香港電燈集團有限公司
Hongkong Electric Holdings Ltd.

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: 0006

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# 2008 INTERIM RESULTS

# CHAIRMAN'S STATEMENT

## Half Year Results

The Group's unaudited consolidated net profit, after tax and Scheme of Control transfers, for the first six months of 2008 was HK$3,171 million, an increase of 17.9% over the same period last year. Earnings from the Group's Hong Kong operations were HK$2,747 million (2007: HK$2,374 million) which includes the impact of a HK$310 million deferred tax adjustment gain arising from the change in the Hong Kong profits tax rate from 17.5% to 16.5%. Earnings from the Group's international operations for the six month period were HK$424 million compared with HK$315 million for the same period in 2007. The higher first half 2008 international operations earnings reflected higher operating revenue recorded in the first half of the year and higher exchange translation gains on Australian dollar denominated income.

## Interim Dividend

The Directors have today declared an interim dividend for 2008 of HK$0.62 (2007: HK$0.58) per share. The dividend will be payable on 19th September 2008, to shareholders whose names appear in the Company's Register of Members on 18th September 2008.

## Hong Kong Operations

Unit sales of electricity for the first six months of 2008 were 1.7% lower than that recorded for the first six months of 2007. The lower unit sales were primarily due to the cooler and wetter weather in the earlier part of the year and to the effect of various energy saving initiatives.

Emission reduction work continued at the Lamma Power Station. All piling and civil work for the Unit 4 and 5 flue gas desulphurization (FGD) retrofit works were completed on schedule with erection work now underway. Basic design work for the Unit 2 FGD retrofit work has been completed with construction work scheduled to commence in August this year. The FGD retrofit works are scheduled for completion in mid 2010. Fabrication of the low nitrogen oxide burners for Units 4 and 5 is underway with delivery of the equipment to site to commence in September. Commercial operation of the Unit 5 burner is scheduled for April 2009 and the Unit 4 burner for March 2010.

Unit 9, The Hongkong Electric Company, Limited ("HEC")'s 335 MW gas fired combined cycle unit operated satisfactorily in the first half of 2008 while the overall availability of the Lamma coal fired units increased. The 800 kW wind turbine on Lamma Island continued to play an educational role on renewable energy.

System development work progressed during the first half of the year. World class electricity supply reliability of 99.999% was maintained during the first six months of 2008, a level which has been consistently achieved since 1997. All of HEC's service standards were met during the first half of the year.

Efficient energy use continued to be promoted during the period through HEC's Smart Power Campaign with open days being held at Lamma Power Station and renewable energy through the HK Electric Clean Energy Fund which promotes renewable energy projects at schools.

In June, HEC submitted to the Hong Kong Government its development plan outlining its capital expenditure programme for the period 2009-2013 and is currently awaiting approval of that plan.

The second half of 2008 will be the final period for HEC under the existing Scheme of Control which will expire at the end of the year. That Scheme of Control has ensured Hong Kong enjoys the high degree of reliability in electricity supply that it does today. Going forward under the new Scheme of Control Agreement which was signed in January this year for a ten year term commencing on 1st January 2009 we look forward to continuing to support Hong Kong's development and prosperity.

## International Operations

In Australia, our electricity distribution businesses recorded increased distribution revenue and higher unregulated revenue. Northern Gas Networks in the U.K. recorded increased throughput due to the colder weather earlier in the year. In Thailand, both of the 700 MW units at the Ratchaburi gas fired power station have been commissioned and are in commercial operation. In Canada, Stanley Power through its interest in TransAlta Cogeneration L.P. which has interests in six generation facilities in Canada performed ahead of expectations. In July 2008, we acquired a 50% interest in the Wellington electricity distribution network in New Zealand. The network has a system length of over 4,592 kilometres and serves the Wellington, Porirua and Hutt Valley regions. The acquisition will increase the revenue contribution from our international operations.

## Outlook

In Hong Kong we expect that the lower level of electricity sales experienced in the first half of 2008 will continue into the second half of the year. The current high coal prices are expected to result in higher fuel costs for 2008 which will apply significant pressure on tariffs.

