



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

(Stock code: 006)

2006 Interim Report

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.

CHAIRMAN'S STATEMENT *(Continued)*

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).

FINANCIAL REVIEW *(Continued)*

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.

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

The notes on pages 11 to 18 form part of these financial statements

CONSOLIDATED BALANCE SHEET

At 30th June 2006

	Note	(Unaudited) 30th June 2006 HK\$ million	(Audited) 31st December 2005 HK\$ million
Non-current assets			
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
	9	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
		54,010	53,933
Current assets			
Inventories		502	445
Trade and other receivables	10	1,454	1,090
Fuel Clause Account		815	1,079
Cash and cash equivalents	11	4,957	4,561
		7,728	7,175
Current liabilities			
Trade and other payables	12	(879)	(1,068)
Bank overdrafts — unsecured		(5)	(8)
Current portion of bank loans and other borrowings		(393)	(354)
Current taxation		(500)	(220)
		(1,777)	(1,650)
Net current assets		5,951	5,525
Total assets less current liabilities		59,961	59,458
Non-current liabilities			
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)
		(18,912)	(17,773)
Rate Reduction Reserve		—	—
Development Fund		(518)	—
Net Assets		40,531	41,685
Capital and Reserves			
Share capital	13	2,134	2,134
Reserves		38,397	39,551
Total equity attributable to equity shareholders of the Company		40,531	41,685

The notes on pages 11 to 18 form part of these financial statements.

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June 2006

	Six months ended 30th June	
	2006	2005
	HK\$ million	HK\$ million
Net cash from operating activities	3,975	3,429
Net cash used in investing activities	(1,040)	(3,132)
Net cash used in financing activities	<u>(2,536)</u>	<u>(134)</u>
Net increase in cash and cash equivalents	399	163
Cash and cash equivalents at 1st January	<u>4,553</u>	<u>1,421</u>
Cash and cash equivalents at 30th June	<u>4,952</u>	<u>1,584</u>
Analysis of the balances of cash and cash equivalents		
Cash and cash equivalents	4,957	1,591
Bank overdrafts — unsecured	<u>(5)</u>	<u>(7)</u>
	<u>4,952</u>	<u>1,584</u>

The notes on pages 11 to 18 form part of these financial statements.

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2006

HK\$ million	Attributable to Equity Shareholders of the Company						
	Share Capital	Share Premium	Exchange Reserve	Hedging Reserve	Revenue Reserve	Dividends	Total
Total equity at 1st January 2005	2,134	4,476	349	(119)	27,805	2,540	37,185
Exchange difference on translation of:							
— financial statements of overseas subsidiaries	—	—	(4)	—	—	—	(4)
— overseas associates	—	—	13	—	—	—	13
Change in fair value of cash flow hedges	—	—	—	105	14	—	119
Net income and expense 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	—
Total equity 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 18 form part of these financial statements.

HK\$ million	Attributable to Equity Shareholders of the Company						
	Share Capital	Share Premium	Exchange Reserve	Hedging Reserve	Revenue Reserve	Dividends	Total
Total equity at 1st January 2006	2,134	4,476	132	2	31,227	3,714	41,685
Exchange difference on translation of:							
— financial statements of overseas subsidiaries	—	—	(1)	—	—	—	(1)
— overseas associates	—	—	8	—	—	—	8
Cash flow hedge:							
— effective portion of changes in fair value, net of deferred tax	—	—	—	37	38	—	75
— transferred to initial carrying amount of non-financial hedged items	—	—	—	(1)	—	—	(1)
Net income and expense recognised directly in equity	—	—	7	36	38	—	81
Profit for the period	—	—	—	—	2,479	—	2,479
Total recognised income and expense for the period	—	—	7	36	2,517	—	2,560
Final dividend in respect of the previous year approved and paid	—	—	—	—	—	(3,714)	(3,714)
Interim dividend (see note 7)	—	—	—	—	(1,238)	1,238	—
Total equity at 30th June 2006	2,134	4,476	139	38	32,506	1,238	40,531

The notes on pages 11 to 18 form part of these financial statements.

