HONGKONG ELECTRIC HOLDINGS LIMITED

香港電燈集團有限公司

2001 INTERIM RESULTS

CHAIRMAN'S STATEMENT

HALF YEAR RESULTS

The unaudited consolidated profit of the Group's core business, after tax and Scheme of Control transfers, for the first six months of 2001 was HK$2,035 million representing growth of 3.7% over the same period last year. In addition, the Group earned an exceptional one-off gain on the sale of the retail division of Powercor Australia Limited plus unaudited profits from other activities together totalling HK$428 million.

INTERIM DIVIDEND

The Directors have today declared an interim dividend of 56 cents (2000 : 54 cents) per share payable to shareholders whose names appear in the Company's Register of Members on 28th September 2001. This represents an increase of 3.7% in the total dividend paid out by the Company as compared with last year.

The Register of Members will be closed from 21st September 2001 to 28th September 2001 both days inclusive. To qualify for the interim dividend, transfers should be lodged with the Registrars by 4:00 p.m. on 20th September 2001.

OPERATIONS

Electricity unit sales for the six months to 30th June 2001 increased by 4.1% over the same period last year. Residential unit sales fell by 2.4% due to inclement weather conditions, however unit sales for the commercial sector increased by 6.3%. The industrial sector continues to be a stable but modest contributor to unit sales.

The site designated for the extension of the Lamma Power Station was made available to The Hongkong Electric Company, Limited (HEC) in March and site formation work commenced soon afterwards. The evaluation phase of the tendering process for the first 300 MW power block equipment has recently been completed and an order with a 2004 commissioning date has been placed.

The conversion of two of our existing gas turbines to combined cycle units is progressing as scheduled. Site erection work commenced in June. After conversion, these units will then be able to generate an additional 115 MW to meet the summer peak demand in 2002.

The Shenzhen LNG Terminal provisional Joint Venture Agreement was signed in May. The Group has a 3% interest in this project and is represented on the Project Steering Committee and the Joint Executive Office which have been formed by the investor group to administer this project.

Both Powercor Australia Limited and ETSA Utilities, owned equally with Cheung Kong Infrastructure Holdings Limited (CKI), have performed satisfactorily. In June, the retail division of Powercor was sold to Origin Energy for A$315 million. The Group's share of the profit from this one-off transaction was HK$344 million. The Group now owns, together with CKI, regulated electricity distribution businesses in Australia with a customer base of almost 1.4 million.

OUTLOOK

Electricity consumption continues to grow in line with our long term forecasts. To cater for this growth, the extension of the Lamma Power Station is vital as it will ensure that Hong Kong consumers continue to enjoy an adequate and reliable electricity supply. The Group is totally focused on this complex and demanding project which is on schedule on its tight timetable.

Powerful lessons are being learned from the energy crises which have developed in other parts of the world where power shortages and black-outs have had a crippling effect on consumers and their businesses. For example, in California, wholesale electricity prices rose more than 3 times in the one year from summer 1999 to 2000, and on 7th May 2001, about 100,000 residential, industrial and commercial customers experienced black-outs.

The Group is fully committed to ensuring that Hong Kong avoids these problems. These events have reinforced our focus on ensuring that Hong Kong's growing status as a "world city" is fully supported by adequate, efficient and reliable power generation and distribution systems. HEC continues to raise its levels of operating efficiency and productivity, and carefully plans its new investments cost effectively in order to achieve this objective of long term reliability.

George C. Magnus
Chairman

Hong Kong, 9th August 2001

FINANCIAL REVIEW

Capital Expenditure, Liquidity, Financial Resources and Gearing Ratio

Capital expenditure during the period amounted to HK$1,411 million, which was primarily funded by cash from operations and bank loans. As at 30th June 2001, total external borrowings were HK$16,016 million (at 31st December 2000 : HK$17,983 million), comprising unsecured bank loans, unsecured deferred creditors and debt securities in issue. In addition, undrawn committed credit facilities available to the Group totalled HK$1,260 million (at 31st December 2000 : HK$4,981 million). Gearing ratio (net debt/shareholders' funds) at 30th June 2001 was 50% (at 31st December 2000 : 56%).

Treasury Policies and Capital Structure

The Group continues to ensure that its businesses are financed from a variety of competitive sources and that committed facilities are available for future development. In addition, currency and interest risks are actively managed on a conservative basis.

The treasury focus during the period has been on the refinancing of the bridge facilities amounting to A$844 million drawn for the acquisition of a 50% interest in Powercor Australia Limited in September 2000. Of the total, A$405 million was refinanced by a 5-year syndicated term loan facility, with the balance refinanced by a combination of commercial paper and notes issued out of debt issuance programmes in the name of Powercor Australia Limited.