Our international investments are progressing well. We will continue with our strategy of making international acquisitions so as to continue to grow our international earnings base.

I would like to thank the board and the Group’s employees for their dedication and hard work during the period.

**Canning Fok Kin-ning**
***Chairman***
Hong Kong, 5th August 2008

## FINANCIAL REVIEW

### Capital Expenditure, Liquidity and Financial Resources

Capital expenditure during the period amounted to HK$714 million (2007 : HK$671 million), which was primarily funded by cash from operations. Total external borrowings outstanding at 30th June 2008 were HK$14,390 million (31st December 2007 : HK$13,495 million), comprising unsecured bank loans and debt securities in issue. In addition, the Group had undrawn committed bank facilities of HK$7,360 million (31st December 2007 : HK$7,145 million) and bank deposits and cash of HK$12,790 million (31st December 2007 : HK$12,180 million).

### Treasury Policies, Financing Activities and Capital Structure

The Company 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. The Company aims to ensure that adequate financial resources are available for refinancing and business growth.

With HK$7.4 billion undrawn committed banking facilities together with HK$12.8 billion bank deposits and cash, no major financing was arranged during the period.

As at 30th June 2008, the net debt of the Group was HK$1,600 million (31st December 2007 : HK$1,315 million) with a net debt-to-equity ratio of 3% (31st December 2007 : 3%).

The profile of the Group's external borrowings, after taking into account of hedging was as follows:-

(1) 63% were in Hong Kong dollars, 32% in Australian dollars and 5% in Sterling Pounds;

(2) 76% were bank loans and 24% were capital market instruments;

(3) 20% were repayable within 1 year, 67% were repayable between 2 and 5 years and 13% were repayable beyond 5 years;

(4) 52% were in fixed rate and 48% were in floating rate.

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 credit risk exposure.

The Group's policy is to maintain a portion of its debt in fixed rates. Interest rate risk is managed by either securing fixed or floating rate borrowings or by using interest rate derivatives. As at 30th June 2008, 52% of the Group's total borrowings were fixed rate.

The Group's principal foreign currency exposures arise from its overseas investments and from the import of fuel and capital equipment. Foreign currency transaction exposure is managed mainly through forward contracts. As at 30th June 2008, over 95% of the Group's transaction exposure was either denominated in US dollars or hedged into Hong Kong or US dollars. Where considered appropriate, currency exposure arising from overseas investments is mitigated by financing those investments in local currency borrowings. Foreign currency fluctuations will affect the translated value of the net assets of overseas investments and the resultant translation difference is included in the Group's reserve account.

The contractual notional amounts of derivative financial instruments outstanding at 30th June 2008 amounted to HK$8,734 million (31st December 2007 : HK$9,576 million).

**Charges on Group Assets**

The shares of an associate were pledged as part of the security arrangements for project financing facilities for that associate. The carrying value of the associate as at 30th June 2008 was HK$434 million (31st December 2007 : HK$281 million).

**Contingent Liabilities**

As at 30th June 2008, the Group had given guarantees and indemnities totalling HK$2,895 million (31st December 2007 : HK$2,702 million).

**Employees**

The Group continues its policy of pay by performance and market pay levels are monitored to ensure competitiveness is maintained. The Group's total remuneration costs for the six months ended 30th June 2008, excluding directors' emoluments, amounted to HK$446 million (30th June 2007 : HK$421 million). As at 30th June 2008, the Group employed 1,870 (30th June 2007 : 1,890) 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 employees in management and functional skills, language skills, computer knowledge and technology relevant to the Group's industry by both classroom training and e-learning platforms. Job-related courses to develop and enhance the general skills and knowledge of employees are also provided.

## OTHER INFORMATION

### Closure of Register of Members

The register of members will be closed from Thursday, 11th September 2008 to Thursday, 18th September 2008 both days inclusive for the purpose of ascertaining entitlement to the interim dividend. To qualify for the interim dividend, all transfers accompanied by the relevant share certificates should be lodged with the Company's registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Wednesday, 10th September 2008.

