

HONGKONG ELECTRIC HOLDINGS LIMITED

CHAIRMAN'S STATEMENT

Demand for electricity in Hong Kong continued to rise in 2001 in spite of the depressed economic conditions. We again delivered exceptional levels of reliability and worked to ensure that our network will meet the future power needs of the people and businesses of Hong Kong. The performance of our Australian businesses exceeded expectations, both at the operating level and as a result of an exceptional one-off gain on the sale of the retail division of Powercor Australia, and it is this strong contribution to the bottom line from overseas activities which has resulted in the bulk of the increase in Group profits over last year.

Results

The profits arising from the Group's local activities amounted to HK\$5,889 million (2000 : HK\$5,488 million). Profits arising from the Group's overseas activities increased substantially to HK\$618 million (2000 : HK\$47 million) due mainly to the exceptional one-off gain of HK\$344 million arising from the sale of the retail division of Powercor Australia, together with the strong operating performance of our Australian electricity distribution businesses.

As a result, the Group's audited consolidated net profit for the year ended 31st December 2001 was HK\$6,507 million (2000 : HK\$5,535 million).

Final Dividend

The Directors will recommend a final dividend of HK\$1.07 per share. This, together with the interim dividend of 56 cents per share, will give a total dividend of HK\$1.63 per share for the year (2000 : HK\$1.515 per share).

Hong Kong Operations

As a number of events around the world have demonstrated in recent years, provision of a highly reliable source of electric power is of central importance to economic activity, and is not to be taken for granted even in the most developed markets. During 2001, we continued to focus on reliability. For the sixth year in a row, we maintained a reliability of supply of 99.999%, and we exceeded our 18 customer pledges in all areas.

This exceptional performance was achieved while at the same time continuing tight control on costs and headcount have resulted in electricity generated per employee and revenue per employee rising during the year. These improvements in productivity reflect our constant attention to having the right workforce, systems and equipment in place and providing a customer service system that is both highly responsive and personalised.

Electricity generation is a capital-intensive industry and, therefore, the cost of capital is an important factor. The Group took advantage of the decline in interest rates to reduce our cost of borrowing substantially through retiring and refinancing portions of our existing debt, and the resultant interest savings made a contribution to our profits.

Fuel supply is another major cost factor and although rising international prices for coal made it impossible to reduce overall fuel costs for 2001, we mitigated the effects through further diversification of both coal types and sources.

We continued to improve the physical infrastructure. Effective maintenance of our generating equipment allowed us to achieve an increase in availability from our generating units.

With power demand rising despite several years of poor economic conditions, the need for the Lamma Power Station Extension project is now even more apparent, with maximum demand in 2001 showing an increase of 4.1%. This rising demand emphasizes that the first phase must be commissioned by mid 2004. Site dredging was finished during the year and construction began on the seawall. In addition, we are making good progress on the planning, detailed design and approval process for the submarine gas pipeline.

Overseas Business

Our strategy is to invest in electricity related businesses offering acceptable risk levels and steady margins. Our joint investments with Cheung Kong Infrastructure Holdings Limited in ETSA Utilities and Powercor in Australia were based on the expectation of earning the reasonable return as set out in the regulatory framework. Both have performed above these expectations during 2001, delivering solid financial and operational results in a year in which extreme climatic conditions, particularly in South Australia, presented many challenges for the businesses. During the year, we were able to exit the more volatile and higher-risk retail portion of Powercor through disposal. This raised A\$315 million in total, which was used to reduce Powercor's gearing. As a result we now concentrate on regulated electricity distribution businesses, with a customer base of 1.4 million.

Outlook

While the pace of any economic recovery is uncertain, experience has shown that demand for electricity in Hong Kong will continue to rise even if conditions remain sluggish. Therefore we are focused on pressing ahead with work on the Lamma Extension and investing in improving our existing infrastructure to ensure the adequacy and reliability of supply that is required by Hong Kong to maintain its standing as a world class city.

Overseas, we will continue to see a steady contribution to Group profit from our Australian assets. We are also encouraged by the possibilities for expansion that are emerging as regulatory regimes around Asia and beyond evolve. The Group will continue to seek opportunities in countries and in segments of the market that offer a high degree of earnings predictability at acceptable levels of risk.

I wish to thank all employees for their dedication, loyalty and hard work, which has positioned the Group well to seize suitable opportunities that may arise.

George C. Magnus

Chairman

Hong Kong, 7th March 2002