



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

**2004 INTERIM RESULTS**

**CHAIRMAN'S STATEMENT**

**Half Year Results**

The unaudited consolidated profit of the Group, after tax and Scheme of Control transfers, for the first six months of 2004 amounted to HK\$2,228 million, an increase of 1.6% compared to the same period last year, including profits from the Group's overseas activities of HK\$267 million (2003: HK\$227 million).

**Interim Dividend**

The Directors have today declared an interim dividend of 58 cents (2003: 58 cents) per share payable to shareholders whose names appear in the Company's Register of Members on 23rd September 2004.

The Register of Members will be closed from 16th September 2004 to 23rd September 2004 both days inclusive. To qualify for the interim dividend, transfers should be lodged with the Registrars by 4:00 p.m. on 15th September 2004.

## Operations

In Hong Kong, economic conditions were more favourable than during the same period last year due largely to the serious adverse consequences in 2003 of the outbreak of Severe Acute Respiratory Syndrome. The signing of the Closer Economic Partnership Arrangement (CEPA), the introduction of the individual visit scheme for Mainland visitors, and other supportive measures from Mainland China also benefited the local economy in 2004. The stronger local economy, coupled with the hot weather which occurred towards the end of June, combined to result in a new system maximum demand being recorded of 2,588MW, an increase of 6.0% over the maximum demand recorded last year, further confirmation that the new L9 unit at Lamma is required to be commissioned in 2006 to meet increasing demand. Unit sales for the six months to 30th June 2004 increased by 3.9% over the same period last year.

Satisfactory progress continues to be made on the extension of the Lamma Power Station to meet the target commissioning in 2006. The piling work for the first 300 MW power unit was completed during the period and the superstructure contract has been awarded. Work on the Main Station Building and 275kV Switching Station is on schedule and the manufacture of the power block equipment is in progress.

A long term contract for the supply of natural gas to Lamma was signed in Beijing in April 2004. The first delivery of gas from the LNG terminal, which is presently under construction in Shenzhen, is targeted for mid 2006. In addition, the contract for the supply and installation of a 93 km submarine gas pipeline from Shenzhen to Lamma was awarded in May 2004. Pipe laying work will commence in early 2005.

Coal prices and related freight charges have risen substantially during the first six months of 2004. While the Company was insulated from the full effect of these increases by virtue of several longer term supply contracts secured at favourable prices, a two-cent per unit reduction in the Fuel Clause rebate effective 1st April 2004 was required to recover the increase in cost which will be incurred in 2004. This is a pass through of actual cost increases incurred and has no effect on the Company's profits.

The Company's long tradition of environmental responsibility was recognised by the Pacific Basin Economic Council (PBEC) in June when the Company received a PBEC Environmental Award, the first time that an electricity utility in the region has been honoured. With regard to the Company's support of the development of renewable energy, a land application for a wind turbine site on Lamma Island has been submitted and is being processed. The tender for the supply of a 600kW wind turbine is expected to be issued later in the year to meet a commissioning schedule of early 2006.

Overseas, our operations in Australia continue to perform well. Strong financial performance was achieved through a combination of customer growth, increasing consumption, growth in non-electricity revenue and productivity improvements within and across the businesses. The performance of the distribution networks, as measured by minutes without supply, also recorded improvements against the same period last year. In Thailand, the shareholding arrangements in the consortium formed to develop a 1,400MW gas-fired power plant were finalised in February. The Group is the largest foreign shareholder with a 25% interest in the project. Various pre-construction tasks are on-going and the project is on schedule for commissioning in 2008.

## **Outlook**

In Hong Kong, a strengthening economy augurs well for the medium term. The Company will take advantage of the flexibility it has within its capital expenditure programme to ensure consumers continue to be provided with reliable electricity to satisfy current and future demand at the lowest cost compatible with the terms of the Scheme of Control Agreement with Government. However, increasing costs which are beyond the control of the Company, particularly coal prices and freight charges, are a concern. For example, coal prices at this time last year were approximately US\$29 per tonne, while today's price is approximately US\$72 per tonne, an increase of 148%. Of course, we will do our utmost to negotiate and fix the lowest possible coal price, but if prices do not moderate from present levels, there will be an impact on tariffs as our lower priced term contracts unwind.

