



香港電燈集團有限公司
Hongkong Electric Holdings Ltd.
(Incorporated in Hong Kong with limited liability)
(Stock Code: 00006)

2008 Interim Report

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Canning Fok Kin-ning (*Chairman*)
Tso Kai-sum (*Group Managing Director*)
Susan Chow Woo Mo-fong*
Andrew John Hunter
Kam Hing-lam
Victor Li Tzar-kuoi
Neil Douglas McGee (*Group Finance Director*)
Frank John Sixt
Wan Chi-tin (*Director of Engineering (Planning & Development)*)
Yuen Sui-see (*Director of Operations*)
Chan Loi-shun (*Alternate Director to Kam Hing-lam*)

Non-executive Directors

Ronald Joseph Arculli
Francis Lee Lan-yee
George Colin Magnus

Independent Non-executive Directors

Holger Kluge
Ralph Raymond Shea
Wong Chung-hin

** Also Alternate Director to Canning Fok Kin-ning and Frank John Sixt*

AUDIT COMMITTEE

Wong Chung-hin (*Chairman*)
Ronald Joseph Arculli
Holger Kluge
Ralph Raymond Shea

REMUNERATION COMMITTEE

Canning Fok Kin-ning (*Chairman*)
Ralph Raymond Shea
Wong Chung-hin

COMPANY SECRETARY

Lillian Wong

REGISTERED OFFICE

44 Kennedy Road, Hong Kong
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BANKER

The Hongkong and Shanghai Banking Corporation Limited

SOLICITORS

Johnson Stokes & Master

AUDITORS

KPMG

SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong

ADR DEPOSITARY

Citibank, N.A.
Shareholder Services
P.O. Box 43077, Providence,
Rhode Island 02940-3077, U.S.A.

KEY DATES

Interim Results Announcement Closure of Register of Members

5th August 2008
11th September 2008 to 18th September 2008
(both days inclusive)

Payment of Interim Dividend (HK\$0.62 per share)

19th September 2008

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CHAIRMAN'S STATEMENT

Half Year Results

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

Interim Dividend

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

Hong Kong Operations

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

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

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

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

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

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

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

International Operations

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

CHAIRMAN'S STATEMENT *(Continued)*

Outlook

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

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

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

Canning Fok Kin-ning

Chairman

Hong Kong, 5th August 2008

FINANCIAL REVIEW

Capital Expenditure, Liquidity and Financial Resources

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

Treasury Policies, Financing Activities and Capital Structure

The Company manages its financial risks in accordance with guidelines laid down in its treasury policy, which is approved by the Board. The treasury policy is designed to manage the Group's currency, interest rate and counterparty risks. The Company aims to ensure that adequate financial resources are available for refinancing and business growth.

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

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

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

- (1) 63% were in Hong Kong dollars, 32% in Australian dollars and 5% in Sterling Pounds;
- (2) 76% were bank loans and 24% were capital market instruments;
- (3) 20% were repayable within 1 year, 67% were repayable between 2 and 5 years and 13% were repayable beyond 5 years;
- (4) 52% were in fixed rate and 48% were in floating rate.

FINANCIAL REVIEW *(Continued)*

Currency and interest rate risks are actively managed in accordance with the Group's treasury policy. Derivative financial instruments are used primarily for managing interest rate and foreign currency risks and not for speculative purposes. Treasury transactions are only executed with counterparties with acceptable credit ratings to control credit risk exposure.

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

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

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

Charges on Group Assets

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

Contingent Liabilities

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

Employees

The Group continues its policy of pay by performance and market pay levels are monitored to ensure competitiveness is maintained. The Group's total remuneration costs for the six months ended 30th June 2008, excluding directors' emoluments, amounted to HK\$446 million (30th June 2007: HK\$421 million). As at 30th June 2008, the Group employed 1,870 (30th June 2007: 1,890) permanent staff. No share option scheme is in operation.

