



## **2006 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 2006 was HK\$2,479 million, an increase of 8.4% over the same period last year. The Hongkong Electric Company, Ltd. (HEC) earnings for the period were HK\$2,128 million (2005: HK\$1,943 million). Earnings from the Group's international operations for the six month period were HK\$209 million compared with HK\$313 million for the same period in 2005. The lower first half 2006 international operations earnings reflected the disposal of a 22.07% interest in the Australian electricity businesses in December 2005.

#### **Interim Dividend**

The Directors have today declared an interim dividend for 2006 of 58 cents (2005: 58 cents) per share. The dividend will be payable on 22nd September 2006, to shareholders whose names appear in the Company's Register of Members on 21st September 2006.

The Register of Members will be closed from 14th September 2006 to 21st September 2006 both days inclusive. To qualify for the interim dividend, transfers should be lodged with the Registrars by 4:00 p.m. on 13th September 2006.

#### **Hong Kong Operations**

Growth in unit sales of electricity for the first six months of 2006 was 0.9%. Notwithstanding a stronger Hong Kong economy unit sales of electricity were only marginally higher than that for the same period last year. The low sales growth was primarily due to wetter and cooler weather and to the effect of various energy saving initiatives. Maximum demand in the first six months of the year was 2,434 MW compared with 2,363 MW for the same period in 2005.

Our continuing program to reduce emissions from the Lamma Power Station progressed during the first half of 2006, contracts are expected to be awarded in September this year for the flue gas desulphurisation retrofit work for Units 4 and 5. Laying of the 93km submarine gas pipeline from Shenzhen to the Lamma Power Station extension has been completed and the pipeline pressure tested. Civil and engineering work for Unit 9 HEC's first 300 MW class gas fired combined cycle unit has been completed and first firing of the gas turbine was successfully achieved on 30th June 2006. The 800 kW wind turbine on Lamma Island which has been in operation since the end of September 2005 was officially commissioned on 23rd February 2006. In February, an education exhibit was opened on the site, which has attracted significant public interest in renewable energy.

Additional transmission facilities work for the Lamma Power Station which were commenced in 2005 progressed with the laying of the 275 kV cables from Lamma Island to Cyberport on Hong Kong Island being completed and one of the circuits being energized.

World class supply reliability was maintained in the first half of 2006 with reliability at 99.999%, a level that has been consistently achieved since 1997. Of the 5,008 million kWh of electricity sold during the period commercial sales made up 74.9%, domestic sales 21.1% and industrial sales 4.0%.

In March, HEC made a submission to the Hong Kong Government in response to the stage II consultation on the future development of the electricity market in Hong Kong. Over 17,000 submissions were received by the Government in the consultation. Although much of the public discussion of Government's proposals for the electricity market has focused on tariffs and reliability of supply, a paper prepared by the Government summarizing the stage II consultation submissions stated that there is a general consensus that reliability and safety of supply is most important and should be the key consideration in the future development of the electricity market. Indeed, forecast power shortages in Guangdong province, along with recent blackouts in New York city and Auckland, New Zealand and the vulnerable supply situation in California are timely reminders for all of us of the central importance of security and reliability of electricity supply in Hong Kong. The recent heat waves in the United States and Europe threatened the stability and reliability of their respective power grids highlighting the importance of continued investment in electricity infrastructure. In Hong Kong, the existing scheme of control and the returns under that scheme have ensured the investment required to achieve the high degree of stability and reliability which is taken for granted in Hong Kong but not enjoyed in other parts of the world today. Although we support in principle Government's stated policy of providing safe and reliable electricity at reasonable prices with minimal environmental impact, our submission communicated to Government many concerns regarding the proposed arrangements including those in relation to the permitted rate of return, the duration of the regulatory framework and changes to emission penalties. We will continue to discuss these concerns with Government with a view to achieving an outcome that is both reasonable for our shareholders and also safeguards the vital interests of consumers in continued security and reliability of electricity supply.

## **International Operations**

During the first half of 2006, the Australian electricity businesses recorded increased electricity consumption and customer growth. Northern Gas Networks in the U.K. operated satisfactorily and is on track to meet its operational and financial targets. In Thailand construction of the Ratchaburi 1,400 MW gas fired power station in which we have a 25% interest commenced, with completion of the power station scheduled for 2008. Financing arrangements for the power station were put in place earlier in the year.

