



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

2005 Interim Report

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 2005 amounted to HK\$2,287 million, an increase of 4.4% compared to the same period last year. While the profits of The Hongkong Electric Company, Ltd. were below the level recorded last year, this reduction has been more than off-set by the other activities of the Group, particularly our overseas operations which contributed HK\$313 million (2004: HK\$229 million).

Interim Dividend

The Directors have today declared an interim dividend for 2005 of 58 cents (2004: 58 cents) per share. The dividend will be payable on 23rd September 2005, to shareholders whose names appear in the Company's Register of Members on 22nd September 2005.

The Register of Members will be closed from 15th September 2005 to 22nd September 2005 both days inclusive. To qualify for the interim dividend, transfers should be lodged with the Registrars by 4:00 p.m. on 14th September 2005.

Operations

While economic conditions in Hong Kong were more favourable than during the same period last year, electricity sales were lower than expected due to cooler weather conditions. This cooler weather, together with the effect of various energy saving campaigns, has resulted in electricity unit sales for the first half of 2005 being in line with the same period last year.

Construction of the extension of the Lamma Power Station continues on schedule. The Unit 9 Main Station building and 275kV Switching Station building are substantially complete while the related chimney and underground works continue on target. Erection of the power block is on track for the scheduled commissioning in mid 2006.

The laying of the 93km submarine gas pipeline from Shenzhen to Lamma Power Station has been completed and will be ready to receive gas by May 2006. Construction of the LNG Terminal in Shenzhen, in which the Group has a 3% interest, is in progress and completion is targeted for June 2006.

The Hongkong Electric Company's (HEC) 2004-2008 Financial Plan was approved by the Executive Council on 28th June 2005. The approved Plan requires capital expenditure totaling approximately \$12 billion in the five years to 2008. This expenditure is essential to enable HEC to continue to meet its customers' demands for electricity and at the same time continuing to improve the environment. Approved items in the Plan include the commissioning of a 300 MW gas-fired unit and related facilities at Lamma Power Station Extension; the conversion of an oil-fired unit to a gas-fired unit; the construction and commissioning of a commercial-scale wind turbine of about 800 kW at Tai Ling, Lamma Island; and the retrofitting of two coal-fired units with Low Nitrogen Oxides burners and Flue Gas Desulphurization plants. The Plan does not include any capital expenditure related to assets which will be commissioned after 2008.

HEC made a submission to Government in April 2005 outlining its views on the wide range of issues covered in the consultation document entitled "Stage I Consultation on the Future Development of the Electricity Market", circulated by Government at the end of January 2005. In all, Government received 766 written submissions from different sectors of the community and 175 messages through the dedicated discussion forums on their websites. It was pleasing to note that a clear majority of respondents who expressed a view considered a reliable and safe supply of electricity as the primary regulatory objective, and that a continuation of a Scheme of Control style arrangement was the preferred method of regulation. HEC shares these views.

Overseas, our operations in Australia continued to perform well. Solid financial performance was achieved largely due to increasing consumption and a continued focus on operational efficiency, although reliability was adversely affected by extreme storm activity experienced earlier in the year. The distribution price review process for ETSA was satisfactorily concluded with the regulator in May and a new tariff regime was set for five years commencing 1st July 2005. The equivalent process for Powercor and CitiPower is ongoing with the new tariff regime to take effect on 1st January 2006.

In Thailand, significant progress has been made by Ratchaburi Power Company. All environmental approvals and a construction permit have been obtained for the 1,400 MW gas-fired power plant project, and an equipment supply and construction contract has been concluded. Construction is due to commence early next year, with commissioning due in 2008. The financing package for this project is now at an advanced stage.

The acquisition of Northern Gas Networks Limited was completed in June. The Group has a 19.9% interest in this business, which is one of the eight regulated gas distribution networks in the United Kingdom.

CHAIRMAN'S STATEMENT *(Continued)*

Outlook

In Hong Kong, improving economic conditions will, if coupled with more normal weather patterns, continue to stimulate electricity consumption. Further improving productivity, operational efficiency, and the environment will continue to be prime objectives of the management team. However, while consumers continue to benefit from coal supply arrangements entered into at prices well below the unprecedented high levels seen recently, prices remain well above historical normal levels and this continues to be a concern.

We look forward to the second phase of the public consultation process designed to assist in the formulation of a regulatory framework to succeed the current Scheme of Control Agreement which expires in 2008. The second phase is anticipated to be launched by Government by the end of this year and we welcome the opportunity to continue to participate in a rational discussion on this vitally important issue.

Overseas, we are confident that the challenges faced by the businesses in which we have an interest will be favourably resolved. These challenges include obtaining a satisfactory outcome in the tariff review process for Powercor and CitiPower in Australia, concluding a financing package and commencing construction of the power station by Ratchaburi Power Company in Thailand, and ensuring that Northern Gas Networks achieves its operational and financial targets during the early stages of new ownership in the United Kingdom. We have gained valuable experience in managing these businesses and this, together with our strong financial position, encourages us to continue to explore new business opportunities which offer stable returns with manageable risks.

I take this opportunity to thank the Board, the Management Team and all staff for their many contributions, loyal service and dedicated hard work; and the Shareholders for their continued support.

