

2007 INTERIM RESULTS

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 2007 was HK\$2,660 million, an increase of 7.3% over the same period last year. The Hongkong Electric Company, Ltd. (HEC) earnings for the period were HK\$2,141 million (2006: HK\$2,128 million). Earnings from the Group's international operations for the six month period were HK\$286 million compared with HK\$209 million for the same period in 2006. The higher first half 2007 international operations earnings reflected higher operating revenue and higher exchange translation gains on Australian dollar denominated income.

Interim Dividend

The Directors have today declared an interim dividend for 2007 of 58 cents (2006: 58 cents) per share. The dividend will be payable on 21st September 2007, to shareholders whose names appear in the Company's Register of Members on 20th September 2007.

Hong Kong Operations

Growth in unit sales of electricity for the first six months of 2007 was 1.5%. The low level of sales growth was primarily due to the cooler and dryer weather in the spring and to the effect of various energy saving initiatives which together substantially offset the impact of the stronger Hong Kong economy. Maximum demand in the first six months of the year was 2,455 MW compared with 2,434 MW for the same period in 2006.

Our emission reduction programme at the Lamma Power Station continued during the first half of 2007 with work on the flue gas desulphurisation and low nitrogen oxide burner retrofit works for Units 4 and 5. Completion of the retrofit works for Unit 5 is scheduled for 2009 and Unit 4 for 2010. The emission reduction initiatives being undertaken over the next few years will assist us in meeting the Government's 2010 emission targets.

Unit 9, HEC's first 335 MW gas fired combined cycle unit which was commissioned in October 2006 performed satisfactorily during the first half of 2007. It is anticipated that approximately 15% of the electricity generated at the Lamma Power Station in 2007 will be generated by gas. By the end of 2010, it is expected that more than 90% of electricity generated at Lamma will be generated by gas and by coal fired units fitted with flue gas desulphurisations units and low nitrogen oxide burners.

The 800-kW wind turbine on Lamma Island continued to attract public interest in renewable energy with the education exhibit at the site being popular. The potential of a 100 MW offshore wind farm for Hong Kong is being evaluated. A site selection study is underway to identify a preferred site from several potential sites, the study is scheduled for completion later in the year and the next step would then be for an environmental assessment study to be undertaken.

Investment in the transmission and distribution network continued during the first half of 2007 enhancing system reliability and stability. Construction works continued on the Marsh Road 275/132kV substation building which is scheduled for commissioning in August 2008. Customer service remained a priority during the first half of 2007 with all of HEC's 18 published service pledges having been met.

HEC's customers continued to enjoy world class supply reliability during the first six months of 2007 with a supply reliability rating of 99.999% being maintained, a level that has been consistently maintained since 1997.

During the first half of 2007, we continued to promote renewable energy in Hong Kong through the Hongkong Electric Clean Energy Fund and the efficient use of energy through the Smart Power Campaign.

Discussions have continued with the HKSAR Government on the regulatory framework for the electricity market in Hong Kong following the expiry of the current scheme of control agreement at the end of 2008. We have reiterated to the Government that the existing scheme of control and the permitted return under that scheme have ensured that the necessary long term investment has been made in the generation, transmission and distribution facilities to achieve the high degree of stability and reliability that Hong Kong enjoys today and which is not always available in other parts of the world. The post 2008 regulatory framework must recognize our shareholders' continued substantial investment over many years in Hong Kong's electricity infrastructure and our customers' interests in the continued enjoyment of a secure and reliable electricity supply.

International Operations

During the first half of 2007, our Australian electricity businesses recorded satisfactory results with increased revenue. Northern Gas Networks in the U.K. performed in line with expectations. In Thailand construction of the Ratchaburi 1,400 MW gas fired power station in which we have a 25% interest is progressing well.

Outlook

In Hong Kong we expect that the low level of growth in electricity sales will continue into the second half of the year. Higher coal and natural gas prices are expected to continue to negatively impact fuel costs into 2008.

Our international investments have performed well in the first half of 2007. The Group has benefited from its strategy of investing outside Hong Kong. We will continue with this strategy so as to reduce our reliance on earnings from the electricity operations in Hong Kong.