NOTES TO 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 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

2. Basis of Preparation *(continued)*

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 beginning on or after
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:

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

Geographical locations of operations

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

4. Profit Before Taxation

	Six months ended 30th June	
	2006	2005
	\$ million	\$ million
Profit before taxation is shown after charging/(crediting):		
Finance costs		
Interest on borrowings	305	361
Less: interest capitalised to fixed assets	(118)	(59)
interest transferred to fuel cost	(6)	(4)
	181	298
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
	<u>28</u>	<u>119</u>

5. Income Tax

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

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:

	Six months ended 30th June	
	2006	2005
	\$ million	\$ million
Interim dividend of 58 cents per share (2005: 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 equity shareholders of \$2,479 million (2005: \$2,287 million) and 2,134,261,654 ordinary shares (2005: 2,134,261,654 ordinary shares) in issue during the period.

9. Fixed Assets

During the period, additions to property, plant and equipment amounted to \$1,137 million (2005: \$1,534 million). Net book value of property, plant and equipment disposed amounted to \$25 million (2005: \$20 million).

During the period, net book value of leasehold land disposed amounted to \$1 million (2005: \$4 million).

10. Trade and Other Receivables

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

10. Trade and Other Receivables (Continued)

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. Cash and Cash Equivalents

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

12. Trade and Other Payables

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

13. Share Capital

	Number of Shares	30th June 2006 \$ million	31st December 2005 \$ 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

Interest income received/receivable from associates in respect of the loans to associates amounted to \$225 million (2005: \$432 million) for the period. At 30th June 2006, the total outstanding interest bearing loan balances due from associates were \$3,992 million (30th June 2005: \$7,433 million).

(b) Key Management Personnel Compensation

Remuneration for key management personnel, including amounts paid to the company's directors, is as follows:

	Six months ended 30th June 2006 \$ million	2005 \$ million
Short-term employee benefits	<u>31</u>	28
Post-employment benefits	<u>1</u>	<u>2</u>
	<u>32</u>	<u>30</u>

15. Commitments

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

	30th June 2006	31st December 2005
	\$ million	\$ million
Contracted for:		
Capital expenditure	1,411	1,807
Investment in associates	342	234
	<u>1,753</u>	<u>2,041</u>
Authorised but not contracted for:		
Capital expenditure	<u>6,799</u>	<u>7,400</u>

16. Contingent Liabilities

At 30th June 2006, there were contingent liabilities as follows:

- The Company has given guarantees and indemnities in respect of bank and other borrowing facilities available to subsidiaries and in respect of financial commitments of subsidiaries totalling \$5,352 million (31st December 2005: \$5,002 million) equivalent.
- 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 \$210 million (31st December 2005: \$210 million) at expiry of the lease.

17. 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 \$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.

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 six months ended 30th June 2006.

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 ("Listing Rules") throughout the six months ended 30th June 2006. 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.

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. All Directors have confirmed following specific enquiry that they have complied with the required standards set out in the Model Code throughout the six months ended 30th June 2006.

Directors' Interests

At 30th June 2006, 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-yee	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 2006, Mr. Victor Li Tzar-kuoi, as a Director of the Company, was deemed to be interested in the 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 2006, 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 2006, 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 2006, 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 combined balance sheet of the affiliated companies as at 30th June 2006 required to be disclosed under Rule 13.22 of Chapter 13 of the Listing Rules is set out below:

Combined Balance Sheet of the Affiliated Companies as at 30th June 2006

	HK\$ million
Non-current assets	53,205
Current assets	2,776
Current liabilities	(3,143)
Non-current liabilities	(46,327)
	<hr/>
Net assets	<u>6,511</u>
Share capital	3,979
Reserves	<u>2,532</u>
	<hr/>
Capital and reserves	<u>6,511</u>

As at 30th June 2006, the consolidated attributable interest of the Group in these affiliated companies amounted to HK\$5,731 million.