

CHAIRMAN'S MESSAGE

ENERGISING Hong Kong for a brighter future

MAINTAINING reliable power night and day

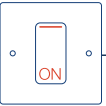
AIMING for even higher service standards

ENCOURAGING our talented people to excel

FULFILLING our responsibilities to the community

BROADENING our view of the world





Hongkong Electric performed steadily in 2002 despite challenging economic conditions both locally and overseas. Earnings from the core business in Hong Kong continued to show steady growth, reflecting rigid cost controls, improvements in productivity, and a disciplined approach to capital investment. The Company maintained the exceptionally high 99.999% level of reliability around the clock for a seventh consecutive year as we continued to develop our power generation and distribution network to meet the standards expected of a world-class city. Our growing Australian operations, recently expanded with the acquisition of a 50% interest in CitiPower, overcame unusually mild temperatures to post earnings above expectations.

Results

The Group's audited consolidated net profit after tax for the year ended 31st December 2002 was HK\$6,827 million (2001:HK\$6,507 million), including profits from the Group's overseas activities of HK\$354 million (2001:HK\$618 million, which included the exceptional one-off gain of HK\$344 million arising from the sale of the retail division of Powercor Australia Limited), and realised and unrealised gains on other listed investments of HK\$229 million.



Final Dividend

The Directors will recommend a final dividend of HK\$1.13 per share. This, together with the interim dividend of 58 cents per share, will give a total dividend of HK\$1.71 per share for the year (2001: HK\$1.63).

Hong Kong Operations

We continue our commitment to provide a cost-efficient electricity supply that is among the most reliable in the world.

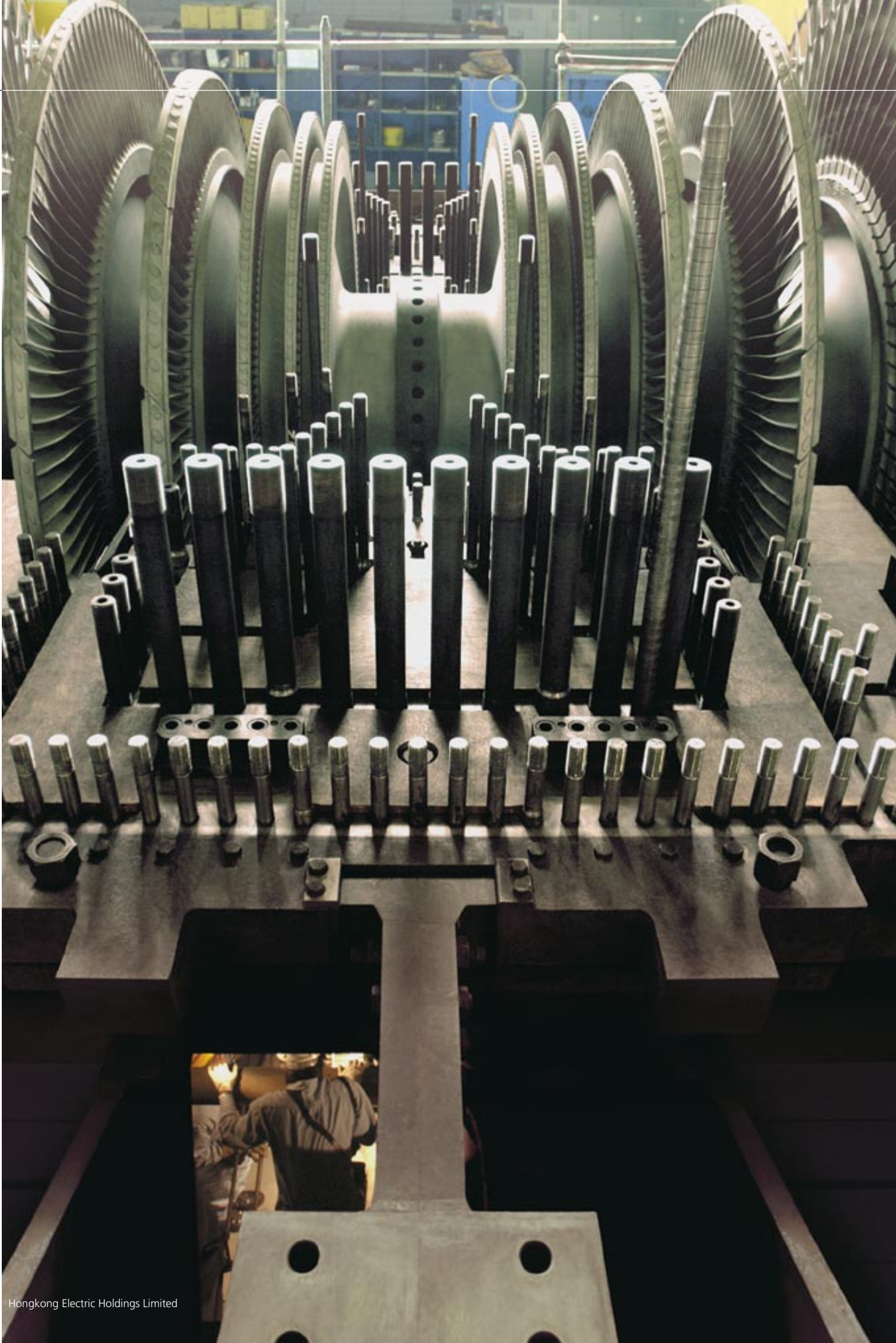
During the year, the transmission and distribution network was enhanced through the completion of infrastructure projects and maintenance work. The first 22 kV zone substation was commissioned at Tamar, which will set the trend for even greater distribution efficiency. In all, 67 new distribution substations were added, bringing the total number in service to 3,487.

