NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong Dollars)

1. Basis of Preparation

The interim financial report is unaudited, but has been reviewed by the Audit Committee.

The interim financial report has 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 Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

The accounting policies adopted are consistent with those set out in the 2001 annual accounts, except the Group has adopted the following accounting policies and presentations in accordance with the new and revised SSAPs which became effective on 1st January 2002.

In accordance with the new SSAP 34 "Employee Benefits", the Group's net obligation in respect of defined benefit retirement schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of any scheme assets is deducted. The discount rate is the yield at balance sheet date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the "Projected Unit Credit Method". In prior years, the actuary adopted the "Attained Age Method" for the valuations of the defined benefit retirement schemes and the costs of providing these benefits are charged to the Profit and Loss Account as and when they are incurred. The transitional net liabilities arising from this change in accounting policy were not significant. The directors considered that this amount has no material impact on the results and net assets of the Group and no adjustments have been made to the prior periods.

In accordance with the revised SSAP 1 "Presentation of Financial Statements", the Statement of Recognised Gains and Losses was replaced by the Statement of Changes in Equity.

In accordance with the revised SSAP 15 "Cash Flow Statements", it reclassifies cash flows under three headings namely operating, investing and financing activities.

2. 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 Six months ended 30th June		Operating profit Six months ended 30th June	
	2002	2001	**2002**	2001
	($ million)	*($ million)*	***($ million)***	*($ million)*
Principal activities				
Sales of electricity and its related income	**5,127**	4,871	**3,104**	2,948
Technical service fees	**29**	38	**11**	14
Unallocated and other items	**—**	—	**70**	—
	5,156	4,909	**3,185**	2,962
Interest income			**259**	291
Finance costs			**(261)**	(393)
Unallocated group expenses			**(14)**	(13)
Operating profit			**3,169**	2,847

Geographical locations of operations

	Turnover Six months ended 30th June	
	2002	2001
	($ million)	*($ million)*
Hong Kong	**5,144**	4,894
Rest of Asia, Middle East and Australia	**12**	15
	5,156	4,909

3. Operating Profit

	Six months ended 30th June	
	2002	2001
	($ million)	*($ million)*
Operating profit is shown after charging/(crediting):		
Finance costs		
Interest on borrowings	**366**	568
Less: interest capitalised to fixed assets	**(103)**	(171)
interest transferred to fuel cost	**(2)**	(4)
	261	393
Depreciation		
Depreciation charges for the period	**893**	822
Less: depreciation capitalised	**(78)**	(57)
	815	765
Net loss on disposal of fixed assets	**5**	17
Net realised gain on disposal of listed securities	**(54)**	—

4. Taxation

Hong Kong profits tax has been provided for at the rate of 16% (2001: 16%) based on the estimated assessable profits for the period. Overseas taxation has been provided for at the applicable rate on the estimated assessable profit.

5. 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.

6. Proposed Interim Dividend

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

	Six months ended 30th June	
	2002	2001
	($ million)	*($ million)*
Proposed interim dividend of 58 cents per share (2001: 56 cents per share)	**1,238**	1,195

7. Earnings Per Share

The calculation of earnings per share is based on the profit attributable to shareholders of $2,418 million (2001: $2,463 million) and on 2,134,261,654 shares (2001: 2,134,261,654 shares) in issue during the period.

8. Fixed Assets

During the period, additions to property, plant and equipment amounted to $1,596 million (2001: $1,411 million). Net book value of property, plant and equipment disposed amounted to $24 million (2001: $33 million).

9. Trade and Other Receivables

	At 30th June 2002 *($ million)*	At 31st December 2001 *($ million)*
Demand Side Management account	**27**	15
Debtors (see note below)	**910**	671
	937	686

Debtors' ageing is analysed as follows:

	At 30th June 2002 *($ million)*	At 31st December 2001 *($ million)*
Within 1 month	**679**	447
1 to 3 months overdue	**21**	23
More than 3 months overdue but less than 12 months overdue	**6**	8
Total trade debtors (see note below)	**706**	478
Deposits, prepayments and other receivables	**204**	193
	910	671

Electricity bills issued to domestic, small industrial and commercial and miscellaneous customers of electricity supplies are due upon presentation whereas maximum demand customers are allowed a credit period of 16 working days. If settlements by maximum demand customers are received after the credit period, The Hongkong Electric Company, Limited is entitled to add a surcharge of 5% to the respective bills.