George C. Magnus
Chairman

Hong Kong, 11th August 2005

FINANCIAL REVIEW

Capital Expenditure, Liquidity, Financial Resources and Gearing Ratio

Capital Expenditure during the period amounted to HK\$1,534 million, which was primarily funded by internal sources and external borrowings. As at 30th June 2005, total external borrowings were HK\$15,220 million (at 31st December 2004: HK\$12,997 million), comprising unsecured bank loans, unsecured deferred creditors and debt securities in issue. The increase in external borrowings was mainly due to completion of the acquisition of a 19.9% interest in Northern Gas Networks Limited in the United Kingdom in June.

In May 2005, the Group took advantage of the low interest rate environment and issued a second series of HK\$500 million 10-year fixed rate notes due May 2015, with a coupon rate of 4.15% p.a. As at 30th June 2005, undrawn committed credit facilities available to the Group totalled HK\$2,623 million (at 31st December 2004: HK\$5,376 million). In addition, the Group has liquid funds of HK\$1,584 million (at 31st December 2004: HK\$1,421 million). Overall, the gearing ratio (net debt/shareholders' funds) at 30th June 2005 was 37% (at 31st December 2004: 31%).

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.

As at 30th June 2005, external borrowings of the Group amounted to HK\$15,220 million, with the following profile:

- (1) 56% was either denominated or effectively hedged into Hong Kong dollars and 44% was either denominated or effectively swapped into Australian dollars;
- (2) 79% was bank loans, 17% was capital market instruments and 4% was suppliers' credits;
- (3) 22% was repayable within 1 year, 58% was repayable between 2 to 5 years and 20% was repayable beyond 5 years;
- (4) 70% was fixed or capped rate based and 30% was floating rate.

FINANCIAL REVIEW *(Continued)*

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 2005, over 99% of the Group's transaction exposure was either hedged or denominated in Hong Kong or US dollars. Currency exposure arising from overseas investments is partially hedged by taking on local currency borrowings or swapping foreign currency borrowings into the same currency as the underlying investments. Interest rate risk is managed by using interest rate swaps and options. The contractual notional amounts of derivative instruments outstanding at 30th June 2005 amounted to HK\$15,284 million (at 31st December 2004: HK\$20,598 million) equivalent.

Contingent Liabilities

As at 30th June 2005, the Company has issued guarantees in respect of development security for an associate amounting to HK\$33 million (at 31st December 2004: HK\$35 million).

As at 30th June 2005, the Company has given guarantees and indemnities in respect of bank and other borrowing facilities available to subsidiaries and financial commitments of subsidiaries totaling HK\$8,542 million (at 31st December 2004: HK\$11,136 million) equivalent. Out of this amount, HK\$8,241 million, while being a contingent liability of the Company, is reflected in the Consolidated Balance Sheet of the Group.

As at 30th June 2005, 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\$1 million (at 31st December 2004: HK\$1 million) and the value of leased equipment of HK\$210 million (at 31st December 2004: 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 2005, excluding directors' emoluments, amounted to HK\$447 million (2004: HK\$468 million). As at 30th June 2005, the Group employed 2,013 (2004: 2,083) 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.

UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30th June 2005

	Note	Six months ended 30th June	
		2005 HK\$ million	2004 HK\$ million restated
Turnover	3	5,363	5,327
Direct costs		<u>(1,993)</u>	<u>(1,989)</u>
		3,370	3,338
Other revenue and net income		482	439
Other operating costs		(409)	(351)
Finance costs		<u>(298)</u>	<u>(302)</u>
Operating profit	4	3,145	3,124
Share of profits less losses of associates		<u>259</u>	<u>184</u>
Profit before taxation		3,404	3,308
Income tax	5	<u>(659)</u>	<u>(637)</u>
Profit after taxation		2,745	2,671
Scheme of Control transfers to:	6		
Development Fund		<u>(458)</u>	<u>(481)</u>
Rate Reduction Reserve		<u>—</u>	<u>—</u>
		<u>(458)</u>	<u>(481)</u>
Profit attributable to shareholders			
Local activities		<u>1,974</u>	<u>1,961</u>
Overseas activities		<u>313</u>	<u>229</u>
Total		<u>2,287</u>	<u>2,190</u>
Interim dividend	7	<u>1,238</u>	<u>1,238</u>
Earnings per share	8	107 cents	103 cents
Interim dividend per share	7	58 cents	58 cents

The notes on pages 11 to 20 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 30th June 2005