The relatively lower risk and predictable nature of our overseas businesses provide support for sustained profit growth. Given the Group's strong financial position and proven expertise in managing these businesses, further similar suitable investment opportunities are being studied actively.

**George C. Magnus**  
*Chairman*

Hong Kong, 5th August 2004

## **FINANCIAL REVIEW**

### **Capital Expenditure, Liquidity, Financial Resources and Gearing Ratio**

Capital expenditure during the period amounted to HK\$986 million, which was primarily funded by internal sources. As at 30th June 2004, total external borrowings were HK\$13,714 million (at 31st December 2003 : HK\$13,599 million), comprising unsecured bank loans, unsecured deferred creditors and debt securities in issue. In addition, undrawn committed credit facilities available to the Group totalled HK\$881 million (at 31st December 2003: HK\$3,443 million). Gearing ratio (net debt/shareholders' funds) at 30 June 2004 was 37% (at 31st December 2003 : 37%).

### **Treasury Policies and Capital Structure**

The Group continues to ensure that its businesses are financed from a variety of competitive sources and that committed facilities and operating cashflows are sufficient to meet refinancing and business expansion needs. In addition, currency and interest risks are actively managed on a conservative basis.

As at 30th June 2004, external borrowings of the Group amounted to HK\$13,714 million, with the following profile:

- (1) 53% was either denominated or effectively hedged into Hong Kong dollars and 47% was either denominated or effectively swapped into Australian dollars;
- (2) 76% was bank loans, 18% was capital market instruments and 6% was suppliers' credits;
- (3) 16% was repayable within 1 year, 77% was repayable between 2 to 5 years and 7% was repayable beyond 5 years;
- (4) 77% was fixed or capped rate based and 23% was floating rate.

It is the Group's treasury policy not to engage in speculative transactions. Foreign currency transaction exposure is managed in accordance with treasury guidelines, utilising forward contracts and interest and currency swaps. As at 30th June 2004, over 95% of the Group's transaction exposure was either hedged or denominated in Hong Kong or US dollars. Currency exposure arising from overseas investments is hedged by arranging comparable level of borrowings in or swapping foreign currency borrowings into the same currency as the underlying investments. Interest rate risk is managed through the use of interest rate swaps and caps. The contractual notional amounts of derivative instruments outstanding at 30th June 2004 amounted to HK\$19,671 million (at 31st December 2003 : HK\$21,394 million) equivalent.

## **Contingent Liabilities**

As at 30th June 2004, the Company has issued guarantees for associate amounting to HK\$33 million (at 31st December 2003: HK\$44 million).

As at 30th June 2004, the Company has given guarantees and counter indemnities in respect of bank and other borrowing facilities available to subsidiaries and financial commitments of subsidiaries totalling HK\$9,262 million (at 31st December 2003: HK\$11,227 million) equivalent. Out of this amount, HK\$8,896 million, while being a contingent liability of the Company, is reflected in the Consolidated Balance Sheet of the Group.

As at 30th June 2004, a wholly owned subsidiary of the Company, The Hongkong Electric Company, Limited, has given guarantees to third parties in respect of a loan scheme for electricity charges of HK\$3 million (at 31st December 2003: HK\$5 million) and the value of leased equipment of HK\$210 million (at 31st December 2003: HK\$210 million) at expiry of the lease.

## **Employees**

The Group continues its policy of pay by performance and market pay rates are monitored constantly to ensure competitiveness is maintained. The Group's total remuneration costs for the six months ended 30th June 2004, excluding directors' emoluments, amounted to HK\$468 million (2003: HK\$510 million). As at 30th June 2004, the Group employed 2,083 (2003: 2,173) 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 staff in language, computer knowledge, and the latest technology relevant to our industry as well as numerous job-related courses to enhance other more general skills and knowledge of our employees.

