**CONSOLIDATED CASH FLOW STATEMENT**
**FOR THE YEAR ENDED 31ST DECEMBER 2012**
(Expressed in Hong Kong dollars)

| | Note | **2012** **$ million** | 2011 $ million |
|---|---|---|---|
| **Operating activities** | | | |
| Cash generated from operations | 14(b) | **6,964** | 7,144 |
| Interest paid | | **(659)** | (639) |
| Interest received | | **1,485** | 1,472 |
| Rate Reduction Reserve rebated | | **-** | (4) |
| Hong Kong Profits Tax paid | | **(622)** | (564) |
| Hong Kong Profits Tax refunded | | **5** | - |
| Tax paid for operations outside Hong Kong | | **(12)** | (15) |
| Tax refunded for operations outside Hong Kong | | **63** | 37 |
| **Net cash generated from operating activities** | | **7,224** | 7,431 |
| **Investing activities** | | | |
| Purchase of fixed assets and capital stock | | **(2,605)** | (2,480) |
| Decrease/(increase) in bank deposits with more than three months to maturity when placed | | **851** | (1,599) |
| Capitalised interest paid | | **(72)** | (55) |
| Receipts from sale of fixed assets | | **2** | 2 |
| Redemption of preference shares in an associate | | **-** | 189 |
| Investments in associates | | **(1,281)** | - |
| New loans to associates | | **(1,192)** | - |
| Repayment of loan from an associate | | **-** | 163 |
| Advance to associates | | **(40)** | (1) |
| Advance to jointly controlled entities | | **-** | (2) |
| Dividends received from associates | | **1,564** | 1,440 |
| Dividends received from jointly controlled entities | | **794** | 864 |
| Dividends received from available-for-sale equity securities | | **41** | 40 |
| **Net cash used in investing activities** | | **(1,938)** | (1,439) |
| **Financing activities** | | | |
| New bank loans and other borrowings | | **3,787** | 7,635 |
| Repayment of bank loans and other borrowings | | **(3,290)** | (10,492) |
| New customers' deposits | | **278** | 276 |
| Repayment of customers' deposits | | **(240)** | (223) |
| Dividends paid to equity shareholders of the Company | | **(4,951)** | (4,503) |
| **Net cash used in financing activities** | | **(4,416)** | (7,307) |
| **Net increase/(decrease) in cash and cash equivalents** | | **870** | (1,315) |
| **Cash and cash equivalents at 1st January** | 14(a) | **4,522** | 5,837 |
| **Effect of foreign exchange rate changes** | | **(7)** | - |
| **Cash and cash equivalents at 31st December** | 14(a) | **5,385** | 4,522 |

**Notes to Annual Results**
(Expressed in Hong Kong dollars unless otherwise indicated)

### 1. Review of annual results

The annual results have been reviewed by the Audit Committee.

The figures in respect of the preliminary announcement of the Group's results for the year ended 31st December 2012 have been compared by the Company's auditors, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by the auditors on this announcement.

### 2. Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

– Amendments to HKFRS 7, *Financial Instruments: Disclosures – Transfers of financial assets*
– Amendments to HKAS 12, *Income taxes – Deferred tax: Recovery of underlying assets*

The adoption of these amendments has no material impact on the Group's financial statements.

The Group has not applied any new standard or interpretation that is not effective for the current accounting period.