	Note	(Unaudited) 30th June 2005 HK\$ million	(Audited) 31st December 2004 HK\$ million restated
Non-current assets			
Fixed assets			
— Property, plant and equipment		38,219	38,982
— Assets under construction		5,088	3,810
	9	43,307	42,792
Leasehold land		2,452	2,484
Interest in associates		9,127	8,914
Other investments		1,620	39
Derivative financial instruments		50	—
Employee retirement benefit assets		336	296
Deferred tax assets		1	—
		56,893	54,525
Current assets			
Inventories		516	466
Trade and other receivables	10	1,448	1,069
Fuel Clause Account		1,125	1,197
Bank balances and other liquid funds	11	1,591	1,426
		4,680	4,158
Current liabilities			
Trade and other payables	12	(1,276)	(1,282)
Bank overdrafts — unsecured		(7)	(5)
Current portion of bank loans and other borrowings		(3,234)	(1,400)
Current taxation		(393)	(229)
		(4,910)	(2,916)
Net current (liabilities)/assets		(230)	1,242
Total assets less current liabilities		56,663	55,767
Non-current liabilities			
Interest-bearing borrowings		(11,324)	(10,832)
Deferred creditors and other payables		(443)	(569)
Derivative financial instruments		(457)	—
Customers' deposits		(1,476)	(1,455)
Deferred tax liabilities		(5,340)	(5,237)
Employee retirement benefit liabilities		(105)	(102)
		(19,145)	(18,195)
Rate Reduction Reserve		—	—
Development Fund		(458)	—
Net Assets		37,060	37,572
Capital and Reserves			
Share capital	13	2,134	2,134
Reserves		34,926	35,438
		37,060	37,572

The notes on pages 11 to 20 form part of these financial statements.

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June 2005

	Six months ended 30th June	
	2005	2004
	HK\$ million	HK\$ million
Net cash from operating activities	3,429	3,327
Net cash used in investing activities	(3,132)	(1,229)
Net cash used in financing activities	<u>(134)</u>	<u>(1,947)</u>
Net increase in cash and cash equivalents	163	151
Cash and cash equivalents at 1st January	<u>1,421</u>	<u>460</u>
Cash and cash equivalents at 30th June	<u>1,584</u>	<u>611</u>
Analysis of the balances of cash and cash equivalents		
Bank balances and other liquid funds	1,591	615
Bank overdrafts — unsecured	<u>(7)</u>	<u>(4)</u>
	<u>1,584</u>	<u>611</u>

The notes on pages 11 to 20 form part of these financial statements.

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2005

HK\$ million	Share Capital	Share Premium	Exchange Reserves	Hedging Reserves	Revenue Reserves	Dividends	Total
At 31st December 2004							
— as previously reported	2,134	4,476	428	—	28,278	2,540	37,856
— effect of changes in accounting policies (see note 2)	—	—	(79)	—	(205)	—	(284)
— as restated	2,134	4,476	349	—	28,073	2,540	37,572
Effect of initial adoption of HKAS 32 & HKAS 39 (see note 2)	—	—	—	(119)	(268)	—	(387)
At 1st January 2005							
— as restated	2,134	4,476	349	(119)	27,805	2,540	37,185
Exchange difference arising on translation of:							
— overseas subsidiaries	—	—	(4)	—	—	—	(4)
— overseas associates	—	—	13	—	—	—	13
Change in fair value of cash flow hedges	—	—	—	105	14	—	119
Net income recognised directly in equity	—	—	9	105	14	—	128
Profit for the period	—	—	—	—	2,287	—	2,287
Total recognised income and expense for the period	—	—	9	105	2,301	—	2,415
Final dividend in respect of the previous year approved and paid	—	—	—	—	—	(2,540)	(2,540)
Interim dividend (see note 7)	—	—	—	—	(1,238)	1,238	—
At 30th June 2005	<u>2,134</u>	<u>4,476</u>	<u>358</u>	<u>(14)</u>	<u>28,868</u>	<u>1,238</u>	<u>37,060</u>

The notes on pages 11 to 20 form part of these financial statements.

HK\$ million	Share Capital	Share Premium	Exchange Reserves	Hedging Reserves	Revenue Reserves	Dividends	Total
At 1st January 2004							
— as previously reported	2,134	4,476	513	—	25,776	2,412	35,311
— effect of changes in accounting policies (see note 2)	—	—	(69)	—	(182)	—	(251)
— as restated	<u>2,134</u>	<u>4,476</u>	<u>444</u>	<u>—</u>	<u>25,594</u>	<u>2,412</u>	<u>35,060</u>
Exchange difference arising on translation of:							
— overseas subsidiaries	—	—	(59)	—	—	—	(59)
— overseas associates (as restated)	—	—	(33)	—	—	—	(33)
Net expense recognised directly in equity	—	—	(92)	—	—	—	(92)
Profit for the period (as restated)	—	—	—	—	2,190	—	2,190
Total recognised income and expense for the period	—	—	(92)	—	2,190	—	2,098
Final dividend in respect of the previous year approved and paid	—	—	—	—	—	(2,412)	(2,412)
Interim dividend (see note 7)	—	—	—	—	(1,238)	1,238	—
At 30th June 2004	<u>2,134</u>	<u>4,476</u>	<u>352</u>	<u>—</u>	<u>26,546</u>	<u>1,238</u>	<u>34,746</u>

The notes on pages 11 to 20 form part of these financial statements.

NOTES ON THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars)

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 requirements set out in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The same accounting policies adopted in the 2004 annual financial statements have been applied to the condensed interim financial statements except those mentioned below.

HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for the accounting periods beginning on or after 1st January 2005. In 2005, the Group has adopted all new HKFRSs pertinent to its operations. The applicable HKFRSs are set out below and the 2004 accounts have been restated in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 11	Construction Contracts
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share
HKAS 34	Interim Financial Reporting
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets

2. Basis of Preparation *(continued)*

HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 3	Business Combinations
HK(SIC)-INT 32	Intangible Assets — Web Site Costs
HK-INT 4	Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKAS 1, 2, 7, 8, 10, 11, 12, 14, 16, 18, 19, 21, 23, 24, 27, 33, 34, 37, 40 and HK(SIC)-INT 32 did not result in substantial changes to the Group's accounting policies. In summary, these HKASs and HK(SIC)-INT affect certain presentation in the consolidated balance sheet, consolidated profit and loss account and consolidated statement of changes in equity, and disclosure of accounts.

The adoption of HKAS 36, HKAS 38 and HKFRS 3 has resulted in a change in the accounting policy relating to goodwill. Positive goodwill was previously amortised on a straight-line basis over its estimated useful life. In accordance with the provisions of HKFRS 3, the Group ceased amortization of goodwill from 1st January 2005 and the adoption of these standards have no impact to the Group's results and net asset value.

The adoption of HKAS 17 and HK-INT 4 has resulted in a change in accounting policy relating to leasehold land. Leasehold land and buildings were previously carried at cost less accumulated depreciation and impairment losses. In accordance with the provisions of HKAS 17 and HK-INT 4, a lease of land and building should be split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease. The lease premium for land is stated at cost and amortised over the period of the lease. The leasehold building is stated at cost less accumulated depreciation and impairment losses. HKAS 17 and HK-INT 4 have been applied prospectively. The main reason for not applying HKAS 17 and HK-INT 4 retrospectively is that the Management considered the impact is immaterial.

The adoption of HKAS 28 has resulted in a change in accounting policy relating to investments in associates. In accordance with the provisions of HKAS 28, recognition of the share of associate's losses under equity method is broadened by including other long-term non-equity interests, which in substance form part of the net investment of an associate. HKAS 28 has been applied retrospectively.

The adoption of HKAS 32 and HKAS 39 has resulted in a change in accounting policy for recognition, measurement, derecognition, presentation and disclosure of financial instruments, including non-derivative financial assets, non-derivative financial liabilities and derivative instruments for hedging activities. In accordance with the provisions of HKAS 39, financial instruments will be carried at either amortised cost or fair value, depending on their classification. Movements in fair value will be either charged to profit and loss account or taken to equity. The Group took the exemption which was allowed under HKAS 32 and HKAS 39 not to restate its comparative information. It therefore adopted HKAS 32 and HKAS 39 at 1st January 2005.

2. Basis of Preparation *(continued)*

Effect of changes in the accounting policies on consolidated profit and loss account:

\$ million	HKAS 17 & HK-INT 4	Effect of adopting HKAS 32 & HKAS 39		Total
For the six months ended 30th June 2005:				
Increase in direct costs	(2)	—	—	(2)
Increase in other operating costs	—	—	(2)	(2)
Increase in share of profits less losses of associates	—	83	—	83
Increase in income tax	—	(40)	—	(40)
Total increase/(decrease) in profit	<u>(2)</u>	<u>43</u>	<u>(2)</u>	<u>39</u>
Increase in earning per share (cents)	<u>—</u>	<u>2</u>	<u>—</u>	<u>2</u>
For the six months ended 30th June 2004:				
Decrease in share of profits less losses of associates	—	(27)	—	(27)
Increase in income tax	—	(11)	—	(11)
Total decrease in profit	<u>—</u>	<u>(38)</u>	<u>—</u>	<u>(38)</u>
Decrease in earning per share (cents)	<u>—</u>	<u>(1)</u>	<u>—</u>	<u>(1)</u>

2. Basis of Preparation (continued)

Effect of changes in the accounting policies on consolidated balance sheet:

\$ million	HKAS 17 & HK-INT 4	Effect of adopting		Total
		HKAS 28	HKAS 32 & HKAS 39	
At 30th June 2005				
<u>Increase/(decrease) in assets</u>				
Fixed assets — property, plant and equipment	(2,295)	—	—	(2,295)
Fixed assets — assets under construction	(159)	—	—	(159)
Leasehold land	2,452	—	—	2,452
Interest in associates	—	(499)	137	(362)
Derivative financial instruments	—	—	50	50
Deferred tax assets	—	—	1	1
Trade and other receivables (current)	—	—	27	27
<u>Increase/(decrease) in liabilities/equity</u>				
Trade and other payables (current)	—	—	28	28
Current portion of bank loans and other borrowings	—	—	1	1
Interest-bearing borrowings	—	—	(251)	(251)
Derivative financial instruments	—	—	457	457
Exchange reserves	—	(86)	—	(86)
Hedging reserves	—	—	(14)	(14)
Revenue reserves	(2)	(413)	(6)	(421)
At 1st January 2005 (Equity only)				
<u>Decrease in equity</u>				
Hedging reserves	—	—	(119)	(119)
Revenue reserves	—	(264)	(4)	(268)
At 31st December 2004				
<u>Increase/(decrease) in assets</u>				
Fixed assets — property, plant and equipment	(2,326)	—	—	(2,326)
Fixed assets — assets under construction	(158)	—	—	(158)
Leasehold land	2,484	—	—	2,484
Interest in associates	—	(284)	—	(284)
<u>Decrease in equity</u>				
Exchange reserves	—	(79)	—	(79)
Revenue reserves	—	(205)	—	(205)
At 1st January 2004 (Equity only)				
<u>Decrease in equity</u>				
Exchange reserves	—	(69)	—	(69)
Revenue reserves	—	(182)	—	(182)

