

CHAIRMAN'S STATEMENT

Half Year Results

The unaudited consolidated profit of the Group, after tax and Scheme of Control transfers, for the first six months of 2002 amounted to HK\$2,418 million, a reduction of 1.8% compared to the same period last year. The profits from the Group's local activities increased from \$2,026 million to \$2,252 million mainly due to a significant reduction in interest charges compared to the same period last year. However, this increase was more than offset by a decrease in profits from overseas activities from \$437 million to \$166 million. While the Group's businesses in Australia continue to perform well and exceed expectations, the profit reduction is due to the recording of an exceptional one-off gain arising from the sale of the retail division of Powercor Australia Limited in the first half of 2001.

Interim Dividend

The Directors have today declared an interim dividend of 58 cents (2001: 56 cents) per share payable to shareholders whose names appear in the Company's Register of Members on 26th September 2002.

The Register of Members will be closed from 19th September 2002 to 26th September 2002 both days inclusive. To qualify for the interim dividend, transfers should be lodged with the Registrars by 4:00 p.m. on 18th September 2002.

Operations

Electricity unit sales for the six months to 30th June 2002 increased by 1.4% over the same period last year, with growth in domestic consumption of 3.2% being recorded. However, unit sales to the commercial sector grew by only 1.4% having been affected by the continuing sluggish economic conditions, as were unit sales to the industrial sector which declined by 5.2%.

Good progress has been made on the site formation work for the extension of the Lamma Power Station with construction of the seawall being almost complete. Piling work for the first 300 MW power unit has started, and superstructure work is scheduled to commence in December. Overall progress of the Lamma project continues to achieve its tight schedule.

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. This improvement in fuel efficiency will benefit our consumers.

Both Powercor Australia Limited and ETSA Utilities, owned equally with Cheung Kong Infrastructure Holdings Limited (CKI), continue to perform well. The regulated framework within which these businesses operate provides a high degree of certainty as regards cash flow and profits.

In keeping with the Group's strategy to invest in electricity related businesses offering acceptable risk levels and steady margins, the Group, jointly with CKI, reached agreement to acquire CitiPower I Pty Ltd. (CitiPower) on 19th July 2002 for A\$1,418 million (approximately HK\$6.2 billion). CitiPower is the regulated monopoly electricity distribution business which serves the central business district of Melbourne and its densely populated inner suburbs. This acquisition, due for completion by 31st August 2002, consolidates the Group's position as an equal partner in the largest electricity distribution business in Australia with more than 1.65 million customers.

Outlook

While the slowdown in the completion of some major new buildings and property projects has hampered electricity sales growth to the commercial sector resulting in only 1.4% growth during the first half, the 3.2% increase in domestic consumption confirms our experience that demand for electricity in Hong Kong will continue to rise in line with our long term projections.

We will continue to invest in improving and expanding our transmission and distribution system to ensure that we maintain our high reliability of supply of 99.999% which Hong Kong requires as a world class city and a leading financial and commercial centre; while at the same time continuing to improve our operating efficiencies and productivity.

The recently announced acquisition of CitiPower in Melbourne, Australia is a further positive step in our overseas expansion plans. The Group will continue to examine other electricity related business opportunities in countries and in segments of the market which offer attractive returns at acceptable levels of risk.

George C. Magnus
Chairman

Hong Kong, 8th August 2002