### 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 six months ended 30th June 2008.

### Code on Corporate Governance Practices

The Company has complied with the applicable code provisions in the Code on Corporate Governance Practices set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the six months ended 30th June 2008.

**HONGKONG ELECTRIC HOLDINGS LIMITED**

**UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT**

**FOR THE SIX MONTHS ENDED 30TH JUNE 2008**

| | Note | **Six months ended 30th June** **2008** **HK$ million** | 2007 HK$ million restated |
|---|---|---|---|
| **Turnover** | 3 | **5,878** | 5,841 |
| Direct costs | | **(2,071)** | (2,041) |
| | | **3,807** | 3,800 |
| Other revenue and net income | | **538** | 505 |
| Other operating costs | | **(496)** | (432) |
| Finance costs | | **(253)** | (318) |
| **Operating profit** | | **3,596** | 3,555 |
| Share of profits less losses of associates | | **294** | 202 |
| **Profit before taxation** | 4 | **3,890** | 3,757 |
| Income tax | 5 | **(227)** | (568) |
| **Profit after taxation** | | **3,663** | 3,189 |
| Scheme of Control transfers to: | 6 | | |
| Development Fund | | **(492)** | (500) |
| Rate Reduction Reserve | | **-** | - |
| | | **(492)** | (500) |
| **Profit attributable to equity shareholders** | | | |
| Hong Kong operations | | **2,747** | 2,374 |
| International operations | | **424** | 315 |
| **Profit for the period** | | **3,171** | 2,689 |
| **Interim dividend** | 7 | **1,323** | 1,238 |
| **Earnings per share – basic and diluted** | 8 | **HK$1.49** | HK$1.26 |
| **Interim dividend per share** | 7 | **HK$0.62** | HK$0.58 |

## HONGKONG ELECTRIC HOLDINGS LIMITED
## CONSOLIDATED BALANCE SHEET
## AT 30TH JUNE 2008

| | Note | **(Unaudited) 30th June 2008 HK$ million** | (Audited) 31st December 2007 HK$ million |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed assets | | | |
| - Property, plant and equipment | | **40,367** | 41,112 |
| - Assets under construction | | **3,023** | 2,623 |
| - Interests in leasehold land held for own use under operating leases | | **2,294** | 2,323 |
| | | **45,684** | 46,058 |
| Interest in associates | | **9,829** | 9,071 |
| Other non-current financial assets | | **66** | 66 |
| Derivative financial instruments | | **133** | 122 |
| Employee retirement benefit assets | | **866** | 1,106 |
| | | **56,578** | 56,423 |
| **Current assets** | | | |
| Inventories | | **699** | 539 |
| Trade and other receivables | 9 | **1,508** | 1,197 |
| Fuel Clause Account | | **377** | 336 |
| Bank deposits and cash | 10 | **12,790** | 12,180 |
| | | **15,374** | 14,252 |
| **Current liabilities** | | | |
| Trade and other payables | 11 | **(982)** | (1,071) |
| Bank overdrafts - unsecured | | **(1)** | - |
| Current portion of bank loans and other borrowings | | **(2,845)** | (2,191) |
| Current taxation | | **(583)** | (424) |
| | | **(4,411)** | (3,686) |
| **Net current assets** | | **10,963** | 10,566 |
| **Total assets less current liabilities** | | **67,541** | 66,989 |
| **Non-current liabilities** | | | |
| Interest-bearing borrowings | | **(11,544)** | (11,304) |
| Derivative financial instruments | | **(4)** | (7) |
| Customers' deposits | | **(1,611)** | (1,585) |
| Deferred tax liabilities | | **(5,204)** | (5,444) |
| Employee retirement benefit liabilities | | **(528)** | (530) |
| | | **(18,891)** | (18,870) |
| **Rate Reduction Reserve** | | **(1)** | (1) |
| **Development Fund** | | **(506)** | (14) |
| **Net Assets** | | **48,143** | 48,104 |
| **Capital and Reserves** | | | |
| Share capital | | **2,134** | 2,134 |
| Reserves | | **46,009** | 45,970 |
| **Total equity attributable to equity shareholders of the Company** | | **48,143** | 48,104 |

## HONGKONG ELECTRIC HOLDINGS LIMITED

**Notes:**

### 1. Review of Condensed Interim Accounts

The condensed interim accounts are unaudited, but have been reviewed by the Audit Committee.