## 3. Turnover and segment information

| $ million | 2012<br>Sales of electricity<br>Hong Kong | Infrastructure investments<br>United Kingdom | Australia | Mainland China | Others | Sub-total | All other activities | Total |
|---|---|---|---|---|---|---|---|---|
| **For the year ended 31st December** | | | | | | | | |
| **Revenue** | | | | | | | | |
| Group turnover | **10,400** | **-** | **-** | **-** | **-** | **-** | **15** | **10,415** |
| Other revenue and other net income | **32** | **8** | **2** | **41** | **5** | **56** | **(16)** | **72** |
| **Reportable segment revenue** | **10,432** | **8** | **2** | **41** | **5** | **56** | **(1)** | **10,487** |
| **Result** | | | | | | | | |
| Segment earnings | **7,547** | **8** | **2** | **18** | **12** | **40** | **(636)** | **6,951** |
| Depreciation and amortisation | **(1,920)** | **-** | **-** | **-** | **-** | **-** | **2** | **(1,918)** |
| Interest income | **-** | **500** | **629** | **-** | **223** | **1,352** | **91** | **1,443** |
| Operating profit | **5,627** | **508** | **631** | **18** | **235** | **1,392** | **(543)** | **6,476** |
| Finance costs | **(265)** | **(65)** | **(318)** | **-** | **-** | **(383)** | **-** | **(648)** |
| Share of profits less losses of associates and jointly controlled entities | **-** | **3,697** | **535** | **408** | **23** | **4,663** | **2** | **4,665** |
| Profit before taxation | **5,362** | **4,140** | **848** | **426** | **258** | **5,672** | **(541)** | **10,493** |
| Income tax | **(891)** | **63** | **-** | **(5)** | **-** | **58** | **(2)** | **(835)** |
| Profit after taxation | **4,471** | **4,203** | **848** | **421** | **258** | **5,730** | **(543)** | **9,658** |
| Scheme of Control transfers | **71** | **-** | **-** | **-** | **-** | **-** | **-** | **71** |
| **Reportable segment profit** | **4,542** | **4,203** | **848** | **421** | **258** | **5,730** | **(543)** | **9,729** |
| **At 31st December** | | | | | | | | |
| **Assets** | | | | | | | | |
| Fixed assets | **49,346** | **-** | **-** | **-** | **-** | **-** | **(48)** | **49,298** |
| Other assets | **3,979** | **25** | **86** | **67** | **-** | **178** | **540** | **4,697** |
| Interest in associates and jointly controlled entities | **-** | **24,641** | **8,139** | **5,463** | **3,260** | **41,503** | **8** | **41,511** |
| Bank deposits and cash | **8** | **-** | **-** | **-** | **-** | **-** | **6,132** | **6,140** |
| **Reportable segment assets** | **53,333** | **24,666** | **8,225** | **5,530** | **3,260** | **41,681** | **6,632** | **101,646** |
| **Liabilities** | | | | | | | | |
| Segment liabilities | **(4,970)** | **(524)** | **(330)** | **(3)** | **-** | **(857)** | **(1,514)** | **(7,341)** |
| Current and deferred taxation | **(6,241)** | **-** | **-** | **-** | **-** | **-** | **(3)** | **(6,244)** |
| Interest-bearing borrowings | **(16,486)** | **(3,131)** | **(4,982)** | **-** | **-** | **(8,113)** | **-** | **(24,599)** |
| Rate Reduction Reserve | **(2)** | **-** | **-** | **-** | **-** | **-** | **-** | **(2)** |
| Tariff Stabilisation Fund | **(425)** | **-** | **-** | **-** | **-** | **-** | **-** | **(425)** |
| **Reportable segment liabilities** | **(28,124)** | **(3,655)** | **(5,312)** | **(3)** | **-** | **(8,970)** | **(1,517)** | **(38,611)** |
| **For the year ended 31st December** | | | | | | | | |
| **Other information** | | | | | | | | |
| Capital expenditure | **2,613** | **-** | **-** | **-** | **-** | **-** | **-** | **2,613** |