I would like to take this opportunity to thank the board, management and staff for their hard work and contributions during the period.

Canning Fok Kin-ning

Chairman

Hong Kong, 9th August 2007

FINANCIAL REVIEW

Capital Expenditure, Liquidity and Financial Resources

Capital expenditure during the period amounted to HK\$671 million, which was primarily funded by cash from operations. Total external borrowings outstanding at 30th June 2007 were HK\$14,881 million (31st December 2006 : HK\$14,689 million), comprising unsecured bank loans and debt securities in issue. In addition, the Group had undrawn committed bank facilities of HK\$5,700 million (31st December 2006 : HK\$5,686 million) and available liquid funds of HK\$10,968 million (31st December 2006 : HK\$10,462 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 Company aims to ensure that adequate financial resources are available for refinancing and business growth. The Company's treasury policy is designed to manage the Group's currency, interest rate and counterparty risks.

In January 2007, The Hongkong Electric Company, Ltd. (HEC), through its subsidiary, Hongkong Electric Finance Limited, issued HK\$500 million 5-year notes carrying a coupon rate of 4.32% p.a..

As at 30th June 2007, the net debt of the Group was HK\$3,913 million (31st December 2006 : HK\$4,227 million) with a net debt-to-equity ratio of 9% (31st December 2006 : 10%).

The profile of the Group's external borrowings, after taking into account of currency and interest rate swaps, was as follows:-

- (1) 73% were in Hong Kong dollars and 27% in Australian dollars;
- (2) 74% were bank loans and 26% were capital market instruments;
- (3) 9% were repayable within 1 year, 62% were repayable between 2 and 5 years and 29% were repayable beyond 5 years;
- (4) 44% were in fixed rate and 56% were in floating rate.

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 or capped interest rates. Interest rate risk is managed by either securing fixed or floating rate borrowings or by using interest rate swaps and caps. As at 30th June 2007, 44% 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 for HEC. Foreign currency transaction exposure is managed, utilising forward contracts and currency swaps. As at 30th June 2007, over 99% 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 2007 amounted to HK\$6,397 million (31st December 2006 : HK\$5,306 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 2007 was HK\$115 million (31st December 2006 : HK\$75 million).

Contingent Liabilities

As at 30th June 2007, the Company had given guarantees and indemnities in respect of bank and other borrowing facilities made available to and financial commitments of subsidiaries totalling HK\$5,856 million (31st December 2006 : HK\$5,563 million). Out of this amount, HK\$5,591 million (31st December 2006 : HK\$5,257 million), while being a contingent liability of the Company, is reflected in the Consolidated Balance Sheet of the Group.

As at 30th June 2007, a wholly-owned subsidiary of the Company, HEC, has given guarantees to third parties in respect of the value of leased equipment of HK\$210 million (31st December 2006 : HK\$210 million) at expiry of the lease.

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 2007, excluding directors' emoluments, amounted to HK\$421 million (30th June 2006 : HK\$437 million). As at 30th June 2007, the Group employed 1,890 (30th June 2006 : 1,960) 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.

OTHER INFORMATION

Closure of Register of Members

The register of members will be closed from Thursday, 13th September 2007 to Thursday, 20th September 2007 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, 12th September 2007.

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 2007.

Code on Corporate Governance Practices

With the exception that Non-executive Directors are not appointed for a specific term but retire by rotation and subject to re-election once every three years, 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 throughout the six months ended 30th June 2007.

