

Group Managing Director's Report



Tso Kai-sum
Group Managing Director

For HK Electric, 2007 was a year of both change and continuity. Change came in the form of higher prices for natural gas and coal. We saw a growing focus on environmental issues among customers, regulators, shareholders and the community at large. And, as the year came to a close, we prepared to sign a new Scheme of Control Agreement, which will shape our operations in Hong Kong until at least 2018. Each of these changes will have a profound impact on our business. But they will not change our commitment to delivering electricity at reasonable prices with the minimum possible impact to the environment and to providing world class reliability, safety and customer service.

Since we lit Hong Kong's first streetlight in 1890, we have helped to bring convenience, modernity and prosperity to the people and businesses of Hong Kong. Today and tomorrow, customers can rely on HK Electric to build and operate the infrastructure needed to maintain a stable, reliable power supply. And they can count on us to be a long-term partner in our city's success.

A young couple is smiling and taking a selfie with a white digital camera. They are positioned in the foreground, with the man on the right and the woman on the left. The background features a vibrant city skyline at night, with numerous illuminated skyscrapers and a prominent tower with a lattice structure. The scene is lit with warm city lights and a large orange graphic element on the right side of the image.

We Power **Brilliance,**

Life in the city sparkles with excitement and promise, thanks to a reliable supply of electricity.

Group Managing Director's Report

HONG KONG OPERATIONS

Generation

Located on a dedicated 72-hectare site, HK Electric's Lamma Power Station and its extension have a total installed capacity of 3,755 MW. The station comprises eight coal-fired units, five oil-fired open cycle gas turbine units, one oil-fired combined cycle unit and one gas-fired combined cycle unit. We also operate Lamma Winds, Hong Kong's first wind turbine, on a separate site at Tai Ling on Lamma Island.

Overall efficiency at the Lamma Power Station greatly improved in 2007, largely due to the higher operating efficiency of Unit 9.

Unit 9

As part of an ongoing commitment to reduce emissions, in October 2006 HK Electric commissioned Unit 9, the Company's first gas-fired combined cycle unit. In 2007, Unit 9 completed its first full year of operation, during which it generated 17% of the Lamma Power Station's output. Unit 9 helped us reduce the station's emissions of sulphur dioxide, nitrogen oxides, respirable suspended particulates and carbon dioxide by 16%, 17%, 36% and 7.8%, respectively, from 2006 levels.

Unit 9, which is fueled by natural gas supplied through a 92-km submarine pipeline from the Shenzhen Liquefied Natural Gas Terminal, was taken off-line for its first inspection in June 2007. No major problems were found and Unit 9 returned to service shortly afterwards.

Coal

While natural gas plays an increasingly important role in our operations, the bulk of our output is generated from coal. In 2007, we consumed 3.6 million tonnes of coal, down from 4.1 million tonnes in 2006. During 2007, we saw a dramatic increase in the price of coal with the higher prices continuing in 2008.



Unit 9, HK Electric's first gas-fired combined cycle unit, helps the Company increase efficiency and reduce emissions.

In 2006, we awarded contracts for the installation of flue gas desulphurisation (FGD) plants for Units 4 and 5. During 2007, the gas duct of Unit 5 was modified to prepare for the retrofit of FGD, which will be completed by 2009. Similar modification of the gas duct of Unit 4 will be carried out in 2008. By 2010, more than 95% of the electricity from the Lamma Power Station will be generated by gas-fired units or coal-fired units equipped with FGDs and low nitrogen oxide burners.

Lamma Winds

Lamma Winds completed its first full year of operation in 2007. The wind turbine produced 864,633 kWh during the year. Lamma Winds is providing a great deal of data and valuable experience for our engineers to explore the feasibility of building a large wind farm in Hong Kong.

Plant Ownership Scheme

During the year, seven new areas of the Lamma Power Station were added to the plant ownership scheme, a programme that empowers staff by making them responsible for the plant's performance. Now covering 46 areas, the plant ownership scheme helps us improve equipment reliability, reduce operating and maintenance costs, and train engineering staff.