### 2. Basis of Preparation

The condensed interim accounts have been prepared in accordance with the applicable provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

These condensed interim accounts should be read in conjunction with the 2007 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the 2007 annual accounts except for the adoption of the new standards, amendments to standards and interpretations issued by the HKICPA which are mandatory for the annual periods beginning 1st January 2008. The following new standards, amendments to standards and interpretations are mandatory for the financial year ending 31st December 2008.

(a) HK(IFRIC) Interpretation 12 Service Concession Arrangements (effective for annual periods beginning on or after 1st January 2008)

(b) HK(IFRIC) Interpretation 14 HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1st January 2008)

The adoption of these new standards, amendments to standards and interpretations has no material financial effect on the Group's results and financial position for the current or prior periods.

## 2. Basis of Preparation (continued)

The Group has not early adopted the following new/revised standards and interpretations that have been issued but not yet effective for the accounting period ending 31st December 2008. The Group is in the process of making an assessment of the impact of these new/revised standards and interpretations to the Group's results of operations and financial position in the period of initial application.

| | | Effective for annual periods beginning on or after |
|---|---|---|
| HK(IFRIC) Interpretation 13 | Customer Loyalty Programmes | 1st July 2008 |
| HKAS 23 (Revised) | Borrowing Costs | 1st January 2009 |
| HKFRS 8 | Operating Segments | 1st January 2009 |
| HKAS 1 (Revised) | Presentation of Financial Statements | 1st January 2009 |
| Amendments to HKFRS 2 | Share-based Payment – Vesting Conditions and Cancellations | 1st January 2009 |

## 3. Turnover and Segmental Information

The analyses of the principal activities and geographical locations of the operations of the Group during the financial period are as follows:

| | **Turnover Six months ended 30th June** | | **Operating profit Six months ended 30th June** | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **$ million** | $ million | **$ million** | $ million restated |
| **Principal activities** | | | | |
| Sales of electricity and its related income | **5,855** | 5,818 | **3,345** | 3,404 |
| Technical service fees | **23** | 23 | **6** | 4 |
| Unallocated and other items | **-** | - | **20** | 3 |
| | **5,878** | 5,841 | **3,371** | 3,411 |
| Interest income | | | **504** | 486 |
| Finance costs | | | **(253)** | (318) |
| Unallocated group expenses | | | **(26)** | (24) |
| Operating profit | | | **3,596** | 3,555 |

## 3. Turnover and Segmental Information (continued)

### Geographical locations of operations

| | Turnover Six months ended 30th June | |
|---|---|---|
| | **2008** | 2007 |
| | **$ million** | $ million |
| Hong Kong | **5,868** | 5,832 |
| Rest of Asia and other locations | **10** | 9 |
| | **5,878** | 5,841 |
| | ===== | ===== |

## 4. Profit Before Taxation

| | Six months ended 30th June | |
|---|---|---|
| | **2008** | 2007 |
| | **$ million** | $ million |
| Profit before taxation is shown after charging/(crediting): | | |
| Finance costs | | |
| Interest on borrowings | **305** | 376 |
| Less : interest capitalised to fixed assets | **(46)** | (52) |
| interest transferred to fuel cost | **(6)** | (6) |
| | **253** | 318 |
| Depreciation | | |
| Depreciation charges for the period | **1,041** | 1,042 |
| Less : depreciation capitalised | **(56)** | (63) |
| | **985** | 979 |
| Amortisation of leasehold land | **29** | 28 |
| Net profit on disposal of fixed assets | **1** | - |
| | ===== | ===== |