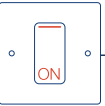
The conversion of two existing gas turbines into a combined cycle unit was completed on 1st June, generating an additional 115 MW of power with the same fuel input by recovering waste heat energy, resulting in benefits to customers and the environment.

In line with Hongkong Electric's prudent development policy, the Company has taken the initiative to defer the commissioning of the first 300 MW generating unit of the Lamma Power Station Extension by one year, from 2004 to 2005, because of lower than expected maximum demand growth in 2002 caused in part by the delay in completion of several major property developments. The warmer than normal weather experienced in the first half of 2002 was not sustained in the second half of the year, and overall unit sales for 2002 increased by 0.6% on a comparable basis.

The deferment of capital expenditure for the Lamma 300 MW generating unit and operational and productivity improvements, highlighted by a 4.8% reduction in headcount despite increasing unit sales, have been instrumental in allowing us to freeze tariff for 2003 – the third time in five years. At the same time, management remains firmly committed to their objective of achieving the return to shareholders that is stipulated in the Scheme of Control.

The Turbine Hall of Lamma Power Station, where clean and reliable energy is generated.





The turmoil that has been evident in many energy markets over the past few years is a stark reminder of the prime importance of reliable and adequate power for maintaining and improving living standards, and stimulating investor confidence and business growth. In addition to surpassing our pledged standard for supply reliability by achieving 99.999% for the seventh consecutive year, we also further demonstrated our dedication to service by achieving or surpassing each of our demanding service pledges, earning a record number of unsolicited commendations from customers. Our employees deserve great credit for this accomplishment, and it reflects the Company's commitment to provide better training and career development to encourage our talented people to continuously improve performance.

Fulfilling our responsibilities to our community starts with providing reliable power, but we also recognise the importance of being involved in the daily lives of the people we serve and being sensitive to their needs in a difficult economic environment. To this end, we have now added unemployed residents to the elderly, disabled and single-parent families who can qualify for concessionary tariffs. Hongkong Electric continued to fund and participate in many community activities and charities, supporting the volunteer work of our employees.

Overseas Business

We continue to expand our business overseas to provide a more stable earnings platform and balance business risks, while steadily enhancing value for our shareholders.

The most recent addition to our overseas investment portfolio is CitiPower, a strong performing Australian power distribution company serving over 265,000 customers in the Melbourne area. Together with Powercor and ETSA Utilities, the total investment in Australia, made in equal partnership with Cheung Kong Infrastructure Holdings Limited (CKI), is close to A\$7 billion, making us one of the country's leading international investors. The Group and CKI are the largest distributor of electricity in Australia in terms of customers, which currently number over 1.6 million.

Negotiations continue on the detailed planning for the 1,400 MW generation project developed

by Union Power Development Company, in which the Group has a 26% interest, and the Thai Government has approved in principle a change from coal-firing to gas burning.

Outlook

While Hong Kong still faces many economic challenges in the short term, we are confident of its longer term prospects as its service and financial sectors benefit from an increasing number of business opportunities arising from the mainland's strong economic growth. We are also optimistic about the growth prospects of our business in Australia and will continue to explore promising energy-related investment opportunities around the world which offer attractive returns at acceptable levels of risk.

As we look forward, the Company is fully prepared to be a key participant in the process to establish the basis for the sensible long term planning of our industry in Hong Kong. As a low cost producer of extremely reliable electricity and with a state-of-the-art transmission and distribution system, the Company is well positioned to prosper in future. It is worth highlighting the proven suitability of the Scheme of Control style of regulation to the particular needs of Hong Kong for the way it continues to deliver reliable, environmentally friendly electricity at a reasonable price, sensibly balancing the interests of consumers and shareholders over the long term.

During 2002 Hongkong Electric has again demonstrated an ability to seize new investment opportunities and to achieve new levels of excellence in its traditional business. I wish to thank our Directors and employees for their support and commitment, our customers for their loyalty, and our investors for their confidence.

George C. Magnus

Chairman

Hong Kong, 6th March 2003