We Power
Protection,

From traffic lights to security systems and more, dependable electricity means safety and protection to keep our customers moving ahead.

Group Managing Director's Report

Transmission and Distribution

HK Electric achieved a record reliability rating of over 99.999% in 2007. It was our best performance since we began publishing service targets in 1993 and the 11th consecutive year our reliability rating exceeded 99.999%.

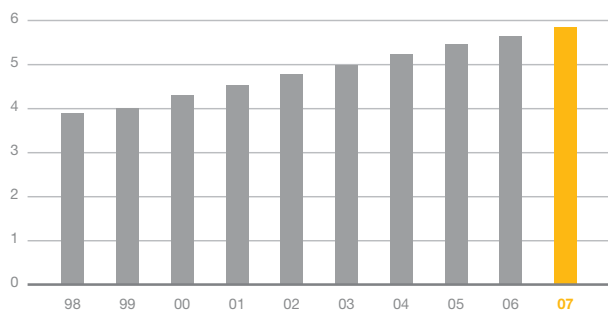
System maximum demand was 2,552 MW, down 1.7% from 2,597 MW in 2006. The number of customers increased to 560,909, from 559,167 a year earlier.

Unit sales of electricity were 10,891 million kWh, a 1.1% increase from the 10,773 million kWh recorded in 2006. In 2007, 74.4% of our sales were to commercial customers, 22.0% to residential customers and 3.6% to industrial customers.

The modest sales growth was due to the cooler and dryer weather during the year and to the effect of various energy saving initiatives which together substantially offset the impact of the stronger Hong Kong economy.

Our environmental management system for transmission and distribution activities once again successfully passed internal and external audits verifying its full compliance with all related legislative requirements as well as those of ISO 14001:2004 international standard.

Productivity 1998 – 2007 (millions of kWh)



Units sold per employee

Investment in our Supply Network

During the year, we continued to renew and enhance our supply network. Following the commissioning of one 275kV submarine cable between Lamma Island and Cyberport on Hong Kong Island, we are working on a second 275kV submarine cable which will enter service in 2008. Work continued on the 275kV substation on Marsh Road, which will be commissioned in August 2008.

Two 132kV circuits between the Wong Chuk Hang switching station and the Chung Hom Kok zone substation were commissioned in 2007, while a 132kV circuit was overlaid between the Ming Yuen and Taikoo zone substations.

During the year, 31 new distribution substations were commissioned. In addition, 171 km of distribution cable was laid.

To ensure the availability of our supply system, in 2007 we conducted a network reliability and operation review. The review identified 155 reliability-related and 34 environmental health and safety items for enhancement. These items are now being addressed.



The state-of-the-art supervisory control and data acquisition (SCADA) system helps HK Electric maintain exceptional reliability.



We Power **Commerce,**

Our transmission and distribution infrastructure has helped make Hong Kong a leading international business centre.

Group Managing Director's Report

Customer Service

HK Electric's companywide focus on customer service continues to produce results. All our pledged customer service standards were achieved or surpassed in 2007 and, for the seventh consecutive year, we received a record number of customer commendations.

Billing

During the year, we expanded a programme that lets customers pay electricity bills at convenience stores. Customers can now settle their bill at any 7-Eleven or Circle-K convenience stores in Hong Kong, with a limit of HK\$5,000 per transaction.

Technology plays a central role in our drive to enhance customer service. In March 2007, for example, we introduced a short message service (SMS) billing



Introduced in 2007, the SMS billing service brings new convenience to our customers.

service that allows customers to receive their electricity bill on their mobile phone. This saves paper and increases efficiency by reducing the need to print and mail the paper bills.