| $ million | Sales of electricity: Hong Kong | Infrastructure investments: United Kingdom | Australia | Mainland China | Others | Sub-total | All other activities | Total |
|---|---|---|---|---|---|---|---|---|
| | 2011 | | | | | | | |
| **For the year ended 31st December** | | | | | | | | |
| **Revenue** | | | | | | | | |
| Group turnover | 10,185 | - | - | - | - | - | 16 | 10,201 |
| Other revenue and other net income | 50 | - | - | 40 | 81 | 121 | 37 | 208 |
| **Reportable segment revenue** | 10,235 | - | - | 40 | 81 | 121 | 53 | 10,409 |
| **Result** | | | | | | | | |
| Segment earnings | 7,410 | - | - | 13 | 87 | 100 | (780) | 6,730 |
| Depreciation and amortisation | (1,837) | - | - | - | - | - | 2 | (1,835) |
| Interest income | - | 487 | 631 | - | 244 | 1,362 | 55 | 1,417 |
| Operating profit | 5,573 | 487 | 631 | 13 | 331 | 1,462 | (723) | 6,312 |
| Finance costs | (249) | (52) | (316) | - | - | (368) | - | (617) |
| Share of profits less losses of associates and jointly controlled entities | - | 3,086 | 528 | 498 | 79 | 4,191 | 2 | 4,193 |
| Profit before taxation | 5,324 | 3,521 | 843 | 511 | 410 | 5,285 | (721) | 9,888 |
| Income tax | (889) | 37 | - | (4) | - | 33 | (2) | (858) |
| Profit after taxation | 4,435 | 3,558 | 843 | 507 | 410 | 5,318 | (723) | 9,030 |
| Scheme of Control transfers | 45 | - | - | - | - | - | - | 45 |
| **Reportable segment profit** | 4,480 | 3,558 | 843 | 507 | 410 | 5,318 | (723) | 9,075 |
| **At 31st December** | | | | | | | | |
| **Assets** | | | | | | | | |
| Fixed assets | 48,848 | - | - | - | - | - | (49) | 48,799 |
| Other assets | 3,932 | - | 69 | 67 | - | 136 | 45 | 4,113 |
| Interest in associates and jointly controlled entities | - | 19,017 | 7,566 | 5,851 | 3,255 | 35,689 | 8 | 35,697 |
| Bank deposits and cash | 24 | - | - | - | - | - | 6,097 | 6,121 |
| **Reportable segment assets** | 52,804 | 19,017 | 7,635 | 5,918 | 3,255 | 35,825 | 6,101 | 94,730 |
| **Liabilities** | | | | | | | | |
| Segment liabilities | (5,199) | (199) | (273) | (4) | - | (476) | (957) | (6,632) |
| Current and deferred taxation | (6,101) | - | - | - | - | - | - | (6,101) |
| Interest-bearing borrowings | (15,774) | (3,029) | (4,823) | - | - | (7,852) | - | (23,626) |
| Rate Reduction Reserve | (1) | - | - | - | - | - | - | (1) |
| Tariff Stabilisation Fund | (497) | - | - | - | - | - | - | (497) |
| **Reportable segment liabilities** | (27,572) | (3,228) | (5,096) | (4) | - | (8,328) | (957) | (36,857) |
| **For the year ended 31st December** | | | | | | | | |
| **Other information** | | | | | | | | |
| Capital expenditure | 2,888 | - | - | - | - | - | 2 | 2,890 |

## 4. Other revenue and other net income

| | 2012 $ million | 2011 $ million |
|---|---|---|
| Interest income from financial assets not at fair value through profit or loss | **1,443** | 1,417 |
| Dividend income from unlisted available-for-sale equity securities | **41** | 40 |
| Foreign exchange gain on loans and receivables | **15** | 100 |
| Net profit on sale of fixed assets | **-** | 1 |
| Sundry income | **16** | 67 |
| | **1,515** | 1,625 |

## 5. Finance costs

| | 2012 $ million | 2011 $ million |
|---|---|---|
| Interest on overdrafts, bank loans and other borrowings repayable within 5 years | **469** | 512 |
| Interest on other borrowings repayable over 5 years | **267** | 175 |
| Less: Interest capitalised to fixed assets | **(68)** | (50) |
| Interest transferred to fuel costs | **(20)** | (20) |
| Total interest expense on financial liabilities not at fair value through profit or loss | **648** | 617 |

Interest expenses have been capitalised at an average rate of approximately 2.0% per annum (2011: 1.9% per annum) for assets under construction.

## 6. Profit before taxation

| | 2012 $ million | 2011 $ million |
|---|---|---|
| Profit before taxation is arrived at after charging: | | |
| Depreciation | **1,859** | 1,777 |
| Amortisation of leasehold land | **59** | 58 |
| Costs of inventories | **5,857** | 5,552 |
| Write down of inventories | **5** | 5 |
| Staff costs | **549** | 503 |
| Fixed assets written off | **47** | 39 |
| Auditors' remuneration | | |
| – audit and audit related work | | |
| – KPMG | **6** | 5 |
| – other auditors | **1** | 1 |
| – non-audit work | | |
| – KPMG | **1** | 1 |
| – other auditors | **3** | 2 |

## 7. Income tax in the consolidated income statement

### (a) Taxation in the consolidated income statement represents:

| | **2012** **$ million** | 2011 $ million |
|---|---|---|
| **Current tax – Hong Kong Profits Tax** | | |
| Provision for the year | **821** | 625 |
| Over provision in respect of prior years | **(89)** | - |
| | **732** | 625 |
| **Current tax – operations outside Hong Kong** | | |
| Provision for the year | **7** | 7 |
| Tax credit for the year | **(63)** | (37) |
| | **(56)** | (30) |
| | **676** | 595 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **159** | 263 |
| | **835** | 858 |

The provision for Hong Kong Profits Tax for 2012 is calculated at 16.5% (2011: 16.5%) of the estimated assessable profits for the year.

