

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 2002 annual accounts, except the Group has adopted the revised SSAP 12 “Income Taxes” which became effective on 1st January 2003.

In accordance with the revised SSAP 12 “Income Taxes”, it requires full provision of deferred tax liabilities and full recognition of deferred tax assets for all temporary differences. Temporary differences are the differences between the carrying amount of an asset or a liability in the balance sheet and the amount attributed to that asset or liability for tax purposes. In prior years, deferred taxation is provided for all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future. The Group adopted this new accounting policy retrospectively, with the opening balances of revenue reserves and the comparative information adjusted for the amounts relating to the prior periods as disclosed in the Consolidated Statement of Changes in Equity.

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		Operating profit	
	Six months ended 30th June		Six months ended 30th June	
	2003	2002	2003	2002
	(\$ million)	(\$ million)	(\$ million)	(\$ million)
Principal activities				
Sales of electricity and its related income	5,179	5,127	3,095	3,104
Technical service fees	28	29	5	11
Unallocated and other items	—	—	52	70
	<u>5,207</u>	<u>5,156</u>	<u>3,152</u>	<u>3,185</u>
Interest income			388	259
Finance costs			(333)	(261)
Unallocated group expenses			(10)	(14)
Operating profit			<u>3,197</u>	<u>3,169</u>

Geographical locations of operations

	Turnover	
	Six months ended 30th June	
	2003	2002
	(\$ million)	(\$ million)
Hong Kong	5,200	5,144
Rest of Asia and Australia	7	12
	<u>5,207</u>	<u>5,156</u>

3. Operating Profit

	Six months ended 30th June 2003 (\$ million)	2002 (\$ million)
Operating profit is shown after charging/(crediting):		
Finance costs		
Interest on borrowings	389	366
Less: interest capitalised to fixed assets	(54)	(103)
interest transferred to fuel cost	(2)	(2)
	333	261
Depreciation		
Depreciation charges for the period	961	893
Less: depreciation capitalised	(75)	(78)
	886	815
Net loss on disposal of fixed assets	2	5
Net realised and unrealised gains on other investments carried at fair value	(23)	(54)

4. Taxation

	Six months ended 30th June 2003 (\$ million)	2002 (\$ million)
Current Taxation:		
The Company and its subsidiaries — Hong Kong	460	405
Deferred Taxation:		
The Company and its subsidiaries — Hong Kong	462	77
Associates — Overseas	55	36
	517	113
Total	977	518

Hong Kong profits tax has been provided for at the rate of 17.5% (2002: 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 2003 (\$ million)	2002 (\$ million)
Proposed interim dividend of 58 cents per share (2002: 58 cents per share)	<u>1,238</u>	<u>1,238</u>

7. Earnings Per Share

The calculation of earnings per share is based on the profit attributable to shareholders of \$2,193 million (2002: \$2,330 million) and on 2,134,261,654 shares (2002: 2,134,261,654 shares) in issue during the period.

8. Fixed Assets

During the period, additions to property, plant and equipment amounted to \$972 million (2002: \$1,596 million). Net book value of property, plant and equipment disposed amounted to \$58 million (2002: \$24 million).

9. Trade and Other Receivables

	At 30th June 2003 (\$ million)	At 31st December 2002 (\$ million)
Demand Side Management account	41	37
Debtors (see note below)	<u>1,262</u>	<u>1,025</u>
	<u>1,303</u>	<u>1,062</u>

Debtors' ageing is analysed as follows:

Within 1 month	639	497
1 to 3 months overdue	27	26
More than 3 months overdue but less than 12 months overdue	<u>9</u>	<u>9</u>
Total trade debtors (see note below)	675	532
Deposits, prepayments and other receivables	<u>587</u>	<u>493</u>
	<u>1,262</u>	<u>1,025</u>

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 2003 (\$ million)	At 31st December 2002 (\$ million)
Time deposits	257	109
Cash at bank and in hand	16	5
	<u>273</u>	<u>114</u>

11. Trade and Other Payables

	At 30th June 2003 (\$ million)	At 31st December 2002 (\$ million)
Creditors (see note below)	921	1,132
Current portion of deferred creditors	212	212
	<u>1,133</u>	<u>1,344</u>

Creditors' ageing is analysed as follows:

Due within 1 month	346	353
Due between 1 month and 3 months	109	288
Due between 3 months and 12 months	435	454
	<u>890</u>	<u>1,095</u>
Other payables	31	37
	<u>921</u>	<u>1,132</u>

12. Share Capital

	At 30th June 2003 (\$ million)	At 31st December 2002 (\$ million)
Authorised		
Ordinary shares of \$1 each	3,300,000,000	3,300
	<u>3,300</u>	<u>3,300</u>
Issued and fully paid		
Ordinary shares of \$1 each	2,134,261,654	2,134
	<u>2,134</u>	<u>2,134</u>

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 2003	2002
	(\$ million)	(\$ million)
Purchase of coal	—	49
Purchase of electric appliances for residential premises	1	—
Purchase of limestone powder	2	3
Purchase of assets	1	15
Interest income	(383)	(257)

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 2003	At 31st December 2002
	(\$ million)	(\$ million)
Contracted for:		
Capital expenditure	2,189	2,448
Investment in associate	829	832
	<u>3,018</u>	<u>3,280</u>
Authorised but not contracted for:		
Capital expenditure	<u>9,657</u>	<u>10,280</u>

15. Contingent Liabilities

At 30th June 2003, there were contingent liabilities as follows:

- The Company has issued a performance guarantee for an associate and a letter of awareness in respect of banking facilities available to an associate amounting to \$42 million (at 31st December 2002: \$41 million).
- The Company has given a counter indemnity for a subsidiary, guarantees in respect of credit facilities available to subsidiaries and financial commitments of subsidiaries totalling \$11,845 million (at 31st December 2002: \$12,691 million) equivalent.

16. 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.