Apart from well-established training schemes for university graduates, trainee technicians and apprentices, the Group also provides training for employees in management and functional skills, language skills, computer knowledge and technology relevant to the Group's industry by both classroom training and e-learning platforms. Job-related courses to develop and enhance the general skills and knowledge of employees are also provided.

UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30th June 2008

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

The notes on pages 12 to 21 form part of these accounts.

CONSOLIDATED BALANCE SHEET

At 30th June 2008

		(Unaudited) 30th June 2008 HK\$ million	(Audited) 31st December 2007 HK\$ million
	<i>Note</i>		
Non-current assets			
Fixed assets			
— Property, plant and equipment		40,367	41,112
— Assets under construction		3,023	2,623
— Interests in leasehold land held for own use under operating leases		2,294	2,323
	9	<u>45,684</u>	<u>46,058</u>
Interest in associates		9,829	9,071
Other non-current financial assets		66	66
Derivative financial instruments		133	122
Employee retirement benefit assets		866	1,106
		<u>56,578</u>	<u>56,423</u>
Current assets			
Inventories		699	539
Trade and other receivables	10	1,508	1,197
Fuel Clause Account		377	336
Bank deposits and cash	11	12,790	12,180
		<u>15,374</u>	<u>14,252</u>
Current liabilities			
Trade and other payables	12	(982)	(1,071)
Bank overdrafts — unsecured		(1)	—
Current portion of bank loans and other borrowings		(2,845)	(2,191)
Current taxation		(583)	(424)
		<u>(4,411)</u>	<u>(3,686)</u>
Net current assets		<u>10,963</u>	<u>10,566</u>
Total assets less current liabilities		<u>67,541</u>	<u>66,989</u>
Non-current liabilities			
Interest-bearing borrowings		(11,544)	(11,304)
Derivative financial instruments		(4)	(7)
Customers' deposits		(1,611)	(1,585)
Deferred tax liabilities		(5,204)	(5,444)
Employee retirement benefit liabilities		(528)	(530)
		<u>(18,891)</u>	<u>(18,870)</u>
Rate Reduction Reserve		(1)	(1)
Development Fund		(506)	(14)
Net Assets		<u>48,143</u>	<u>48,104</u>
Capital and Reserves			
Share capital	13	2,134	2,134
Reserves		46,009	45,970
Total equity attributable to equity shareholders of the Company	14	<u>48,143</u>	<u>48,104</u>

The notes on pages 12 to 21 form part of these accounts.

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June 2008

	Six months ended 30th June	
	2008 HK\$ million	2007 HK\$ million
Net cash generated from operating activities	4,005	3,992
Net cash from/(used in) investing activities	3,171	(681)
Net cash used in financing activities	<u>(2,552)</u>	<u>(2,801)</u>
Net increase in cash and cash equivalents	4,624	510
Cash and cash equivalents at 1st January	<u>8,078</u>	<u>10,458</u>
Cash and cash equivalents at 30th June	<u>12,702</u>	<u>10,968</u>
Analysis of the balances of cash and cash equivalents		
Cash and cash equivalents	12,703	10,968
Bank overdrafts — unsecured	<u>(1)</u>	<u>—</u>
	<u>12,702</u>	<u>10,968</u>

The notes on pages 12 to 21 form part of these accounts.

UNAUDITED CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

For the six months ended 30th June 2008

	Note	Six months ended 30th June	
		2008 HK\$ million	2007 HK\$ million restated
Exchange differences on translation of:			
Accounts of overseas subsidiaries		47	57
Overseas associates		177	150
Redesignation of available-for-sale investment as an associate		—	(79)
Cash flow hedge:			
Effective portion of changes in fair value, net of deferred tax		40	35
Transferred to profit or loss		(4)	—
Transferred to initial carrying amount of non-financial hedged items		(2)	1
Actuarial gains and losses of defined benefit retirement schemes, net of deferred tax		<u>(338)</u>	<u>41</u>
Net income/(expense) recognised directly in equity	14	(80)	205
Profit for the period		<u>3,171</u>	<u>2,689</u>
Total recognised income and expense for the period	14	<u><u>3,091</u></u>	<u><u>2,894</u></u>
Attributable to equity shareholders of the Company		<u><u>3,091</u></u>	<u><u>2,894</u></u>

The notes on pages 12 to 21 form part of these accounts.