**HONGKONG ELECTRIC HOLDINGS LIMITED**

**UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT**

**FOR THE SIX MONTHS ENDED 30TH JUNE 2004**

		<b>Six months ended 30th June</b>	
	Note	<b>2004</b>	<b>2003</b>
		<b>HK\$ million</b>	<b>HK\$ million</b>
<b>Turnover</b>	3	<b>5,327</b>	5,207
Direct costs		<b>(1,989)</b>	(1,865)
		<b>3,338</b>	3,342
Other revenue and net income		<b>439</b>	453
Other operating costs		<b>(351)</b>	(265)
Finance costs		<b>(302)</b>	(333)
<b>Operating profit</b>	4	<b>3,124</b>	3,197
Share of results of associates		<b>211</b>	127
<b>Profit before taxation</b>		<b>3,335</b>	3,324
Income tax	5	<b>(626)</b>	(977)
<b>Profit after taxation</b>		<b>2,709</b>	2,347
Scheme of Control transfers to:	6		
Development Fund		<b>(481)</b>	(151)
Rate Reduction Reserve		<b>-</b>	(3)
		<b>(481)</b>	(154)
<b>Profit attributable to shareholders</b>			
Local activities		<b>1,961</b>	1,966
Overseas activities		<b>267</b>	227
<b>Total</b>		<b>2,228</b>	2,193
<b>Proposed interim dividend</b>	7	<b>1,238</b>	1,238
<b>Earnings per share</b>	8	<b>104 cents</b>	103 cents
<b>Proposed interim dividend per share</b>	7	<b>58 cents</b>	58 cents

# HONGKONG ELECTRIC HOLDINGS LIMITED

## CONSOLIDATED BALANCE SHEET

AT 30TH JUNE 2004

	Note	(Unaudited) 30th June 2004 HK\$ million	(Audited) 31st December 2003 HK\$ million
<b>Assets</b>			
<b>Non-current assets</b>			
Fixed assets			
- Property, plant and equipment		41,534	42,024
- Assets under construction		3,428	3,000
		<u>44,962</u>	<u>45,024</u>
Interest in associates		8,194	8,425
Other investments		23	7
Employee retirement benefit assets		267	236
		<u>53,446</u>	<u>53,692</u>
<b>Current assets</b>			
Inventories		496	368
Trade and other receivables	9	1,414	1,041
Fuel clause account		1,144	1,147
Bank balances and other liquid funds	10	615	464
		<u>3,669</u>	<u>3,020</u>
<b>Current liabilities</b>			
Trade and other payables	11	(907)	(1,124)
Bank overdrafts - unsecured		(4)	(4)
Current portion of bank loans and other borrowings		(1,883)	(2,436)
Taxation		(500)	(301)
		<u>(3,294)</u>	<u>(3,865)</u>
<b>Net current assets/(liabilities)</b>		<u>375</u>	<u>(845)</u>
<b>Total assets less current liabilities</b>		<u>53,821</u>	<u>52,847</u>
<b>Non-current liabilities</b>			
Interest-bearing borrowings		(10,961)	(10,187)
Deferred creditors and other payables		(675)	(760)
Customers' deposits		(1,424)	(1,387)
Deferred taxation		(5,164)	(5,105)
Employee retirement benefit liabilities		(96)	(92)
		<u>(18,320)</u>	<u>(17,531)</u>
<b>Rate Reduction Reserve</b>		-	(5)
<b>Development Fund</b>		(481)	-
<b>Net Assets</b>		<u>35,020</u>	<u>35,311</u>
<b>Capital and Reserves</b>			
Share capital		2,134	2,134
Reserves		32,886	33,177
		<u>35,020</u>	<u>35,311</u>

Notes:

1. The interim financial statements are unaudited, but have been reviewed by the Audit Committee.
2. The same accounting policies adopted in the 2003 annual financial statements have been applied to the interim financial statements.
3. The analyses of the principal activities and geographical locations of the operations of the Group during the financial period are as follows:

	<b>Turnover</b>		<b>Operating profit</b>	
	<b>Six months ended 30th June</b>		<b>Six months ended 30th June</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b><u>HK\$ million</u></b>	<b><u>HK\$ million</u></b>	<b><u>HK\$ million</u></b>	<b><u>HK\$ million</u></b>
<b>Principal activities</b>				
Sales of electricity and its related income	5,303	5,179	3,029	3,095
Technical service fees	24	28	3	5
Unallocated and other items	-	-	2	52
	<u>5,327</u>	<u>5,207</u>	<u>3,034</u>	<u>3,152</u>
Interest income			435	388
Finance costs			(302)	(333)
Unallocated group expenses			(43)	(10)
Operating profit			<u>3,124</u>	<u>3,197</u>