## 5. Income Tax

| | Six months ended 30th June | |
|---|---|---|
| | **2008** | 2007 |
| | **$ million** | $ million |
| **Current Tax** | | |
| The Company and its subsidiaries – Hong Kong | **475** | 572 |
| – Overseas | **(5)** | 1 |
| | **470** | 573 |
| **Deferred Tax** | | |
| The Company and its subsidiaries – Hong Kong | | |
| Origination and reversal of temporary differences | **67** | (5) |
| Effect of decrease in tax rate on deferred tax balances at 1st January | **(310)** | - |
| | **(243)** | (5) |
| Total | **227** | 568 |

In June 2008, the Hong Kong Government promulgated a decrease in the Profits Tax rate applicable to the Group's operations in Hong Kong from 17.5% to 16.5%. This decrease is taken into account in the preparation of the Group's 2008 interim accounts.

Hong Kong Profits Tax has been provided for at the rate of 16.5% (2007 : 17.5%) based on the estimated assessable profits for the period. Overseas taxation has been provided for at the applicable rate on the estimated assessable profits for the period.

## 6. Scheme of Control Transfers

The Scheme of Control transfers are mid-year notional transfers. The actual Scheme of Control transfers can only be determined in accordance with the Scheme of Control at the year end.

## 7. Interim Dividend

After the balance sheet date, the interim dividend declared by the Board of Directors is as follows:

| | Six months ended 30th June | |
|---|---|---|
| | **2008** | 2007 |
| | **$ million** | $ million |
| Interim dividend of HK$0.62 per share (2007 : HK$0.58 per share) | **1,323** | 1,238 |

## 8. Earnings Per Share

The calculation of earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of $3,171 million (2007 : $2,689 million) and 2,134,261,654 ordinary shares (2007 : 2,134,261,654 ordinary shares) in issue during the period.

## 9. Trade and Other Receivables

| | **30th June 2008 $ million** | 31st December 2007 $ million |
|---|---|---|
| Derivative financial instruments | **6** | 10 |
| Debtors (see note below) | **1,502** | 1,187 |
| | **1,508** | 1,197 |

| | **30th June 2008 $ million** | 31st December 2007 $ million |
|---|---|---|
| Debtors' ageing is analysed as follows: | | |
| Current or less than 1 month overdue | **852** | 600 |
| 1 to 3 months overdue | **32** | 32 |
| More than 3 months overdue but less than 12 months overdue | **11** | 11 |
| Total trade debtors (see note below) | **895** | 643 |
| Deposits, prepayments and other receivables | **607** | 544 |
| | **1,502** | 1,187 |

Electricity bills issued to domestic, small industrial, commercial and miscellaneous customers of 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, The Hongkong Electric Company, Limited is entitled to add a surcharge of 5% to the respective bills.

## 10. Bank Deposits and Cash

| | **30th June 2008 $ million** | 31st December 2007 $ million |
|---|---|---|
| Deposits with banks and other financial institutions with three months or less to maturity when placed | **12,667** | 8,070 |
| Cash at bank and in hand | **36** | 8 |
| Cash and cash equivalents for the purpose of cash flow statement | **12,703** | 8,078 |
| Deposits with banks and other financial institutions with more than three months to maturity when placed | **87** | 4,102 |
| | **12,790** | 12,180 |

## 11. Trade and Other Payables

| | **30th June 2008 $ million** | 31st December 2007 $ million |
|---|---|---|
| Creditors (see note below) | **974** | 1,068 |
| Derivative financial instruments | **8** | 3 |
| | **982** | 1,071 |

| | **30th June 2008 $ million** | 31st December 2007 $ million |
|---|---|---|
| Creditors' ageing is analysed as follows: | | |
| Due within 1 month or on demand | **396** | 474 |
| Due after 1 month but within 3 months | **202** | 240 |
| Due after 3 months but within 12 months | **335** | 321 |
| | **933** | 1,035 |
| Other payables | **41** | 33 |
| | **974** | 1,068 |

**Board of Directors**

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

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