New Technology

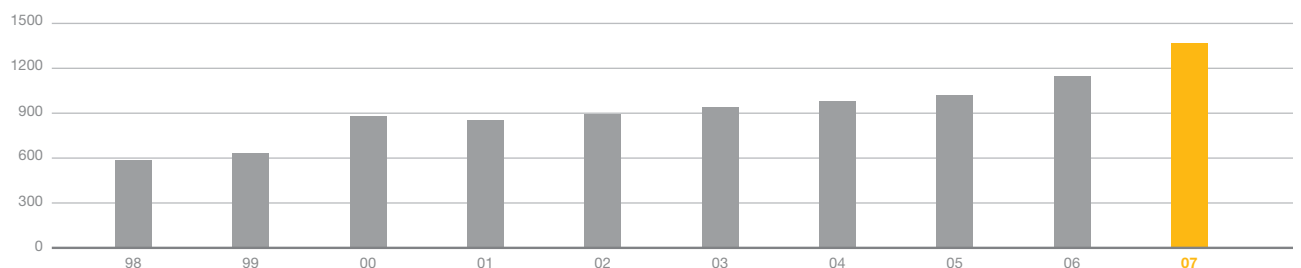
In 2007, we began using SMS messages to advise customers and contractors of the results of our inspections and to confirm their installation had been connected to our network. We also launched e-REW Express, an email-based subscription service that lets contractors and electrical workers stay abreast of electricity-related developments. These efforts were recognised with the "Best Use of Technology of the Year" award from the Asia Pacific Customer Service Consortium.

At our Customer Centre in North Point, we expanded the call centre and installed new ticketing and public address systems.

Home Management Centre

In 2007, we completed a new cookery classroom at the Home Management Centre. An opening ceremony, complete with a cooking competition and a selection of celebrity chefs, was held on 9 September. During the year, over 7,500 people participated in 222 cookery classes and 266 special interest classes at the Home Management Centre.

Written Commendation Statistics 1998 – 2007





We Power
Performance,

A major sporting spectacle or an illustrious civic event, both need reliable power to ensure their success.

Group Managing Director's Report

Health and Safety

Through ongoing educational programmes and awareness campaigns, HK Electric strives to maintain an accident-free workplace. We use pre-job risk assessments, process hazard analyses and job safety evaluations to promote a safety culture throughout the Company.

In 2007, the longest period without a lost-time injury was 247 days compared with 217 days in 2006 and 98 days in 2005. As at 31 December 2007, we recorded 83 consecutive accident-free days.

Safety Training

In 2007, our Generation and Transmission and Distribution divisions held 59 government-accredited and 115 non-accredited safety courses, 21 of which were new programmes developed by our Safety & Training Section. Altogether, there were 15,764 hours of safety training.

We also organised an Environmental Health & Safety Month for our employees and contractors and began offering talks and wellness programmes to prevent injuries and encourage health awareness. Our daily safety briefings now begin with a 3-minute exercise session.

Before commissioning Unit 9 in 2006, we established a natural gas safety team, which comprises members of the Projects and Generation divisions as well as a gas advisor. The team met on a monthly basis during 2007, and will continue to refine and strengthen HK Electric's gas safety skills in the year ahead.

OHSAS18001

Since 2001, our occupational health and safety (OHS) management system has met OHSAS18001:1999, an international standard that helps organisations manage their OHS risks and improve their performance. In July 2007, this standard was upgraded to

OHSAS18001:2007, a new and more stringent specification. Our safety management system surpasses the requirements of new standard, and we are one of the few organisations in Hong Kong to have achieved OHSAS18001:2007 certification.

Improving our Talent Base

An extensive range of training and development programmes helps HK Electric attract and retain highly skilled employees. They also enable us to increase safety, efficiency and customer satisfaction.

In 2007, our staff underwent 66,286 hours of training. Delivered through workshops, seminars and on-the-job learning, the training encompassed safety, technical skills, environmental awareness and computing skills.

Awards

In 2007, our OHS efforts were recognised with a gold award for Safety Technological Achievement at the Sixth Hong Kong Occupational Health and Safety Awards, where we also won a bronze award in the Safety Management System for our natural gas safety management system. In addition, teams from HK Electric won the top three awards in quiz competitions amongst local enterprises organised by the Occupational Safety & Health Council and the Labour Department.