Taxation for operations outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant countries.

A subsidiary of the Company has made a payment of $512 million (A$63 million) to the Australian Taxation Office ("ATO") being 50% (which percentage is based on ATO customary practice) of the tax in dispute, including interest and penalties, claimed by the ATO pending resolution of a dispute regarding the deductibility of certain fees paid by that subsidiary for income tax purposes. The subsidiary is of the view that the fees are deductible and that no amount should be payable to the ATO and that the amount paid is expected to be recovered from the ATO. The subsidiary has obtained legal advice and is to vigorously defend its position.

### (b) Reconciliation between tax expense and accounting profit at applicable tax rates:

| | **2012** **$ million** | 2011 $ million |
|---|---|---|
| Profit before taxation | **10,493** | 9,888 |
| Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned | **961** | 941 |
| Tax effect of non-deductible expenses | **128** | 161 |
| Tax effect of non-taxable income | **(250)** | (243) |
| Tax effect on Rate Reduction Reserve rebated | **-** | (1) |
| Tax effect of recognition of previously unrecognised temporary differences | **85** | - |
| Over provision in respect of prior years | **(89)** | - |
| Actual tax expense | **835** | 858 |

## 8. Scheme of Control transfers

The financial operations of The Hongkong Electric Company, Limited ("HEC"), a wholly-owned subsidiary of the Company, are governed by the SCA agreed with the Government which provides for HEC to earn a Permitted Return. Any excess or deficiency of the gross tariff revenue over the sum of total operating costs, Scheme of Control Net Return and Scheme of Control taxation charges is transferred to/(from) a Tariff Stabilisation Fund from/(to) the income statement of HEC. When transfer from the Tariff Stabilisation Fund to the income statement is required, the amount transferred shall not exceed the balance of the Tariff Stabilisation Fund. In addition, a charge calculated by applying the average one-month Hong Kong Interbank Offered Rate on the average balance of the Tariff Stabilisation Fund is transferred from the income statement of HEC to a Rate Reduction Reserve, which amount is subsequently rebated to customers. Movements in the Tariff Stabilisation Fund and Rate Reduction Reserve are as follows:

### (a) Tariff Stabilisation Fund

| | **2012** **$ million** | 2011 $ million |
|---|---|---|
| At 1st January | **497** | 543 |
| Transfer to the consolidated income statement | **(72)** | (46) |
| At 31st December | **425** | 497 |

### (b) Rate Reduction Reserve

| | **2012** **$ million** | 2011 $ million |
|---|---|---|
| At 1st January | **1** | 4 |
| Transfer from the consolidated income statement | **1** | 1 |
| Rebate to customers | **-** | (4) |
| At 31st December | **2** | 1 |

## 9. Earnings per share

The calculation of earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of $9,729 million (2011: $9,075 million) and 2,134,261,654 ordinary shares (2011: 2,134,261,654 ordinary shares) in issue throughout the year.

There were no dilutive potential ordinary shares in existence during the years ended 31st December 2012 and 2011.