HONGKONG ELECTRIC HOLDINGS LIMITED
UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE SIX MONTHS ENDED 30TH JUNE 2007

		Six months ended 30th June	
	Note	2007 HK\$ million	2006 HK\$ million
Turnover	3	5,841	5,653
Direct costs		(2,041)	(1,989)
		3,800	3,664
Other revenue and net income		552	417
Other operating costs		(432)	(404)
Finance costs		(318)	(181)
Operating profit		3,602	3,496
Share of profits less losses of associates		126	73
Profit before taxation	4	3,728	3,569
Income tax	5	(568)	(572)
Profit after taxation		3,160	2,997
Scheme of Control transfers to:	6		
Development Fund		(500)	(518)
Rate Reduction Reserve		-	-
		(500)	(518)
Profit attributable to equity shareholders			
Local activities		2,374	2,270
Overseas activities		286	209
Profit for the period		2,660	2,479
Interim dividend	7	1,238	1,238
Earnings per share – basic and diluted	8	125 cents	116 cents
Interim dividend per share	7	58 cents	58 cents

HONGKONG ELECTRIC HOLDINGS LIMITED
CONSOLIDATED BALANCE SHEET
AT 30TH JUNE 2007

	Note	(Unaudited) 30th June 2007 HK\$ million	(Audited) 31st December 2006 HK\$ million
Non-current assets			
Fixed assets			
- Property, plant and equipment		41,416	41,763
- Assets under construction		2,312	2,355
- Interests in leasehold land held for own use under operating leases		2,350	2,378
		<u>46,078</u>	<u>46,496</u>
Interest in associates		6,944	6,339
Other non-current financial assets		1,687	1,687
Derivative financial instruments		80	47
Deferred tax assets		1	1
Employee retirement benefit assets		584	578
		<u>55,374</u>	<u>55,148</u>
Current assets			
Inventories		477	484
Trade and other receivables	9	1,589	1,119
Fuel Clause Account		393	566
Cash and cash equivalents	10	10,968	10,462
		<u>13,427</u>	<u>12,631</u>
Current liabilities			
Trade and other payables	11	(841)	(1,095)
Bank overdrafts - unsecured		-	(4)
Current portion of bank loans and other borrowings		(1,416)	(1,089)
Current taxation		(871)	(551)
		<u>(3,128)</u>	<u>(2,739)</u>
Net current assets		<u>10,299</u>	<u>9,892</u>
Total assets less current liabilities		<u>65,673</u>	<u>65,040</u>
Non-current liabilities			
Interest-bearing borrowings		(13,465)	(13,596)
Derivative financial instruments		(15)	(1)
Customers' deposits		(1,559)	(1,537)
Deferred tax liabilities		(5,441)	(5,432)
Employee retirement benefit liabilities		(388)	(389)
		<u>(20,868)</u>	<u>(20,955)</u>
Rate Reduction Reserve		-	-
Development Fund		<u>(500)</u>	-
Net Assets		<u>44,305</u>	<u>44,085</u>
Capital and Reserves			
Share capital		2,134	2,134
Reserves		42,171	41,951
Total equity attributable to equity shareholders of the Company		<u>44,305</u>	<u>44,085</u>

HONGKONG ELECTRIC HOLDINGS LIMITED

Notes:

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”).

These condensed interim financial statements should be read in conjunction with the 2006 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed interim financial statements are consistent with those used in the 2006 annual financial statements 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 2007. The following new standards, amendments to standards and interpretations are mandatory for the financial year ending 31st December 2007.

- (a) Amendment to HKAS 1 Presentation of Financial Statements: Capital Disclosures (effective for annual periods beginning on or after 1st January 2007)
- (b) HKFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1st January 2007)
- (c) HK(IFRIC) Interpretation 7 Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 1st March 2006)
- (d) HK(IFRIC) Interpretation 8 Scope of HKFRS 2 (effective for annual periods beginning on or after 1st May 2006)
- (e) HK(IFRIC) Interpretation 9 Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1st June 2006)

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 2007. 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 <u>beginning on or after</u>
HKAS 23 (Revised)	Borrowing Costs	1st January 2009
HKFRS 8	Operating Segments	1st January 2009
HK(IFRIC) Interpretation 11	HKFRS 2 - Group and Treasury Share Transactions	1st March 2007
HK(IFRIC) Interpretation 12	Service Concession Arrangements	1st January 2008

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 2007	2006	Six months ended 30th June 2007	2006
	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Principal activities				
Sales of electricity and its related income	5,818	5,634	3,404	3,281
Technical service fees	23	19	4	4
Unallocated and other items	-	-	50	76
	5,841	5,653	3,458	3,361
	=====	=====		
Interest income			486	327
Finance costs			(318)	(181)
Unallocated group expenses			(24)	(11)
Operating profit			3,602	3,496
			=====	=====