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		Operating profit	
	Six months ended 30th June 2005	2004	Six months ended 30th June 2005	2004
	\$ million	\$ million	\$ million	\$ million
Principal activities				
Sales of electricity and its related income	5,338	5,303	2,998	3,029
Technical service fees	25	24	5	3
Unallocated and other items	—	—	—	2
	<u>5,363</u>	<u>5,327</u>	<u>3,003</u>	<u>3,034</u>
Interest income			459	435
Finance costs			(298)	(302)
Unallocated group expenses			(19)	(43)
Operating profit			<u>3,145</u>	<u>3,124</u>

Geographical locations of operations

	Turnover	
	Six months ended 30th June 2005	2004
	\$ million	\$ million
Hong Kong	5,355	5,322
Rest of Asia, Australia and other locations	8	5
	<u>5,363</u>	<u>5,327</u>

4. Operating Profit

	Six months ended 30th June	
	2005	2004
	\$ million	\$ million restated
Operating profit is shown after charging/(crediting):		
Finance costs		
Interest on borrowings	361	349
Less: interest capitalised to fixed assets	(59)	(45)
interest transferred to fuel cost	(4)	(2)
	298	302
Depreciation		
Depreciation charges for the period	999	1,004
Less: depreciation capitalised	(69)	(72)
	930	932
Amortisation of leasehold land	29	27
Net profit on disposal of fixed assets	13	—

5. Income Tax

	Six months ended 30th June	
	2005	2004
	\$ million	\$ million restated
Current Tax		
The Company and its subsidiaries — Hong Kong	437	463
Deferred Tax		
The Company and its subsidiaries — Hong Kong	103	59
Associates — Overseas	119	115
	222	174
Total	659	637

Hong Kong Profits Tax has been provided for at the rate of 17.5% (2004: 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:

	Six months ended 30th June	
	2005	2004
	\$ million	\$ million
Interim dividend of 58 cents per share (2004: 58 cents per share)	<u>1,238</u>	<u>1,238</u>

8. Earnings Per Share

The calculation of earnings per share is based on the profit attributable to shareholders of \$2,287 million (2004 restated: \$2,190 million) and 2,134,261,654 shares (2004: 2,134,261,654 shares) in issue during the period.

9. Fixed Assets

During the period, additions to property, plant and equipment amounted to \$1,534 million (2004 restated: \$984 million). Net book value of property, plant and equipment disposed amounted to \$20 million (2004 restated: \$12 million).

10. Trade and Other Receivables

	30th June 2005 \$ million	31st December 2004 \$ million
Demand Side Management account	46	46
Debtors (see note below)	<u>1,402</u>	<u>1,023</u>
	<u>1,448</u>	<u>1,069</u>
Debtors' ageing is analysed as follows:		
Within 1 month	736	528
1 to 3 months overdue	26	25
More than 3 months overdue but less than 12 months overdue	<u>11</u>	<u>10</u>
Total trade debtors (see note below)	773	563
Deposits, prepayments and other receivables	<u>629</u>	<u>460</u>
	<u>1,402</u>	<u>1,023</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.

11. Bank Balances and Other Liquid Funds

	30th June 2005	31st December 2004
	\$ million	\$ million
Time deposits	1,579	1,415
Cash at bank and in hand	<u>12</u>	<u>11</u>
	<u>1,591</u>	<u>1,426</u>

12. Trade and Other Payables

	30th June 2005	31st December 2004
	\$ million	\$ million
Creditors (see note below)	1,064	1,070
Current portion of deferred creditors	<u>212</u>	<u>212</u>
	<u>1,276</u>	<u>1,282</u>
Creditors' ageing is analysed as follows:		
Due within 1 month	350	440
Due between 1 month and 3 months	109	236
Due between 3 months and 12 months	<u>571</u>	<u>366</u>
	1,030	1,042
Other payables	<u>34</u>	<u>28</u>
	<u>1,064</u>	<u>1,070</u>

13. Share Capital

	Number of Shares	30th June 2005	31st December 2004
		\$ million	\$ million
Authorised			
Ordinary shares of \$1 each	<u>3,300,000,000</u>	<u>3,300</u>	<u>3,300</u>
Issued and fully paid			
Ordinary shares of \$1 each	<u>2,134,261,654</u>	<u>2,134</u>	<u>2,134</u>

There were no movements in the share capital of the Company during the period.

14. Material Related Party Transactions

The Group had the following material related party transactions during the period:

(a) Associates

	Six months ended 30th June	
	2005	2004
	\$ million	\$ million
Interest income	<u>(432)</u>	<u>(422)</u>

The related party transactions were conducted in accordance with the terms as disclosed in the latest published annual financial statements.