## **Outlook**

In Hong Kong we expect that the low growth in electricity sales experienced in the first half of the year will continue into the second half. In addition, high coal and natural gas prices will continue to put pressure on fuel costs. HEC's current electricity tariff is lower than it is entitled to charge under the current scheme of control. This is the fourth year in succession that HEC has foregone permitted return in order to benefit its customers by charging lower electricity tariffs than it is entitled to under the scheme of control.

Our international investments have performed well in the first half of 2006, bearing in mind the lower attributable interest in the Australian electricity businesses. We will continue with our strategy of investing outside Hong Kong so as to reduce our reliance on earnings from our electricity operations in Hong Kong. I would like to thank the board, management and staff for their hard work and dedication and our shareholders for their continued support.

**Canning Fok Kin-ning**

*Chairman*

Hong Kong, 10th August 2006

## **FINANCIAL REVIEW**

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

Capital Expenditure during the period amounted to HK\$1,137 million, which was primarily funded by internal sources and external borrowings. As at 30th June 2006, total external borrowings were HK\$12,042 million (31st December 2005: HK\$10,645 million), comprising unsecured bank loans and debt securities in issue.

As at 30th June 2006, committed banking facilities available to the Group were HK\$7,100 million, of which HK\$5,129 million had been drawn. In addition, the Group had liquid funds of HK\$4,957 million (31st December 2005: HK\$4,561 million). The gearing ratio (net debt/shareholders' funds) at 30th June 2006 was 17% (31st December 2005: 15%).

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

The Group finances its businesses by a combination of internal resources, bank borrowings and debt issuance. Financing activities are managed so as to ensure that committed facilities are available for refinancing and business needs.

As at 30th June 2006, the profile of external borrowings after taking into account of currency and interest rate swaps was as follows:

- (1) 71% was denominated in Hong Kong dollars and 29% in Australian dollars;
- (2) 79% was bank loans and 21% capital market instruments;
- (3) 3% was repayable within 1 year, 87% was repayable between 2 to 5 years and 10% was repayable beyond 5 years;
- (4) 45% was in fixed rate or capped rate and 55% in floating rate.

Currency and interest rate risks are managed in accordance with the Group's treasury policy. Derivative financial instruments are used primarily for managing interest rate and foreign currency risks. It is the Group's policy not to engage in speculative transactions. Treasury transactions are only executed with counterparties with acceptable credit ratings to control credit risk exposure. Foreign currency transaction exposure is managed, utilising forward contracts and interest rate and currency swaps. As at 30th June 2006, over 95% of the Group's foreign exchange exposure was either denominated in US dollars or hedged into Hong Kong or US dollars. Currency exposure arising from international investments is where considered appropriate mitigated in part by financing those investments with borrowings in the currency of the investment. Interest rate risk is managed by securing fixed rate borrowings or by using appropriate interest rate derivative instruments. The contractual notional amounts of derivative instruments outstanding at 30th June 2006 amounted to HK\$5,824 million (31st December 2005: HK\$10,210 million).

## **Charges on Group Assets**

As at 30th June 2006, the shares of an associate owned by the Group were pledged as part of the security arrangement for project financing facilities to that associate. The assets of the associate at 30th June 2006 amounted to approximately HK\$827 million (31st December 2005: HK\$358 million).

## **Contingent Liabilities**

As at 30th June 2006, the Company has given guarantees and indemnities in respect of bank and other borrowing facilities made available to subsidiaries and in respect of financial commitments of subsidiaries totalling HK\$5,352 million (31st December 2005: HK\$5,002 million). Out of this amount, HK\$5,023 million (31st December 2005: HK\$4,781 million), while being a contingent liability of the Company, is reflected in the Consolidated Balance Sheet of the Group.

As at 30th June 2006, a wholly-owned subsidiary of the Company, The Hongkong Electric Company, Limited, has given guarantees to third parties in respect of the value of leased equipment of HK\$210 million (31st December 2005: HK\$210 million) at expiry of the lease.