Our daily safety briefings now begin with a 3-minute exercise session.



We Power **Society,**

From Ocean Park to Hong Kong Central Library, we support the venues and activities that improve the quality of people's lives.

Group Managing Director's Report

Community Activities

Community service is an important part of HK Electric's corporate culture. In addition to thousands of volunteer hours, in 2007 we donated to 88 community, environmental and professional projects.

Smart Power Campaign 2007

Following the success of the 2006 programme, which attracted over 25,000 participants, we launched the Smart Power Campaign 2007/8 in November which encourages people to conserve resources and adopt a sustainable lifestyle. A variety of activities were organised, including a fashion design competition, a cooking contest, road shows and open days with the twin themes of sustainability and energy conservation.

Helping People

With over 750 members, the HK Electric Volunteers Team includes more than 40% of our employees. In 2007, our volunteers participated in 54 events and donated over 3,700 hours of community service, with a focus on improving the environment and caring for the elderly and the disadvantaged. In addition, our volunteers actively support the work of other charitable and community organisations.



"Cruise and Learn" is a new programme that promotes a sense of belonging among underprivileged children.

Through the "Caring Always" campaign, festive parties were held for single-parent families to celebrate the Lantern Festival while rice dumplings were made and distributed to elderly people living alone in Eastern District during the Dragon Boat Festival. The elderly also benefit from free inspections of their home electrical installations.

In 2007, we introduced "Cruise and Learn", a new initiative designed to promote a sense of belonging among underprivileged teenagers. More than 600 teenagers and their parents have taken part in the programme, which features guided tours of Victoria Harbour and visits to the Lamma Power Station.

Lifelong Learning

Funded by the Hongkong Electric Centenary Trust and organised by HK Electric and the Hong Kong Council of Social Service (HKCSS), the University of Third Age (U3A) establishes self-learning centres for senior citizens. Since it was established in March 2006, over 4,800 seniors have participated in 322 U3A courses.

In September 2007, we convened a conference where experts from Hong Kong, the Mainland and the United Kingdom shared their views on lifelong learning among the elderly. We also organised various workshops to share knowledge and experience with U3A participants.

For the fifth consecutive year, in 2007 HK Electric was awarded a "Caring Company" logo from the HKCSS. In October 2007, we received the President's Award from the Community Chest for our support of their fund-raising activities.



We Power Knowledge,

During the year, we co-produced Hong Kong's first renewable energy teaching kit for pre-schoolers.

Group Managing Director's Report

Environment

HK Electric plays a leading role in promoting conservation, green technologies and environmental awareness in the community.

Education

The HK Electric Clean Energy Fund encourages students in local schools and universities to learn about and develop technologies that use renewable energy. The Fund's first projects were completed in July 2007 and awards for 12 new projects were announced in November 2007.

In partnership with Green Power, we produced Hong Kong's first renewable energy teaching kit for pre-schoolers. To enhance their knowledge of renewable energy, in May 2007 we arranged visits for 100 kindergarten teachers to Lamma Winds. Over 100 visits to the Lamma Power Station and Lamma Winds were organised during 2007.

Community Programmes

For the 12th consecutive year, in 2007 we were the main sponsor of "Clean Up the World in Hong Kong". The morning after the Mid-Autumn Festival, 100 HK Electric volunteers cleaned up the barbecue site at Aberdeen Country Park. Our support for this programme is part of a broader effort to encourage environmental awareness during traditional festivals. In 2007, this included a campaign to eliminate hill fires during Ching Ming and Chung Yeung festivals and efforts to reduce waste during Lunar New Year.

Working with the Conservancy Association, we continued with "Green Lamma Green" to promote eco-tourism and sustainable development on Lamma Island. In the project's third and final year, 50 volunteers performed check-ups on the 2,000-plus seedlings that we planted along the Family Trail. Environmental training was held for HK Electric volunteers and Lamma residents to prepare them as eco-tour leaders.



Clean Energy Fund supports renewable energy projects in schools.