(b) Other Related Parties

On 10th September 2004, Hongkong Electric Holdings Limited (“HEH”) and Cheung Kong Infrastructure Holdings Limited (“CKI”) entered into an agreement under which HEH agreed to purchase, or procure the purchase by its wholly-owned subsidiary, of the entire issued share capital of Alpha Central Profits Limited (“Alpha”). Alpha is a wholly-owned indirect subsidiary of CKI that owns 19.9% of the issued share capital of Gas Network Limited (currently known as Northern Gas Networks Holdings Limited). Gas Network Limited has agreed to acquire Blackwater F Limited (“Blackwater”) (currently known as Northern Gas Networks Limited), a wholly-owned subsidiary of Transco plc that owns the North of England Gas Distribution Network business in the United Kingdom. Prior to completion of the Blackwater acquisition, Alpha will subscribe approximately £104,276,000 for new share capital in Gas Network Limited, which will represent approximately 19.9% of the net consideration payable by Gas Network Limited on completion of the Blackwater acquisition. The Blackwater acquisition was completed on 1st June 2005.

15. Commitments

The Group’s outstanding commitments not provided for in the financial statements were as follows:

	30th June 2005 \$ million	31st December 2004 \$ million
Contracted for:		
Capital expenditure	2,182	2,961
Investment in associate	296	312
Other investments	—	1,581
	<u>2,478</u>	<u>4,854</u>
Authorised but not contracted for:		
Capital expenditure	<u>6,561</u>	<u>7,195</u>

16. Contingent Liabilities

At 30th June 2005, there were contingent liabilities as follows:

- The Company has issued guarantees in respect of development security for an associate amounting to \$33 million (at 31st December 2004: \$35 million).
- The Company has given guarantees and indemnities in respect of bank and other borrowing facilities available to subsidiaries and financial commitments of subsidiaries totaling \$8,542 million (at 31st December 2004: \$11,136 million) equivalent.
- 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\$1 million (at 31st December 2004: \$1 million) and the value of leased equipment of HK\$210 million (at 31st December 2004: HK\$210 million) at expiry of the lease.

17. Comparative Figures

Certain comparative figures have been reclassified to confirm with the current period's presentation, details of which are set out in note 2.

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 set out in the new Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") during the accounting period covered by this Interim Report. The non-executive directors shall not be appointed for a specific term as under the Company's Articles of Association, they will have to retire from office by rotation and be re-elected once every three years.

Model Code for Securities Transactions by Directors

The Board of Directors of the Company has adopted the Model Code for Securities Transactions by Directors ("Model Code") set out in Appendix 10 of the Listing Rules as its own code. Having made specific enquiry with all Directors, the Company has ascertained that all of its Directors have complied with the required standard set out in the Model Code during the accounting period covered by this Interim Report.

Directors' Interests

At 30th June 2005, the interests of the Directors in the issued share capital of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SF Ordinance")) as recorded in the register required to be kept under section 352 of the SF Ordinance were as follows:

Long Positions in Shares and Underlying Shares of the Company

Name of Director	Capacity	Nature of Interests	Number of Shares Held	Number of Underlying Shares Held	Total	Approximate % of Shareholding
Victor Li Tzar-kuoi	Interest of child or spouse	Family	151,000	—)))	850,740,813	39.86%
	Beneficiary of trusts	Other	829,599,612 (Note 1)	20,990,201 (Note 2))		
Ronald Joseph Arculli	Interest of controlled corporation	Corporate	2,011	—	2,011	≈0%
Francis Lee Lan-ye	Beneficial owner	Personal	739	—	739	≈0%

Notes:

- (1) *These shares are held by subsidiaries of Cheung Kong Infrastructure Holdings Limited (“CKI”).*

The discretionary beneficiaries of each of The Li Ka-Shing Unity Discretionary Trust (“DT1”) and another discretionary trust (“DT2”) are, inter alia, Mr. Victor Li Tzar-kuoi, his wife and children, and Mr. Richard Li Tzar-kai. Each of Li Ka-Shing Unity Trustee Corporation Limited (“TDT1”, which is the trustee of DT1) and Li Ka-Shing Unity Trustcorp Limited (“TDT2”, which is the trustee of DT2) holds units in The Li Ka-Shing Unity Trust (“UT1”) but is not entitled to any interest or share in any particular property comprising the trust assets of the said unit trust. Li Ka-Shing Unity Trustee Company Limited (“TUT1”) as trustee of UT1 and its related companies in which TUT1 as trustee of UT1 is entitled to exercise or control the exercise of one-third or more of the voting power at their general meetings (“TUT1 related companies”) hold more than one-third of the issued share capital of Cheung Kong (Holdings) Limited (“CKH”). Certain subsidiaries of CKH in turn together hold more than one-third of the issued share capital of Hutchison Whampoa Limited (“HWL”). A subsidiary of HWL in turn holds more than one-third of the issued share capital of CKI.