## 10. Fixed assets

| $ million | Site formation and buildings | Plant, machinery and equipment | Assets under construction | Sub-total | Interests in leasehold land held for own use under finance leases | Total fixed assets |
|---|---|---|---|---|---|---|
| **Cost:** | | | | | | |
| At 1st January 2011 | 13,785 | 59,225 | 2,238 | 75,248 | 2,816 | 78,064 |
| Additions | 5 | 856 | 2,028 | 2,889 | 1 | 2,890 |
| Transfers between categories | 93 | 1,197 | (1,290) | - | - | - |
| Disposals | - | (758) | - | (758) | - | (758) |
| At 31st December 2011 | 13,883 | 60,520 | 2,976 | 77,379 | 2,817 | 80,196 |
| At 1st January 2012 | **13,883** | **60,520** | **2,976** | **77,379** | **2,817** | **80,196** |
| Additions | **4** | **632** | **1,976** | **2,612** | **1** | **2,613** |
| Transfers between categories | **151** | **1,949** | **(2,100)** | **-** | **-** | **-** |
| Disposals | **-** | **(297)** | **-** | **(297)** | **-** | **(297)** |
| **At 31st December 2012** | **14,038** | **62,804** | **2,852** | **79,694** | **2,818** | **82,512** |
| **Accumulated amortisation and depreciation:** | | | | | | |
| At 1st January 2011 | 4,906 | 24,571 | - | 29,477 | 663 | 30,140 |
| Written back on disposals | - | (690) | - | (690) | - | (690) |
| Charge for the year | 245 | 1,644 | - | 1,889 | 58 | 1,947 |
| At 31st December 2011 | 5,151 | 25,525 | - | 30,676 | 721 | 31,397 |
| At 1st January 2012 | **5,151** | **25,525** | **-** | **30,676** | **721** | **31,397** |
| Written back on disposals | **-** | **(213)** | **-** | **(213)** | **-** | **(213)** |
| Charge for the year | **247** | **1,724** | **-** | **1,971** | **59** | **2,030** |
| **At 31st December 2012** | **5,398** | **27,036** | **-** | **32,434** | **780** | **33,214** |
| **Net book value:** | | | | | | |
| **At 31st December 2012** | **8,640** | **35,768** | **2,852** | **47,260** | **2,038** | **49,298** |
| At 31st December 2011 | 8,732 | 34,995 | 2,976 | 46,703 | 2,096 | 48,799 |

The above are mainly electricity-related fixed assets in respect of which financing costs capitalised during the year amounted to $68 million (2011: $50 million).

The Group's leasehold land at 31st December 2012 is held in Hong Kong and comprises long term and medium term leasehold land with carrying values of $41 million (2011: $42 million) and $1,997 million (2011: $2,054 million) respectively.

Depreciation charges for the year included $112 million (2011: $112 million), relating to assets utilised in development activities, which has been capitalised.

## 11. Interest in associates

| | **2012** **$ million** | 2011 $ million |
|---|---|---|
| Share of net assets | **22,357** | 17,681 |
| Loans to unlisted associates (see note below) | **13,468** | 11,966 |
| Amounts due from unlisted associates (see note below) | **457** | 424 |
| | **36,282** | 30,071 |

The loans to unlisted associates are unsecured, interest bearing at rates ranging from 6.77% per annum to 13.79% per annum (2011: 9.95% per annum to 13.79% per annum) and are not due within five years.

Included in the loans to unlisted associates are subordinated loans totalling $8,633 million (2011: $11,060 million). The rights in respect of these loans are subordinated to the rights of any other lenders to the associates and they are treated as part of the investment in the associates.

The amounts due from unlisted associates are unsecured, interest free and have no fixed repayment terms but the Group is unlikely to demand payment within 12 months of the balance sheet date.

Neither the loans to unlisted associates nor the amounts due from unlisted associates are past due or impaired.

At 31st December 2012, the Group's interest in one associate of $630 million (2011: two associates of $10,964 million) had been pledged as part of the security to secure financing facilities granted to the associate.

Summarised financial information (gross amount) based on the unaudited management accounts of the associates is as follows (100%):

| | **2012** **$ million** | 2011 $ million |
|---|---|---|
| Assets | **282,463** | 236,527 |
| Liabilities | **(226,615)** | (190,670) |
| Equity | **55,848** | 45,857 |
| Revenues | **54,499** | 47,083 |
| Profit | **9,279** | 6,625 |

## 12. Interest in jointly controlled entities

| | **2012** **$ million** | 2011 $ million |
|---|---|---|
| Share of net assets | **5,225** | 5,622 |
| Amounts due from unlisted jointly controlled entities (see note below) | **4** | 4 |
| | **5,229** | 5,626 |

The amounts due from unlisted jointly controlled entities are unsecured, interest free and have no fixed repayment terms. They are neither past due nor impaired.

Summarised financial information (gross amount) based on the unaudited management accounts of the jointly controlled entities is as follows (100%):

| | **2012** **$ million** | 2011 $ million |
|---|---|---|
| Assets | **14,915** | 17,485 |
| Liabilities | **(5,181)** | (7,641) |
| Equity | **9,734** | 9,844 |
| Revenues | **9,112** | 10,573 |
| Profit | **1,049** | 1,307 |

## 13. Trade and other receivables

| | **2012** **$ million** | 2011 $ million |
|---|---|---|
| Trade debtors (see note below) | **699** | 637 |
| Other receivables | **976** | 427 |
| | **1,675** | 1,064 |
| Derivative financial instruments | | |
| – held as cash flow/fair value hedging instruments | **2** | 16 |
| Deposits and prepayments | **63** | 21 |
| | **1,740** | 1,101 |

All of the trade and other receivables are expected to be recovered within one year.