Environmental Management

In 2007, all of our environmental management objectives and targets were accomplished. During the year, we accumulated and reused about 127,000 m³ of rainwater and wastewater, reduced consumption of paper and non-rechargeable batteries by 8% and 16% respectively.

In 2007, a total of 2,388 man-hours were devoted to various training courses designed for refreshing awareness of legislative requirements and enhancing environmental awareness for our Transmission and Distribution employees.

Awards

In 2007, we were awarded a Wastewi\$e Gold Logo by the Environmental Protection Department in April as well as the Grand Award and two Certificates of Merit in the Green Innovative Practice Award of Hong Kong Eco-Business Awards organised by the Environmental Protection Department. Other awards included the Prime Award for Eco-business 2007 and the 2007 Environmental Paper Award organised by the Hong Kong Institution of Engineers. In addition, we were also awarded with a third consecutive "Excellent Class" Indoor Air Quality Certification for the Hongkong Electric Centre.

A woman with her hair in a braid, wearing a white dress with pink and green floral patterns, is captured in a dynamic, spinning pose. She is looking upwards and to the right with a smile. The background is a vibrant, swirling vortex of yellow and orange light, creating a sense of motion and energy. An orange graphic element, resembling a large bracket or a stylized '7', is positioned on the right side of the image, framing the text.

We Power
Growth,

We share our power generation
and transmission expertise with
customers on four continents.

Group Managing Director's Report

INTERNATIONAL OPERATIONS

HK Electric invests abroad to diversify the Company's revenue sources and leverage its expertise in energy businesses. The Company's international investment arm, Hongkong Electric International Limited (HEI), focuses on opportunities that combine stable earnings and acceptable levels of risk.

Australia

CHEDHA Holdings Pty Limited comprises CitiPower I Pty Ltd., Powercor Australia Limited and CHED Services Pty Ltd.. Powercor is Victoria's largest electricity distributor while CitiPower operates a distribution network across the Melbourne metropolitan area. The Company has a 27.93% interest in both businesses. They delivered strong results and outstanding network reliability in 2007. CHEDHA Holdings' solid financial performance reflected higher than anticipated distribution revenue and unregulated revenue, and lower than forecast regulated business costs.

ETSA Utilities in which the Company has 27.93% interest is the sole electricity distributor in the state of South Australia. ETSA Utilities continued to meet key financial and non-financial targets in 2007. Extending its outstanding safety record, ETSA Utilities had no lost-time injuries during the year.

Canada

In 2007, HEI acquired a 50% stake in Stanley Power Inc., a company that has a 49.99% interest in TransAlta Cogeneration, L.P. (TransAlta Cogen). TransAlta Cogen has stakes in five gas-fired cogeneration facilities in Alberta, Ontario and Saskatchewan and in a coal-fired, mine-mouth generation facility in Alberta. The acquisition adds 202 MW to HEI's portfolio.

Thailand

Construction of Ratchaburi Power Company Limited's two 700 MW gas-fired, combined cycle power plants, in which the Company has a 25% interest, is on schedule.



This coal-fired power plant in Sheerness, Alberta, is one of six power plants included in the Stanley Power Inc. transaction.

The plants are expected to enter commercial service in March and June 2008 respectively and their output will be sold to the Electricity Generating Authority of Thailand under a long-term power purchase agreement.

United Kingdom (U.K.)

Northern Gas Networks Limited (NGN) in which the Company has a 19.9% interest operates a gas distribution network in the North of England. NGN is one of the four regional gas distribution networks in the U.K. In 2007, NGN was benchmarked as the U.K.'s most efficient gas network by the Office of Gas and Electricity Markets. NGN's goal is to be benchmarked in the top two comparable utilities in the U.K. for safety, customer service and efficiency. NGN recently concluded a regulatory price reset review for the regulatory period 2008-2013. The outcome was considered acceptable and should permit NGN to record a satisfactory return over the new regulatory period.

Renewable Energy

HEI continues to investigate opportunities to develop its renewable energy business.

Tso Kai-sum

Group Managing Director
Hong Kong, 6th March 2008