

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