Other receivables of the Group include unbilled electricity charges of $404 million (2011: $379 million) to be received from electricity customers.

The ageing analysis of trade debtors, which are neither individually nor collectively considered to be impaired, is as follows:

| | **2012 $ million** | 2011 $ million |
|---|---|---|
| Within 1 month | **660** | 597 |
| 1 to 3 months | **28** | 26 |
| More than 3 months but less than 12 months | **11** | 14 |
| Total trade debtors | **699** | 637 |

Electricity bills issued to domestic, small industrial, commercial and miscellaneous customers for electricity supplies are due upon presentation whereas maximum demand customers are allowed a credit period of 16 working days. If settlements by maximum demand customers are received after the credit period, a surcharge of 5% can be added to the electricity bills.

Trade debtors for electricity charges that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Trade debtors for electricity charges that were past due but not impaired relate to a number of independent customers. HEC, a wholly-owned subsidiary, obtains collateral in the form of security deposits from customers and the balances are considered to be fully recoverable.

The Group's trade debtors are individually assessed for impairment. Any impairment losses are written off against the trade debtors directly. No separate account is maintained for impairment losses.

## 14. Bank deposits and cash

### (a) Bank deposits and cash comprise:

| | **2012 $ million** | 2011 $ million |
|---|---|---|
| Deposits with banks and other financial institutions with 3 months or less to maturity when placed | **5,370** | 4,421 |
| Cash at bank and on hand | **21** | 101 |
| Bank overdrafts | **(6)** | - |
| Cash and cash equivalents in the consolidated cash flow statement | **5,385** | 4,522 |
| Bank overdrafts | **6** | - |
| Deposit with banks and other financial institutions with more than 3 months to maturity when placed | **749** | 1,599 |
| Bank deposits and cash in the consolidated balance sheet | **6,140** | 6,121 |

### (b) Reconciliation of profit before taxation to cash generated from operations:

| | Note | 2012 $ million | 2011 $ million |
|---|---|---|---|
| Profit before taxation | | **10,493** | 9,888 |
| Adjustments for: | | | |
| Share of profits less losses of associates | | **(4,274)** | (3,717) |
| Share of profits less losses of jointly controlled entities | | **(391)** | (476) |
| Interest income | 4 | **(1,443)** | (1,417) |
| Dividend income from unlisted available-for-sale equity securities | 4 | **(41)** | (40) |
| Finance costs | 5 | **668** | 637 |
| Depreciation | 6 | **1,859** | 1,777 |
| Amortisation of leasehold land | 6 | **59** | 58 |
| Fixed assets written off | 6 | **47** | 39 |
| Net profit on sale of fixed assets | 4 | **-** | (1) |
| Exchange gains | | **(2)** | (133) |
| Financial instrument revaluation gain | | **-** | (1) |
| Changes in working capital: | | | |
| Increase in inventories | | **(18)** | (359) |
| (Increase)/decrease in trade and other receivables | | **(639)** | 10 |
| Decrease/(increase) in Fuel Clause Recovery Account | | **215** | (466) |
| Increase in trade and other payables | | **511** | 1,442 |
| Increase in net employee retirement benefit liabilities | | **(80)** | (97) |
| Cash generated from operations | | **6,964** | 7,144 |

## 15. Trade and other payables

| | 2012 $ million | 2011 $ million |
|---|---|---|
| Creditors measured at amortised cost (see note below) | **3,739** | 3,447 |
| Derivative financial instruments | | |
| – held as cash flow/fair value hedging instruments | **21** | 4 |
| | **3,760** | 3,451 |

All of the trade and other payables are expected to be settled within one year.

