

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 2003 amounted to HK\$2,193 million, a reduction of 5.9% compared to the same period last year. The profits from the Group's local activities decreased by 9.6% mainly due to an increase in tax charges and provisions resulting from the introduction of the new Statement of the Standard Accounting Practice on Income Taxes and an increase in tax rates, together with a 1.2% reduction in electricity sales compared to the same period last year due largely to the effect of Severe Acute Respiratory Syndrome (SARS) and the consequent general slowdown in the economy. This decrease was partly offset by an increase in profits from overseas activities.

Interim Dividend

The Directors have today declared an interim dividend of 58 cents (2002: 58 cents) per share payable to shareholders whose names appear in the Company's Register of Members on 25th September 2003.

The Register of Members will be closed from 18th September 2003 to 25th September 2003 both days inclusive. To qualify for the interim dividend, transfers should be lodged with the Registrars by 4:00 p.m. on 17th September 2003.

Operations

In Hong Kong, the outbreak of SARS in March seriously affected many of our customers, and particularly those in the restaurant, hotel, retail and business services sectors. As economic activity stalled, consumption of electricity was affected, and this together with the cooler weather experienced in the first half of 2003 compared to last year, resulted in sales of electricity for the first six months of 2003 being 1.2% below the same period last year.

In response to the difficulties faced by our customers worst affected by SARS, the Company implemented a scheme whereby these customers could benefit from a Company guarantee for a loan to cover up to three months of electricity charges, giving customers access to finance on very attractive terms.

The current weakness in demand for electricity exhibited during the first half of 2003 will continue to be closely monitored. In the short term, growth in unit sales and maximum demand will be supported by the final completion and occupation of a number of major property developments in the Company's supply areas; and in the medium and long term, electricity demand is expected to be stimulated by continuing population growth and the required infrastructure expansion. In order to cater for this growth, work on the extension of the Lamma Power Station continues. Site formation work and piling for the first 300 MW power unit have been substantially completed. As natural gas will be the fuel for future power units, a long term gas supply contract was signed in Beijing in March 2003 for the supply of natural gas from the Guangdong LNG terminal.

Overseas, our businesses in Australia continue to thrive. The contribution to the Group from Powercor and ETSA Utilities, together with the inclusion for the first time of CitiPower, acquired in equal partnership with Cheung Kong Infrastructure Holdings Limited in August 2002, has increased by 46.5% over last year.

Outlook

In Hong Kong, the Company continues to improve productivity and to re-assess all aspects of its operations in order that our consumers will benefit from all possible cost savings. The Company also has sufficient flexibility within its capital expenditure programme so that capital expenditure is aligned to demand growth, and therefore its asset base expands only as necessary to match economic and market circumstances. This is in line with our obligation to provide reliable electricity to satisfy current and future demand at the lowest cost to the consumer compatible with the terms of the Scheme of Control agreement with Government.

Profit diversification continues to be an important Group strategy, and the Group's strong financial position supports the ongoing worldwide search for suitable investment opportunities offering an acceptable return relative to the risks involved.

George C. Magnus
Chairman

Hong Kong, 7th August 2003