10. Bank Balances and Other Liquid Funds

	At 30th June 2002 *($ million)*	At 31st December 2001 *($ million)*
Time deposits	**164**	562
Cash at bank and in hand	**16**	18
	180	580

11. Trade and Other Payables

	At 30th June 2002 *($ million)*	At 31st December 2001 *($ million)*
Creditors (see note below)	**1,135**	1,769
Current portion of deferred creditors	**211**	211
	1,346	1,980

Creditors' ageing is analysed as follows:

Due within 1 month	**306**	657
Due between 1 month and 3 months	**145**	591
Due between 3 months and 12 months	**522**	460
	973	1,708
Other payables	**162**	61
	1,135	1,769

12. Share Capital

	Number of Shares	**At 30th June 2002 *($ million)***	At 31st December 2001 *($ million)*
Authorised			
Ordinary shares of $1 each	3,300,000,000	**3,300**	3,300
Issued and fully paid			
Ordinary shares of $1 each	2,134,261,654	**2,134**	2,134

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

13. Related Party Transactions

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

	Six months ended 30th June	
	2002	2001
	($ million)	*($ million)*
Purchases of coal	**49**	26
Purchase of electric appliances for private and public estates	**—**	1
Purchase of limestone powder	**3**	2
Purchase of assets	**15**	5
Consulting fee received/receivable for providing engineering consultancy services	**—**	(2)
Interest income	**(257)**	(273)

During the period, the related party transactions were conducted in accordance with the terms as disclosed in the latest published annual report.

14. Commitments

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

	At 30th June 2002	At 31st December 2001
	($ million)	*($ million)*
Contracted for:		
Capital expenditure	**2,478**	2,729
Investment in associate	**844**	847
	3,322	3,576
Authorised but not contracted for:		
Capital expenditure	**10,729**	11,765

15. Contingent Liabilities

At 30th June 2002, there were contingent liabilities as follows:

— The Company has issued performance guarantees and letters of awareness to banks in respect of banking facilities available to associates amounting to $42 million (at 31st December 2001: $40 million).

— The Company has given guarantees and counter indemnities in respect of bank and other borrowing facilities available to subsidiaries and financial commitments of subsidiaries totalling $9,924 million (at 31st December 2001: $8,587 million) equivalent.

16. Post Balance Sheet Event

On 19th July 2002, CKI/HEI Electricity Distribution Two Pty Ltd. (the “Purchaser”), a company ultimately owned as to 50% by each of Hongkong Electric Holdings Limited (“HEH”) and Cheung Kong Infrastructure Holdings Limited (“CKI”), entered into an agreement with AEP Resources Australia Holdings Pty Ltd. and American Electric Power Company, Inc. to purchase 100% of the shares of CitiPower I Pty Ltd. (“CitiPower”) which is one of five electricity distributors and retailers in the State of Victoria, Australia. CitiPower’s distribution network, which covers the central business district of Melbourne and its densely populated inner suburbs, has a very high density load and a diverse customer mix, including residential, commercial, manufacturing and industrial. The total consideration given by CKI and HEH for the shares of CitiPower will be A$1,555 million (approximately HK$6,749 million). The Purchaser has agreed with Origin Energy Electricity Limited (“Origin”) to sell to Origin at completion the CitiPower electricity retail assets for an aggregate consideration of A$137 million (approximately HK$595 million). Therefore, the net enterprise value to CKI and HEH of the electricity distribution assets of CitiPower will be A$1,418 million (approximately HK$6,154 million).

17. Comparative Figures

Certain comparative figures have been reclassified to conform to the current financial period’s presentation, details of which are set out in note 1.