**Geographical locations of operations**

	<b>Turnover</b>	
	<b>Six months ended 30th June</b>	
	<b>2004</b>	<b>2003</b>
	<b><u>HK\$ million</u></b>	<b><u>HK\$ million</u></b>
Hong Kong	5,322	5,200
Rest of Asia, Australia and other locations	5	7
	<u>5,327</u>	<u>5,207</u>

4. Operating profit is shown after charging/(crediting):

	<b>Six months ended 30th June</b>	
	<b>2004</b>	<b>2003</b>
	<b><u>HK\$ million</u></b>	<b><u>HK\$ million</u></b>
Depreciation	959	886
Net realised and unrealised gains on other investments carried at fair value	-	(23)



5. **Income tax**

	<b>Six months ended 30th June</b>	
	<b>2004</b>	2003
	<b><u>HK\$ million</u></b>	<u>HK\$ million</u>
<b>Current Tax</b>		
The Company and its subsidiaries – Hong Kong	<b>463</b>	460
<b>Deferred Tax</b>		
The Company and its subsidiaries – Hong Kong	<b>59</b>	462
Associates – Overseas	<b>104</b>	55
	<b>163</b>	517
<b>Total</b>	<b>626</b>	977

Hong Kong profits tax has been provided for at the rate of 17.5% (2003: 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 profit.

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

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

	<b>Six months ended 30th June</b>	
	<b>2004</b>	2003
	<b><u>HK\$ million</u></b>	<u>HK\$ million</u>
Proposed interim dividend of 58 cents per share (2003: 58 cents per share)	<b>1,238</b>	1,238

8. The calculation of earnings per share is based on the profit attributable to shareholders of \$2,228 million (2003: \$2,193 million) and 2,134,261,654 shares (2003: 2,134,261,654 shares) in issue during the period.

9. **Trade and other receivables**

	<b>30th June 2004 <u>HK\$ million</u></b>	31st December 2003 <u>HK\$ million</u>
Demand Side Management account	45	45
Debtors (see note below)	<b>1,369</b>	996
	<hr/>	<hr/>
	<b>1,414</b>	1,041
	<hr/> <hr/>	<hr/> <hr/>

Debtors' ageing is analysed as follows:

Within 1 month	<b>681</b>	505
1 to 3 months overdue	<b>25</b>	28
More than 3 months overdue but less than 12 months overdue	<b>9</b>	9
	<hr/>	<hr/>
Total trade debtors (see note below)	<b>715</b>	542
Deposits, prepayments and other receivables	<b>654</b>	454
	<hr/>	<hr/>
	<b>1,369</b>	996
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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 balances and other liquid funds**

	<b>30th June 2004 <u>HK\$ million</u></b>	31st December 2003 <u>HK\$ million</u>
Time deposits	<b>600</b>	459
Cash at bank and in hand	<b>15</b>	5
	<hr/>	<hr/>
	<b>615</b>	464
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## 11. Trade and other payables

	<b>30th June 2004 <u>HK\$ million</u></b>	31st December 2003 <u>HK\$ million</u>
Creditors (see note below)	<b>695</b>	912
Current portion of deferred creditors	<b>212</b>	212
	<hr/>	<hr/>
	<b>907</b>	1,124
	<hr/> <hr/>	<hr/> <hr/>
<p>Creditors' ageing is analysed as follows:</p>		
Due within 1 month	<b>251</b>	341
Due between 1 month and 3 months	<b>89</b>	241
Due between 3 months and 12 months	<b>279</b>	301
	<hr/>	<hr/>
	<b>619</b>	883
Other payables	<b>76</b>	29
	<hr/>	<hr/>
	<b>695</b>	912
	<hr/> <hr/>	<hr/> <hr/>

### 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 period under review.

### Code of best practice

None of the Directors is aware of information that would reasonably indicate the Company is not, or was not for any part of the accounting period covered by this Interim Report, in compliance with Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.