Creditors' ageing is analysed as follows:

| | 2012<br>$ million | 2011<br>$ million |
|---|---|---|
| Due within 1 month or on demand | **815** | 997 |
| Due after 1 month but within 3 months | **410** | 497 |
| Due after 3 months but within 12 months | **2,514** | 1,953 |
| | **3,739** | 3,447 |

## 16. Non-current bank loans and other interest-bearing borrowings

| | 2012<br>$ million | 2011<br>$ million |
|---|---|---|
| Bank loans | **13,424** | 12,963 |
| Current portion | **(5,311)** | (115) |
| | **8,113** | 12,848 |
| Hong Kong dollar notes (see note below) | **4,787** | 4,826 |
| United States dollar notes (see note below) | **6,382** | 5,837 |
| | **11,169** | 10,663 |
| Current portion | **-** | (502) |
| | **11,169** | 10,161 |
| Total | **19,282** | 23,009 |

The Hong Kong dollar fixed rate notes bear interest at rates ranging between 1.65% to 4.55% per annum (2011: 3.28% to 4.55% per annum).

The United States dollar fixed rate notes bear interest at 4.25% per annum (2011: 4.25% per annum).

Some banking facilities of the Group are subject to the fulfilment of covenants relating to certain of the Group's balance sheet ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 31st December 2012 and 2011, none of the covenants relating to drawn down facilities had been breached.

None of the non-current interest-bearing borrowings is expected to be settled within one year. All the above borrowings are unsecured.

The borrowings are repayable as follows:

| | 2012 $ million | 2011 $ million |
|---|---|---|
| After 1 year but within 2 years | **500** | 4,996 |
| After 2 years but within 5 years | **6,680** | 6,722 |
| After 5 years | **12,102** | 11,291 |
| | **19,282** | 23,009 |

## 17. Derivative financial instruments

| | 2012 $ million | 2011 $ million |
|---|---|---|
| Derivative financial instruments used for hedging: | | |
| – Cross currency swaps | **646** | 422 |
| – Interest rate swaps | **(362)** | (245) |
| – Foreign exchange forward contracts | **(365)** | (89) |
| Total | **(81)** | 88 |
| Current portion of derivative financial instruments (see notes 13 and 15) | **19** | (12) |
| | **(62)** | 76 |
| Represented by: | | |
| Derivative financial instruments assets | **646** | 433 |
| Derivative financial instruments liabilities | **(708)** | (357) |
| | **(62)** | 76 |

## 18. Share capital

| | Number of shares | 2012 $ million | 2011 $ million |
|---|---|---|---|
| **Authorised:** | | | |
| Ordinary shares of $1 each | 3,300,000,000 | **3,300** | 3,300 |
| **Issued and fully paid:** | | | |
| Ordinary shares of $1 each | 2,134,261,654 | **2,134** | 2,134 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

## 19. Dividends

| | 2012<br>$ million | 2011<br>$ million |
|---|---|---|
| Interim dividend declared and paid of $0.62 per ordinary share (2011: $0.62 per ordinary share) | **1,323** | 1,323 |
| Final dividend proposed after the balance sheet date of $1.83 per ordinary share (2011: $1.7 per ordinary share) | **3,905** | 3,628 |
| | **5,228** | 4,951 |

The final dividend proposed after the balance sheet date is based on 2,134,261,654 ordinary shares (2011: 2,134,261,654 ordinary shares), being the total number of issued shares at the year end. The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

## 20. Capital commitments

The Group's capital commitments outstanding at 31st December and not provided for in the financial statements were as follows:

| | 2012<br>$ million | 2011<br>$ million |
|---|---|---|
| Contracted for: | | |
| Capital expenditure for fixed assets | **1,125** | 1,565 |
| Authorised but not contracted for: | | |
| Capital expenditure for fixed assets | **8,764** | 9,348 |
| Investment in an associate | **245** | - |
| | **9,009** | 9,348 |

## 21. Contingent liabilities

| | **2012** **$ million** | 2011 $ million |
|---|---|---|
| Other guarantees given in respect of: | | |
| – Subsidiaries | **-** | 5 |
| – Associates | **979** | 1,144 |
| | **979** | 1,149 |

As at the balance sheet date, the Company had provided performance guarantees for its associates. The Directors do not consider it is probable that a claim will be made against the Company under any of the guarantees. The maximum liability of the Company at the balance sheet date under the issued guarantees is disclosed above. The Company has not recognised any deferred income in respect of the guarantees as their fair value cannot be reliably measured using observable market data.