3. Turnover and Segmental Information (continued)

Geographical locations of operations

	Turnover	
	Six months ended 30th June 2007	2006
	HK\$ million	HK\$ million
Hong Kong	5,832	5,647
Rest of Asia and other locations	9	6
	<u>5,841</u>	<u>5,653</u>
	=====	=====

4. Profit Before Taxation

	Six months ended 30th June	
	2007	2006
	HK\$ million	HK\$ million
Profit before taxation is shown after charging/(crediting):		
Depreciation		
Depreciation charges for the period	1,042	1,008
Less : depreciation capitalised	(63)	(67)
	<u>979</u>	<u>941</u>
Amortisation of leasehold land	28	27
Net profit on disposal of fixed assets	-	(3)
	=====	=====

5. Income Tax

	Six months ended 30th June	
	2007	2006
	HK\$ million	HK\$ million
Current Tax		
The Company and its subsidiaries – Hong Kong	572	542
– Overseas	1	-
	<u>573</u>	<u>542</u>
Deferred Tax		
The Company and its subsidiaries – Hong Kong	(5)	29
– Overseas	-	1
	<u>(5)</u>	<u>30</u>
Total	<u>568</u>	<u>572</u>
	=====	=====

Hong Kong Profits Tax has been provided for at the rate of 17.5% (2006 : 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 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	
	2007	2006
	HK\$ million	HK\$ million
Interim dividend of 58 cents per share (2006 : 58 cents per share)	1,238 =====	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 HK\$2,660 million (2006 : HK\$2,479 million) and 2,134,261,654 ordinary shares (2006 : 2,134,261,654 ordinary shares) in issue during the period.

9. Trade and Other Receivables

	30th June 2007	31st December 2006
	HK\$ million	HK\$ million
Derivative financial instruments	10	19
Debtors (see note below)	1,579	1,100
	1,589 =====	1,119 =====
Debtors' ageing is analysed as follows:		
Current or less than 1 month overdue	848	596
1 to 3 months overdue	24	29
More than 3 months overdue but less than 12 months overdue	9	10
	881	635
Total trade debtors (see note below)	881	635
Deposits, prepayments and other receivables	698	465
	1,579 =====	1,100 =====

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.

10. Cash and Cash Equivalents

	30th June 2007 HK\$ million	31st December 2006 HK\$ million
Deposits with banks and other financial institutions	10,927	10,435
Cash at bank and in hand	41	27
	10,968	10,462

11. Trade and Other Payables

	30th June 2007 HK\$ million	31st December 2006 HK\$ million
Creditors (see note below)	832	1,090
Derivative financial instruments	9	5
	841	1,095
Creditors' ageing is analysed as follows:		
Due within 1 month or on demand	185	349
Due after 1 month but within 3 months	176	267
Due after 3 months but within 12 months	432	441
	793	1,057
Other payables	39	33
	832	1,090

Board of Directors

As at the date of this announcement, the Directors of the Company are:

- | | |
|--------------------------------------|--|
| Executive Directors: | Mr. FOK Kin-ning, Canning (Chairman), Mr. TSO Kai-sum (Group Managing Director), Mrs. CHOW WOO Mo-fong, Susan, (also alternate to Mr. FOK Kin-ning, Canning and Mr. Frank John SIXT), Mr. Andrew John HUNTER, Mr. KAM Hing-lam, Mr. LEE Lan-yee, Francis, Mr. LI Tzar-kuoi, Victor, Mr. Neil Douglas MCGEE, Mr. Frank John SIXT and Mr. WAN Chi-tin. |
| Non-executive Directors: | Mr. Ronald Joseph ARCULLI, Mr. George Colin MAGNUS and Mr. YEE Lup-yuen, Ewan. |
| Independent Non-executive Directors: | Mr. Holger KLUGE, Mr. Ralph Raymond SHEA and Mr. WONG Chung-hin. |