## **Employees**

The Group continues its policy of pay for performance and market pay rates are monitored to ensure competitiveness is maintained. The Group's total remuneration costs for the six months ended 30th June 2006, excluding directors' emoluments, amounted to HK\$437 million (30th June 2005: HK\$447 million). As at 30th June 2006, the Group employed 1,960 permanent staff (30th June 2005: 2,013). 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 language, computer knowledge and technology relevant to the Group's industry. As well there are job-related courses to enhance the general skills and knowledge of the Group's employees.

**HONGKONG ELECTRIC HOLDINGS LIMITED**  
**UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
**FOR THE SIX MONTHS ENDED 30TH JUNE 2006**

	Note	Six months ended 30th June 2006 HK\$ million	2005 HK\$ million Restated
<b>Turnover</b>	3	<b>5,653</b>	5,363
Direct costs		<b>(1,989)</b>	(1,993)
		<b>3,664</b>	3,370
Other revenue and net income		<b>417</b>	482
Other operating costs		<b>(404)</b>	(409)
Finance costs		<b>(181)</b>	(298)
<b>Operating profit</b>		<b>3,496</b>	3,145
Share of profits less losses of associates		<b>73</b>	140
<b>Profit before taxation</b>	4	<b>3,569</b>	3,285
Income tax	5	<b>(572)</b>	(540)
<b>Profit after taxation</b>		<b>2,997</b>	2,745
Scheme of Control transfers to:	6		
Development Fund		<b>(518)</b>	(458)
Rate Reduction Reserve		-	-
		<b>(518)</b>	(458)
<b>Profit attributable to equity shareholders</b>			
Local activities		<b>2,270</b>	1,974
Overseas activities		<b>209</b>	313
<b>Profit for the period</b>		<b>2,479</b>	2,287
<b>Interim dividend</b>	7	<b>1,238</b>	1,238
<b>Earnings per share</b>	8	<b>116 cents</b>	107 cents
<b>Interim dividend per share</b>	7	<b>58 cents</b>	58 cents

**HONGKONG ELECTRIC HOLDINGS LIMITED**  
**CONSOLIDATED BALANCE SHEET**  
**AT 30TH JUNE 2006**

	Note	(Unaudited) 30th June 2006 HK\$ million	(Audited) 31st December 2005 HK\$ million
<b>Non-current assets</b>			
Fixed assets			
- Property, plant and equipment		37,700	38,294
- Assets under construction		6,222	5,524
- Interest in leasehold land held for own use under operating leases		2,412	2,440
		<hr/>	<hr/>
		46,334	46,258
Interest in associates		5,741	5,780
Other non-current financial assets		1,687	1,682
Derivative financial instruments		44	29
Deferred tax assets		12	14
Employee retirement benefit assets		192	170
		<hr/>	<hr/>
		54,010	53,933
<b>Current assets</b>			
Inventories		502	445
Trade and other receivables	9	1,454	1,090
Fuel Clause Account		815	1,079
Cash and cash equivalents	10	4,957	4,561
		<hr/>	<hr/>
		7,728	7,175
<b>Current liabilities</b>			
Trade and other payables	11	(879)	(1,068)
Bank overdrafts - unsecured		(5)	(8)
Current portion of bank loans and other borrowings		(393)	(354)
Current taxation		(500)	(220)
		<hr/>	<hr/>
		(1,777)	(1,650)
<b>Net current assets</b>		<hr/>	<hr/>
		5,951	5,525
<b>Total assets less current liabilities</b>		<hr/>	<hr/>
		59,961	59,458
<b>Non-current liabilities</b>			
Interest-bearing borrowings		(11,644)	(10,209)
Deferred creditors and other payables		-	(52)
Derivative financial instruments		(1)	(287)
Customers' deposits		(1,525)	(1,508)
Deferred tax liabilities		(5,409)	(5,382)
Employee retirement benefit liabilities		(333)	(335)
		<hr/>	<hr/>
		(18,912)	(17,773)
<b>Rate Reduction Reserve</b>		<hr/>	<hr/>
		-	-
<b>Development Fund</b>		<hr/>	<hr/>
		(518)	-
<b>Net Assets</b>		<hr/>	<hr/>
		40,531	41,685
<b>Capital and Reserves</b>			
Share capital		2,134	2,134
Reserves		38,397	39,551
		<hr/>	<hr/>
<b>Total equity attributable to equity shareholders of the Company</b>		<hr/>	<hr/>
		40,531	41,685

## HONGKONG ELECTRIC HOLDINGS LIMITED

### Notes:

#### 1. Review of Condensed Interim Financial Statements

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

#### 2. Basis of Preparation

The condensed interim financial statements 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”).