NOTES TO THE UNAUDITED CONDENSED INTERIM ACCOUNTS

(Expressed in Hong Kong Dollars)

1. Review of Condensed Interim Accounts

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

2. Basis of Preparation

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

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

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

- (a) HK(IFRIC) Interpretation 12 Service Concession Arrangements (effective for annual periods beginning on or after 1st January 2008)
- (b) HK(IFRIC) Interpretation 14 HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1st January 2008)

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

2. Basis of Preparation (Continued)

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

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

3. Turnover and Segmental Information

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

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

3. Turnover and Segmental Information (Continued)

Geographical locations of operations

	Turnover	
	Six months ended 30th June	
	2008	2007
	\$ million	\$ million
Hong Kong	5,868	5,832
Rest of Asia and other locations	10	9
	<u>5,878</u>	<u>5,841</u>

4. Profit Before Taxation

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

5. Income Tax

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

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

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

6. Scheme of Control Transfers

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

7. Interim Dividend

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

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

8. Earnings Per Share

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

9. Fixed Assets

During the period, additions to property, plant and equipment amounted to \$714 million (2007: \$671 million). Net book value of property, plant and equipment disposed amounted to \$18 million (2007: \$19 million).

10. Trade and Other Receivables

	30th June 2008 \$ million	31st December 2007 \$ million
Derivative financial instruments	6	10
Debtors (see note below)	1,502	1,187
	<u>1,508</u>	<u>1,197</u>
Debtors' ageing is analysed as follows:		
Current or less than 1 month overdue	852	600
1 to 3 months overdue	32	32
More than 3 months overdue but less than 12 months overdue	11	11
Total trade debtors (see note below)	895	643
Deposits, prepayments and other receivables	607	544
	<u>1,502</u>	<u>1,187</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 Deposits and Cash

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

12. Trade and Other Payables

	30th June 2008 \$ million	31st December 2007 \$ million
Creditors (see note below)	974	1,068
Derivative financial instruments	8	3
	<u>982</u>	<u>1,071</u>
Creditors' ageing is analysed as follows:		
Due within 1 month or on demand	396	474
Due after 1 month but within 3 months	202	240
Due after 3 months but within 12 months	335	321
	933	1,035
Other payables	41	33
	<u>974</u>	<u>1,068</u>

13. Share Capital

	Number of Shares	30th June 2008 \$ million	31st December 2007 \$ 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. Total Equity

\$ million	Attributable to Equity Shareholders of the Company						
	Share Capital	Share Premium	Exchange Reserve	Hedging Reserve	Revenue Reserve	Proposed/ Declared Dividend	Total Equity
Total equity at 1st January 2007	2,134	4,476	202	107	34,456	2,710	44,085
Exchange differences on translation of:							
— accounts of overseas subsidiaries	—	—	57	—	—	—	57
— overseas associates	—	—	150	—	—	—	150
Redesignation of available-for-sale investment as an associate	—	—	—	—	(79)	—	(79)
Cash flow hedge:							
— effective portion of changes in fair value, net of deferred tax	—	—	—	35	—	—	35
— transferred to initial carrying amount of non-financial hedged items	—	—	—	1	—	—	1
Actuarial gains and losses of defined benefit retirement schemes, net of deferred tax	—	—	—	—	41	—	41
Net income/(expense) recognised directly in equity	—	—	207	36	(38)	—	205
Profit for the period	—	—	—	—	2,689	—	2,689
Total recognised income and expense for the period	—	—	207	36	2,651	—	2,894
Final dividend in respect of the previous year approved and paid	—	—	—	—	—	(2,710)	(2,710)
Interim dividend (see note 7)	—	—	—	—	(1,238)	1,238	—
Total equity at 30th June 2007	<u>2,134</u>	<u>4,476</u>	<u>409</u>	<u>143</u>	<u>35,869</u>	<u>1,238</u>	<u>44,269</u>