## 22. Material related party transactions

The Group had the following material transactions with related parties during the year:

### (a) Shareholder

(i) On 17th June 2011, a wholly owned subsidiary of the Company entered into an agreement with a wholly owned subsidiary of Cheung Kong Infrastructure Holdings Limited (“CKI”), a substantial shareholder holding approximately 38.87% of the issued shares of the Company. Pursuant to the agreement, the subsidiary of the Company undertook a turnkey solution project for the subsidiary of CKI at a consideration of $26 million. The project is expected to be completed in February 2014. The transaction constitutes a connected transaction under the Listing Rules for the Company.

(ii) Outram Limited (“Outram”), a subsidiary of the Company, reimbursed CKI $31 million (2011: $35 million) being the actual costs incurred for providing the operation and management services to Outram and its subsidiaries for the year. The transaction constitutes a continuing connected transaction under the Listing Rules for the Company.

### (b) Associates

(i) Interest income received/receivable from associates in respect of the loans to associates amounted to $1,352 million (2011: $1,362 million) for the year. At 31st December 2012, the total outstanding interest-bearing loan balances were $13,468 million (2011: $11,966 million). The outstanding balances with associates are disclosed in note 11.

(ii) Tax credit claimed under the consortium relief received/receivable from an associate in the United Kingdom amounted to HK$63 million (2011: $37 million) for the year.

## OTHER INFORMATION

### Closure of Register of Members

The register of members of the Company will be closed as follows:

(a) For the purpose of ascertaining shareholders who are entitled to attend and vote at the annual general meeting to be held on Monday, 20th May 2013 (or any adjournment thereof), the register of members of the Company will be closed from Tuesday, 14th May 2013 to Monday, 20th May 2013, both days inclusive. In order to qualify for the right to attend and vote at the meeting (or any adjournment thereof), all transfers accompanied by the relevant share certificates should be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, no later than 4:30 p.m. on Monday, 13th May 2013.

(b) For the purpose of ascertaining shareholders who qualify for the final dividend, the register of members of the Company will be closed from Friday, 24th May 2013 to Tuesday, 28th May 2013, both days inclusive. In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates should be lodged with Computershare Hong Kong Investor Services Limited, no later than 4:30 p.m. on Thursday, 23rd May 2013.

The address of Computershare Hong Kong Investor Services Limited is Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

### Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's issued shares during the year.

### Corporate Governance Practices

The Company is committed to maintaining high standards of corporate governance. The Company recognises that sound and effective corporate governance practices are fundamental to the smooth, effective and transparent operation of a company and its ability to attract investment, protect the rights of shareholders and stakeholders, and enhance shareholder value. The Group's corporate governance policy is designed to achieve these objectives and is maintained through a framework of processes, policies and guidelines.

The Company has complied with the applicable code provisions in the Code on Corporate Governance Practices (effective until 31st March 2012) and the Corporate Governance Code (effective from 1st April 2012) set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the year ended 31st December 2012, except for the deviation from code provision A.5 (establishment of a nomination committee) and code provision A.6.7 (attendance of Non-executive Directors in general meetings) as reported in the Company's 2012 interim report.

### Annual General Meeting

The annual general meeting of the Company will be held at the Ballroom, 1st Floor, Harbour Grand Kowloon, 20 Tak Fung Street, Hung Hom, Kowloon, Hong Kong on Monday, 20th May 2013 at 12:00 noon. Notice of the annual general meeting will be published and sent to shareholders in the manner as required by the Listing Rules in due course.

**Board Composition**

As at the date of this announcement, the directors of the Company are:

| | | |
|---|---|---|
| Executive directors | : | Mr. FOK Kin Ning, Canning (Chairman), Mr. WAN Chi Tin (Group Managing Director), Mr. CHAN Loi Shun (also Alternate Director to Mr. KAM Hing Lam), Mrs. CHOW WOO Mo Fong, Susan (also Alternate Director to Mr. FOK Kin Ning, Canning and Mr. Frank John SIXT), Mr. Andrew John HUNTER, Mr. KAM Hing Lam, Mr. LI Tzar Kuoi, Victor, Mr. Frank John SIXT and Mr. YUEN Sui See |
| Non-executive directors | : | Mr. TSO Kai Sum (Deputy Chairman), Mr. Ronald Joseph ARCULLI and Mr. Neil Douglas MCGEE |
| Independent non-executive directors | : | Mr. FONG Chi Wai, Alex, Mr. Holger KLUGE, Mr. LEE Lan Yee, Francis, Mr. George Colin MAGNUS, Mr. Ralph Raymond SHEA and Mr. WONG Chung Hin |