The condensed interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2005 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2006 annual financial statements. The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective or available for early adoption for the accounting periods beginning on or after 1st January 2006. In 2006, the Group has adopted the following new HKFRSs pertinent to its operations. The adoption of the new HKFRSs has no material effect on the Group’s results and financial position for the current or prior periods.

- (a) Amendment to HKAS 21 The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation
- (b) Amendment to HKAS 39 Financial Instruments : Recognition and Measurement - Cash Flow Hedge Accounting of Forecast Intragroup Transactions
- (c) Amendment to HKAS 39 Financial Instruments : Recognition and Measurement - The Fair Value Option
- (d) Amendment to HKAS 39 Financial Instruments : Recognition and Measurement and HKFRS 4 Insurance Contracts - Financial Guarantee Contracts
- (e) HKFRS Interpretation 4 - Determining Whether an Arrangement Contains a Lease
- (f) Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to HKAS 1 Presentation of Financial Statements, HKAS 27 Consolidated and Separate Financial Statements and HKFRS 3 Business Combinations



The Group has not early adopted the following new/revised HKFRSs, HKASs and Interpretations that have been issued but not yet effective for the accounting period ending 31st December 2006. The Group is in the process of making an assessment of the impact of these new/revised HKFRSs, HKASs and Interpretations to the Group's results of operations and financial position in the period of initial application.

		Effective for accounting periods <u>beginning on or after</u>
HK(IFRIC) Interpretation 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies	1st March 2006
HK(IFRIC) Interpretation 8	Scope of HKFRS 2	1st May 2006
HK(IFRIC) Interpretation 9	Reassessment of Embedded Derivatives	1st June 2006
Amendment to HKAS 1	Presentation of Financial Statements: Capital Disclosures	1st January 2007
HKFRS 7	Financial Instruments: Disclosure	1st January 2007

### 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:

	<b>Turnover</b>		<b>Operating profit</b>	
	<b>Six months ended 30th June 2006 HK\$ million</b>	<b>2005 HK\$ million</b>	<b>Six months ended 30th June 2006 HK\$ million</b>	<b>2005 HK\$ million</b>
<b>Principal activities</b>				
Sales of electricity and its related income	<b>5,634</b>	5,338	<b>3,281</b>	2,998
Technical service fees	<b>19</b>	25	<b>4</b>	5
Unallocated and other items	<b>-</b>	-	<b>76</b>	-
	<b>5,653</b>	5,363	<b>3,361</b>	3,003
Interest income			<b>327</b>	459
Finance costs			<b>(181)</b>	(298)
Unallocated group expenses			<b>(11)</b>	(19)
Operating profit			<b>3,496</b>	3,145

## Geographical locations of operations

	Turnover	
	Six months ended 30th June 2006 HK\$ million	2005 HK\$ million
Hong Kong	5,647	5,355
Rest of Asia and other locations	6	8
	5,653	5,363
	5,653	5,363

## 4. Profit Before Taxation

	Six months ended 30th June	
	2006 HK\$ million	2005 HK\$ million
Profit before taxation is shown after charging/(crediting):		
Depreciation		
Depreciation charges for the period	1,008	999
Less : depreciation capitalised	(67)	(69)
	941	930
Amortisation of leasehold land	27	29
Net profit on disposal of fixed assets	(3)	(13)
Share of associates' taxation	28	119
	941	930
	941	930

## 5. Income Tax

	Six months ended 30th June	
	2006 HK\$ million	2005 HK\$ million restated
<b>Current Tax</b>		
The Company and its subsidiaries – Hong Kong	542	437
<b>Deferred Tax</b>		
The Company and its subsidiaries – Hong Kong	29	103
– Overseas	1	-
	572	540
Total	572	540

Hong Kong Profits Tax has been provided for at the rate of 17.5% (2005 : 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. Scheme of Control Transfers

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. Interim Dividend

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

	<b>Six months ended 30th June</b>	
	<b>2006</b>	<b>2005</b>
	<b>HK\$ million</b>	<b>HK\$ million</b>
Interim dividend of 58 cents per share (2005: 58 cents per share)	<b>1,238</b>	1,238
	<u>=====</u>	<u>=====</u>

## 8. Earnings Per Share

The calculation of earnings per share is based on the profit attributable to equity shareholders of HK\$2,479 million (2005 : HK\$2,287 million) and 2,134,261,654 ordinary shares (2005 : 2,134,261,654 ordinary shares) in issue during the period.