14. Total Equity (Continued)

\$ million	Attributable to Equity Shareholders of the Company						
	Share Capital	Share Premium	Exchange Reserve	Hedging Reserve	Revenue Reserve	Proposed/ Declared Dividend	Total Equity
Total equity at 1st January 2008	2,134	4,476	655	232	37,555	3,052	48,104
Exchange differences on translation of:							
— accounts of overseas subsidiaries	—	—	47	—	—	—	47
— overseas associates	—	—	177	—	—	—	177
Cash flow hedge:							
— effective portion of changes in fair value, net of deferred tax	—	—	—	40	—	—	40
— transferred to profit or loss	—	—	—	(4)	—	—	(4)
— transferred to initial carrying amount of non-financial hedged items	—	—	—	(2)	—	—	(2)
Actuarial gains and losses of defined benefit retirement schemes, net of deferred tax	—	—	—	—	(338)	—	(338)
Net income/(expense) recognised directly in equity	—	—	224	34	(338)	—	(80)
Profit for the period	—	—	—	—	3,171	—	3,171
Total recognised income and expense for the period	—	—	224	34	2,833	—	3,091
Final dividend in respect of the previous year approved and paid	—	—	—	—	—	(3,052)	(3,052)
Interim dividend (see note 7)	—	—	—	—	(1,323)	1,323	—
Total equity at 30th June 2008	<u>2,134</u>	<u>4,476</u>	<u>879</u>	<u>266</u>	<u>39,065</u>	<u>1,323</u>	<u>48,143</u>

15. Material Related Party Transactions

The Group had the following material transactions with related parties during the period:

(a) Associates

Interest income received/receivable from associates in respect of the loans to associates amounted to \$308 million (2007: \$249 million) for the period. At 30th June 2008, the total outstanding interest bearing loan balances due from associates were \$5,259 million (31st December 2007: \$4,748 million).

On 28th April 2008, Cheung Kong Infrastructure Holdings Limited (“CKI”), a substantial shareholder holding approximately 38.87% of the issued shares of the Company, announced the proposed acquisition of an electricity network in New Zealand at a purchase price of New Zealand Dollar 785 million. On 16th May 2008, the Company entered into a conditional agreement for the Company to acquire from CKI, 50% of its proposed investment and the Company’s commitment was New Zealand Dollar 392.5 million. The transaction was completed on 24th July 2008.

(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	
	2008	2007
	\$ million	\$ million
Short-term employee benefits	32	28
Post-employment benefits	2	1
	<u>34</u>	<u>29</u>

At 30th June 2008, the total outstanding amount due from the key management personnel was \$nil (31st December 2007: \$0.3 million).

16. Commitments

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

	30th June 2008 \$ million	31st December 2007 \$ million
Contracted for:		
Capital expenditure	1,247	1,106
Investment in associates	2,465	212
Others	<u>6</u>	<u>6</u>
	<u>3,718</u>	<u>1,324</u>
Authorised but not contracted for:		
Capital expenditure	<u>7,736</u>	<u>8,436</u>

17. Contingent Liabilities

	30th June 2008 \$ million	31st December 2007 \$ million
Financial guarantees issued in respect of banking facilities	2,675	2,482
Other guarantees and indemnities	<u>220</u>	<u>220</u>
	<u>2,895</u>	<u>2,702</u>

OTHER INFORMATION

Closure of Register of Members

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

Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's issued shares during the six months ended 30th June 2008.

Code on Corporate Governance Practices

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

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 the Group's code of conduct regarding Directors' securities transactions. 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 2008.

Audit Committee

The Audit Committee of the Company comprises three Independent Non-executive Directors and one Non-executive Director. It is chaired by Mr. Wong Chung-hin and the other members are Messrs. Ronald Joseph Arculli, Holger Kluge and Ralph Raymond Shea.

The Audit Committee reports directly to the Board of Directors and its principal responsibilities include the review and supervision of the Group's financial reporting and internal control systems and the review of the Company's financial statements. It also meets regularly with the Company's external auditors to discuss the audit process and accounting issues. The terms of reference of the Audit Committee are published on the Company's website.