As at 30th June 2001, external borrowings of the Group amounted to HK$16,016 million with the following profile:

(1) 74% were either denominated or effectively hedged into Hong Kong dollars and 25% were denominated in Australian dollars;
(2) 71% were medium term loans, 20% were capital market instruments and 9% were suppliers' credits;
(3) 78% were repayable between 2 to 5 years and 6% were repayable beyond 5 years;
(4) 77% were fixed rate based.

It is the Group's treasury policy not to engage in speculative transactions. Foreign currency transaction exposure, other than US dollars, is managed in accordance with treasury guidelines, utilising forward contracts and interest and currency swaps. As at 30th June 2001, over 99% of the Group's transaction exposure was either hedged or denominated in Hong Kong or US dollars. Currency exposure arising from overseas investments is hedged by arranging comparable level of borrowings in the same currency as the underlying investments. Interest rate risk is managed by maintaining a substantial portion of the Group's debt portfolio in fixed rate. This is achieved either directly by means of fixed rate debt issues or by the use of interest rate swaps and caps. The contractual notional amounts of derivative instruments outstanding at 30th June 2001 amounted to HK$13,541 million (at 31st December 2000 : HK$9,885 million) equivalent.

Contingent Liabilities

At 30th June 2001, the Company has given a guarantee to bank in respect of banking facilities available to an associate amounting to HK$8 million (at 31st December 2000: HK$8 million).

At 30th June 2001, the Company has given guarantees in respect of bank and other borrowing facilities available to subsidiaries totalling HK$7,736 million (at 31st December 2000: HK$9,663 million) equivalent.

Employees

The Group continues its policy of pay by performance and market pay rates are monitored constantly to ensure competitiveness is maintained. The Group's total remuneration costs for the six months ended 30th June 2001, excluding directors' emoluments, amounted to HK$542 million (2000: HK$554 million). As at 30th June 2001, the Group employed 2,342 permanent staff. No share option scheme is in operation.

Apart from well-established training schemes for university graduates, trainee technicians and apprentices, the Group also provides training for staff in language, computer knowledge, the latest technology as well as numerous job-related courses to enhance the skills and knowledge of our employees.

HONGKONG ELECTRIC HOLDINGS LIMITED

UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE SIX MONTHS ENDED 30TH JUNE 2001

	Six Months Ended 30th June	
	2001	2000
	(HK$ million)	(HK$ million)
Turnover	**4,909**	4,769
Direct costs	**(1,750)**	(1,685)
	3,159	3,084
Other revenue	**316**	308
Other operating costs	**(235)**	(223)
Finance costs	**(393)**	(480)
Operating profit	**2,847**	2,689
Share of results of associates	**346**	1
Profit before taxation	**3,193**	2,690
Taxation:		
The Company and its subsidiaries	**(305)**	(261)
Associates	**-**	-
Profit after taxation	**2,888**	2,429
Scheme of Control transfers to:		
Development Fund	**(417)**	(396)
Rate Reduction Reserve	**(8)**	(7)
	(425)	(403)
Profit attributable to shareholders	**2,463**	2,026
Proposed interim dividend	**1,195**	1,153
Earnings per share	**115 cents**	97 cents
Proposed interim dividend per share	**56 cents**	54 cents

Notes:

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

2. The analysis of the principal activities and geographical location 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**	
	2001 (HK$ million)	2000 (HK$ million)	**2001 (HK$ million)**	2000 (HK$ million)
Principal activities				
Sales of electricity and its related income	**4,871**	4,734	**2,948**	2,887
Technical service fees	**38**	35	**14**	9
	4,909	4,769	**2,962**	2,896
Interest income			**291**	278
Finance costs			**(393)**	(480)
Unallocated group expenses			**(13)**	(5)
Operating profit			**2,847**	2,689

Geographical locations of operations

	Turnover Six months ended 30th June	
	2001 (HK$ million)	2000 (HK$ million)
Hong Kong	**4,894**	4,753
Rest of Asia, Middle East and Australia	**15**	16
	4,909	4,769

3. During the period, depreciation charged in respect of the Group's fixed assets amounted to HK$822 million (2000: HK$761 million). Of this amount, HK$57 million (2000: HK$54 million), relating to assets utilised in development activities, have been capitalised.

4. Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on estimated assessable profits for the period.

5. The Scheme of Control transfers are a mid year notional transfer. The actual Scheme of Control transfers will be determined at the year end when the final results are known.

6. The calculation of earnings per share is based on the profit attributable to shareholders of HK$2,463 million (2000: HK$2,026 million) and on 2,134,261,654 shares (2000: the weighted average number of 2,090,278,914 shares) in issue during the period.

7. Certain comparative figures of the unaudited consolidated profit and loss accounts for the period ended 30th June 2000 have been adjusted as a result of the revision in the components of the 2000 tariff structure which was announced on 16th September 2000.

8. A detailed results announcement containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Exchange") will be published on both the Company's website (www.hec.com.hk) and the Exchange's website (www.hkex.com.hk) in due course.