## 9. Trade and Other Receivables

	<b>30th June</b>	<b>31st December</b>
	<b>2006</b>	<b>2005</b>
	<b>HK\$ million</b>	<b>HK\$ million</b>
Derivative financial instruments	<b>14</b>	32
Debtors (see note below)	<b>1,440</b>	1,058
	<u>=====</u>	<u>=====</u>
	<b>1,454</b>	1,090
	<u>=====</u>	<u>=====</u>
Debtors' ageing is analysed as follows:		
Within 1 month	<b>742</b>	555
1 to 3 months overdue	<b>26</b>	28
More than 3 months overdue but less than 12 months overdue	<b>10</b>	10
	<u>=====</u>	<u>=====</u>
Total trade debtors (see note below)	<b>778</b>	593
Deposits, prepayments and other receivables	<b>662</b>	465
	<u>=====</u>	<u>=====</u>
	<b>1,440</b>	1,058
	<u>=====</u>	<u>=====</u>

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. Cash and Cash Equivalents

	<b>30th June 2006 HK\$ million</b>	31st December 2005 HK\$ million
Deposits with banks and other financial institutions	<b>4,938</b>	4,548
Cash at bank and on hand	<b>19</b>	13
	<hr/> <b>4,957</b> <hr/> <hr/>	<hr/> 4,561 <hr/> <hr/>

## 11. Trade and Other Payables

	<b>30th June 2006 HK\$ million</b>	31st December 2005 HK\$ million
Creditors (see note below)	<b>878</b>	1,042
Current portion of deferred creditors	-	22
Derivative financial instruments	<b>1</b>	4
	<hr/> <b>879</b> <hr/> <hr/>	<hr/> 1,068 <hr/> <hr/>
Creditors' ageing is analysed as follows:		
Due within 1 month	<b>181</b>	358
Due after 1 month but within 3 months	<b>101</b>	170
Due after 3 months but within 12 months	<b>559</b>	485
	<hr/> <b>841</b> <hr/>	<hr/> 1,013 <hr/>
Other payables	<b>37</b>	29
	<hr/> <b>878</b> <hr/> <hr/>	<hr/> 1,042 <hr/> <hr/>

## 12. Comparative Figures

Certain comparative figures have been reclassified to confirm with the current period's presentation. In prior periods, the Group's share of taxation of associates accounted for using the equity method was included as part of the Group's income tax in the Consolidated Profit and Loss Account. With effect from 1st January 2005, in accordance with the implementation guidance in HKAS 1, the Group has changed the presentation and included the share of taxation of associates in the respective shares of profit or loss reported in the Consolidated Profit and Loss Account before arriving at the Group's profit or loss before tax. As a result of the changes in presentation, share of taxation of associates for the period ended 30th June 2005 amounted to HK\$119 million was regrouped from "Income Tax" to "Share of Profits Less Losses of Associates". There was no impact on the Group's earnings for the six months ended 30th June 2005.

**HONGKONG ELECTRIC HOLDINGS LIMITED**  
**OTHER INFORMATION**

**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 on Corporate Governance Practices**

With the exception that non-executive directors are not appointed for a specific term, 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 during the accounting period covered by this Interim Report. According to the Company's Articles of Association, the non-executive directors are required to retire from office by rotation and be subject to re-election once every three years.

**Board Composition**

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, Mr. LEE Lan Yee, Francis, Mr. LI Tzar Kuoi, Victor, Mr. Neil Douglas MCGEE, Mr. Frank John SIXT and Mr. WAN Chi Tin.

Non-executive Directors: Mr. Ronald Joseph ARCULLI, Mr. George Colin MAGNUS and Mr. YEE Lup Yuen, Ewan.

Independent Non-executive Directors: Mr. Holger KLUGE, Mr. Ralph Raymond SHEA and Mr. WONG Chung Hin.