Remuneration Committee

The Remuneration Committee of the Company comprises three members, two of whom are Independent Non-executive Directors. It is chaired by Mr. Canning Fok Kin-ning and the other members are Messrs. Ralph Raymond Shea and Wong Chung-hin.

The principal responsibilities of the Remuneration Committee include reviewing and considering the Company's policy for remuneration of Executive Directors and senior management, and determining their remuneration packages. The terms of reference of the Remuneration Committee are published on the Company's website.

Directors' Interests

At 30th June 2008, 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 of the Company

Name of Director	Capacity	Nature of Interests	Number of Shares Held	Total	Approximate % of Shareholding
Francis Lee Lan-ye	Beneficial owner	Personal	739	739	≈0%
Yuen Sui See	Beneficial owner	Personal	1,500	1,500	≈0%
Ronald Joseph Arculli	Interest of controlled corporation	Corporate	2,011	2,011	≈0%
Victor Li Tzar-kuoi	Interest of child or spouse	Family	151,000))))	829,750,612	≈38.87%
	Beneficiary of trusts	Other	829,599,612) (Notes 1 and 2))		

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) *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 the subsidiaries and associated companies of the Company held through the Company under the SF Ordinance.*

Save as disclosed above, at 30th June 2008, none of the Directors or chief executive 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 Company and The Stock Exchange of Hong Kong Limited (“Stock Exchange”) pursuant to Divisions 7 and 8 of Part XV of the SF Ordinance (including interest and short positions which they were taken or deemed to have under such provisions 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.

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 2008, shareholders (other than Directors or chief executive 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 Divisions 2 and 3 of Part XV of the SF Ordinance were as follows:

Long Positions in Shares of the Company

Name	Capacity	Number of Shares Held	Approximate % of Shareholding
Silchester International Investors Limited	Investment Manager	128,006,957	6.00%
Interman Development Inc.	Beneficial owner	186,736,842 (Note 1)	8.75%
Venniton Development Inc.	Beneficial owner	197,597,511 (Note 1)	9.26%
Univest Equity S.A.	Beneficial owner	279,011,102 (Note 1)	13.07%
Monitor Equities S.A.	Beneficial owner & Interest of controlled corporation	287,211,674 (Note 1)	13.46%
Hyford Limited	Interest of controlled corporations	829,599,612 (Note 2)	38.87%
Cheung Kong Infrastructure Holdings Limited	Interest of controlled corporations	829,599,612 (Note 2)	38.87%
Hutchison Infrastructure Holdings Limited	Interest of controlled corporations	829,599,612 (Note 3)	38.87%
Hutchison International Limited	Interest of controlled corporations	829,599,612 (Note 3)	38.87%
Hutchison Whampoa Limited	Interest of controlled corporations	829,599,612 (Note 3)	38.87%
Cheung Kong (Holdings) Limited	Interest of controlled corporations	829,599,612 (Note 4)	38.87%
Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust	Trustee	829,599,612 (Note 5)	38.87%
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)	38.87%
Li Ka-Shing Unity Trustcorp Limited as trustee of another discretionary trust	Trustee & beneficiary of a trust	829,599,612 (Note 6)	38.87%
Li Ka-shing	Founder of discretionary trusts & interest of controlled corporations	829,599,612 (Note 6)	38.87%

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.*

Save as disclosed above, at 30th June 2008, the Company has not been notified by any persons (other than Directors or chief executive 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 Divisions 2 and 3 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 2008 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 2008

HK\$ million

Non-current assets	74,804
Current assets	5,356
Current liabilities	(5,775)
Non-current liabilities	<u>(62,342)</u>
Net assets	<u><u>12,043</u></u>
Share capital	6,354
Reserves	<u>5,689</u>
Capital and reserves	<u><u>12,043</u></u>

As at 30th June 2008, the consolidated attributable interest of the Group in these affiliated companies amounted to HK\$7,915 million.