The entire issued share capital of TUT1 and of the trustees of DT1 and DT2 are owned by Li Ka-Shing Unity Holdings Limited (“Unity Holdco”). Each of Mr. Li Ka-shing, Mr. Victor Li Tzar-kuoi and Mr. Richard Li Tzar-kai is interested in one-third of the entire issued share capital of Unity Holdco. TUT1 is only interested in the shares of CKH by reason only of its obligation and power to hold interests in those shares in its ordinary course of business as trustee and, when performing its functions as trustee, exercises its power to hold interests in the shares of CKH independently without any reference to Unity Holdco or any of Mr. Li Ka-shing, Mr. Victor Li Tzar-kuoi and Mr. Richard Li Tzar-kai as a holder of the shares of Unity Holdco as aforesaid.

By virtue of the above and as a discretionary beneficiary of each of DT1 and DT2 and as a Director of CKH, Mr. Victor Li Tzar-kuoi is taken to have a duty of disclosure in relation to the shares of CKH held by TUT1 as trustee of UT1 and TUT1 related companies, the shares of HWL held by the subsidiaries of CKH, the shares of CKI held by the subsidiary of HWL and the shares of the Company held by the subsidiaries of CKI under the SF Ordinance as a Director of the Company. Although Mr. Richard Li Tzar-kai is interested in one-third of the entire issued share capital of Unity Holdco and is a discretionary beneficiary of each of DT1 and DT2, he is not a director of CKH and has no duty of disclosure in relation to the shares of CKH held by TUT1 as trustee of UT1 and TUT1 related companies under the SF Ordinance.

- (2) *Such underlying shares of the Company are held by an indirect wholly owned subsidiary of CKH by virtue of the HK Dollar equity-linked notes due 2007 issued under HK\$10,000,000,000 retail note issuance programme.*

By virtue of the interests in the shares of CKH taken to have by Mr. Victor Li Tzar-kuoi under the SF Ordinance as described in Note (1) above which represent more than one-third of the issued share capital of CKH and as a Director of the Company, Mr. Victor Li Tzar-kuoi is taken to have a duty of disclosure in relation to the said interest in the underlying shares of the Company under the SF Ordinance.

Mr. Victor Li Tzar-kuoi, by virtue of his interests as described in Note (1) above and as a Director of the Company, is also deemed to be interested in the shares of subsidiaries and associated companies of the Company held through the Company under the SF Ordinance.

Short Positions in Underlying Shares of the Company

As at 30th June 2005, Mr. Victor Li Tzar-kuoi, as a Director of the Company, was deemed to be interested in 20,990,201 underlying shares of the Company by virtue of the HK Dollar equity-linked notes due 2007 issued under HK\$10,000,000,000 retail note issuance programme held by a wholly owned subsidiary of CKH by virtue of his interests in the shares of CKH as described in Note (1) above.

Save as disclosed above, at 30th June 2005, none of the Directors or chief executives had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SF Ordinance) which were required to be notified to The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to Part XV of the SF Ordinance or which were recorded in the register required to be kept by the Company under Section 352 of the SF Ordinance, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors in the Listing Rules.

Interests of Shareholders Discloseable under the SF Ordinance

According to the register kept under Section 336 of the SF Ordinance and information received by the Company, at 30th June 2005, shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Part XV of the SF Ordinance were as follows:

Long Positions in Shares and Underlying Shares of the Company

Name	Capacity	Number of Shares Held	Number of Underlying Shares Held	Total	Approximate % of Shareholding
Silchester International Investors Limited	Investment Manager	106,773,457	—	106,773,457	5.00%
Interman Development Inc.	Beneficial owner	186,736,842 (Note 1)	—	186,736,842	8.75%
Venniton Development Inc.	Beneficial owner	197,597,511 (Note 1)	—	197,597,511	9.26%
Univest Equity S.A.	Beneficial owner	279,011,102 (Note 1)	—	279,011,102	13.07%
Monitor Equities S.A.	Beneficial owner & Interest of controlled corporation	287,211,674 (Note 1)	—	287,211,674	13.46%
Hyford Limited	Interest of controlled corporations	829,599,612 (Note 2)	—	829,599,612	38.87%
Cheung Kong Infrastructure Holdings Limited	Interest of controlled corporations	829,599,612 (Note 2)	—	829,599,612	38.87%
Hutchison Infrastructure Holdings Limited	Interest of controlled corporations	829,599,612 (Note 3)	—	829,599,612	38.87%
Hutchison International Limited	Interest of controlled corporations	829,599,612 (Note 3)	—	829,599,612	38.87%
Hutchison Whampoa Limited	Interest of controlled corporations	829,599,612 (Note 3)	—	829,599,612	38.87%
Cheung Kong (Holdings) Limited	Interest of controlled corporations	829,599,612 (Note 4)	20,990,201 (Note 7)	850,589,813	39.85%
Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust	Trustee	829,599,612 (Note 5)	20,990,201 (Note 7)	850,589,813	39.85%
Li Ka-Shing Unity Trustee Corporation Limited as trustee of The Li Ka-Shing Unity Discretionary Trust	Trustee & beneficiary of a trust	829,599,612 (Note 6)	20,990,201 (Note 7)	850,589,813	39.85%
Li Ka-Shing Unity Trustcorp Limited as trustee of another discretionary trust	Trustee & beneficiary of a trust	829,599,612 (Note 6)	20,990,201 (Note 7)	850,589,813	39.85%
Li Ka-shing	Founder of discretionary trusts & interest of controlled corporations	829,599,612 (Note 6)	20,990,201 (Note 7)	850,589,813	39.85%

Short Positions in Underlying Shares of the Company

Name	Capacity	Number of Underlying Shares Held	Approximate % of Shareholding
Cheung Kong (Holdings) Limited	Interest of a controlled corporation	20,990,201 (Note 7)	0.98%
Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust	Trustee	20,990,201 (Note 7)	0.98%
Li Ka-Shing Unity Trustee Corporation Limited as trustee of The Li Ka-Shing Unity Discretionary Trust	Trustee & beneficiary of a trust	20,990,201 (Note 7)	0.98%
Li Ka-Shing Unity Trustcorp Limited as trustee of another discretionary trust	Trustee & beneficiary of a trust	20,990,201 (Note 7)	0.98%
Li Ka-shing	Founder of discretionary trusts & interest of controlled corporations	20,990,201 (Note 7)	0.98%

Notes:

- (1) *These are direct or indirect wholly-owned subsidiaries of Hyford Limited (“Hyford”) and their interests are duplicated in the same 829,599,612 shares of the Company held by Hyford described in Note (2) below.*
- (2) *Cheung Kong Infrastructure Holdings Limited (“CKI”) is deemed to be interested in the 829,599,612 shares of the Company as referred to in Note (1) above as it holds more than one-third of the issued share capital of Hyford indirectly. Its interests are duplicated in the interest of Hutchison Whampoa Limited (“HWL”) in the Company described in Note (3) below.*
- (3) *HWL is deemed to be interested in the 829,599,612 shares of the Company as referred to in Note (2) above as it holds more than one-third of the issued share capital of Hutchison International Limited, which holds more than one-third of the issued share capital of Hutchison Infrastructure Holdings Limited (“HIH”). HIH holds more than one-third of the issued share capital of CKI.*
- (4) *Cheung Kong (Holdings) Limited (“CKH”) is deemed to be interested in the 829,599,612 shares of the Company as referred to in Note (3) above as certain subsidiaries of CKH hold more than one-third of the issued share capital of HWL.*
- (5) *Li Ka-Shing Unity Trustee Company Limited (“TUT1”) as trustee of The Li Ka-Shing Unity Trust (“UT1”) is deemed to be interested in those shares of the Company described in Note (4) above as TUT1 as trustee of UT1 and its related companies in which TUT1 as trustee of UT1 is entitled to exercise or control the exercise of one-third or more of the voting power at their general meetings hold more than one-third of the issued share capital of CKH.*

- (6) By virtue of the SF Ordinance, each of Mr. Li Ka-shing, being the settlor and may being regarded as a founder of each of The Li Ka-Shing Unity Discretionary Trust (“DT1”) and another discretionary trust (“DT2”) for the purpose of the SF Ordinance, Li Ka-Shing Unity Trustee Corporation Limited (“TDT1”) as trustee of DT1 and Li Ka-Shing Unity Trustcorp Limited (“TDT2”) as trustee of DT2 is deemed to be interested in the same block of shares TUT1 as trustee of UT1 is deemed to be interested in as referred to in Note (5) above as all issued and outstanding units in UT1 are held by TDT1 as trustee of DT1 and by TDT2 as trustee of DT2. More than one-third of the issued share capital of TUT1 and of the trustees of the said discretionary trusts are owned by Li Ka-Shing Unity Holdings Limited (“Unity Holdco”). Mr. Li Ka-shing owns one-third of the issued share capital of Unity Holdco.
- (7) The references to 20,990,201 underlying shares of the Company relate to the same block of interest and short position in the underlying shares of the Company which were derived from the HK Dollar equity-linked notes due 2007 issued under HK\$10,000,000,000 retail note issuance programme held by a wholly owned subsidiary of CKH. By virtue of the SF Ordinance, each of TUT1, TDT1, TDT2 and Mr. Li Ka-shing is deemed to be interested in the same block of interest and short position in the 20,990,201 underlying shares of the Company held by CKH as described in Note (6) above.

Save as disclosed above, at 30th June 2005, the Company has not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company, which would fall to be disclosed to the Company under the provisions of Part XV of the SF Ordinance, or which were recorded in the register required to be kept by the Company under Section 336 of the SF Ordinance.

Disclosure under Rule 13.22 of Chapter 13 of the Listing Rules

In relation to the provision of financial assistance by the Group to certain affiliated companies, a proforma combined balance sheet of the affiliated companies as at 30th June 2005 required to be disclosed under Rule 13.22 of Chapter 13 of the Listing Rules is set out below:

Proforma Combined Balance Sheet of the Affiliated Companies as at 30th June 2005

	HK\$ million
Non-current assets	54,185
Current assets	5,571
Current liabilities	(6,006)
Non-current liabilities	(51,209)
Net assets	<u>2,541</u>
Share capital	322
Reserves	<u>2,219</u>
Capital and reserves	<u>2,541</u>

As at 30th June 2005, the consolidated attributable interest of the Group in these affiliated companies amounted to HK\$9,116 million.