

# **HONGKONG ELECTRIC HOLDINGS LIMITED**

## **CHAIRMAN'S STATEMENT**

2000 was a significant year for the Hongkong Electric Group marking a new era of expansion. We received approval from the Hong Kong SAR Government to proceed with the planned 1,800 MW extension of the Lamma Power Station and completed our first full year as a major investor overseas.

### **Results**

The Group's audited consolidated profit, after tax and Scheme of Control (SOC) transfers, for the year ended 31st December 2000 was HK\$5,535 million, an increase of 4.7% over the previous year's HK\$5,286 million.

### **Final Dividend**

The Directors will recommend a final dividend of 97.5 cents per share. This, together with the interim dividend of 54 cents per share, will give a total dividend of HK\$1.515 per share for the year (1999: HK\$1.4875 per share).

### **Hong Kong Operations**

2000 was again characterized by rising levels of efficiency, dependability and customer service in our Hong Kong operations. For the fifth year in a row, we achieved a reliability of supply of 99.999%, a statistic more significant this year in light of fears that the Y2K issue could cause particular difficulties for our industry. This achievement is a testament to our continued investment in people, systems and equipment.

The transmission and distribution system was further upgraded, the number of distribution substations rising to 3,391. The new integrated coal handling system improved loading rates. We completed the conversion of our control systems to digital format, which will further enhance reliability and ease of maintenance.

The Group's efforts to raise service quality through the use of the latest technology, including the wireless internet, to increase speed of response and personalization coupled with our dependable power supply contributed to the 40% rise in unsolicited customer commendations to 879.

These technologies are also allowing us to increase productivity by continuously reducing costs, through lower staffing levels and an ability to monitor operations more closely.

These efficiencies contributed greatly towards our being able to limit the necessary tariff increase for 2001 to 4.87% and to avoid any increase at all for low-usage customers.

## **Lamma Extension**

The approval granted in May 2000 by Government of our Financial Plan covering the period through to 2004, which includes the Lamma Power Station extension, is of great significance for our customers and our long term future. Our operational results this year lend support to the projections we made indicating that Hong Kong needs the additional 300 MW capacity of the extension's first phase to be operational in 2004 at the latest. As other parts of the world are experiencing, failure to add required capacity in a timely manner can greatly reduce reliability of supply while increasing the cost to the consumer, and sometimes causing major disruptions to business. The Group is totally committed to ensuring that Hong Kong's status as a major financial and service centre is fully supported by a reliable power system. The project has made a good start and sensible checks and balances have been agreed with Government to ensure that new generating capacity comes on stream in line with demand growth.

## **Overseas Business**

At the end of 1999, we successfully completed the acquisition of the electricity distribution assets of ETSA Utilities in the State of South Australia under a 200 year lease, in equal partnership with Cheung Kong Infrastructure Holdings Limited. In September 2000 we made a similar investment in the neighboring State of Victoria, jointly acquiring Powercor Australia Limited for A\$2,315 million.

Through these investments, we have acquired quality assets in an environment that promises steady revenue growth. The first year of operations in Australia has been very encouraging, and we are examining potential synergies between the neighboring ETSA and Powercor systems. Both businesses have demonstrated their potential to exceed our initial projections in the future.

In mainland China we have taken a US\$100 million pre-IPO stake in CNOOC Limited, which has recently listed in Hong Kong and New York. In addition, the Group has expanded its relationship with CNOOC and has been allocated, on terms to be agreed, a 3% equity interest in the planned Shenzhen liquefied natural gas terminal which will be a main gas supplier to our power station expansion.

## **Outlook**

The continuing economic recovery in Hong Kong, should translate into a further increase in unit sales of electricity in 2001 which will support steady revenue growth.

We will continue to actively examine suitable opportunities overseas and increase our emphasis on overseas investment, in order to capitalize on our proven technical expertise as well as our strong balance sheet, sound credit rating and robust cashflow.

I am confident that 2001 will be another step forward in the new era of overseas growth and that the Group's future prospects are excellent.

## **Personnel**

The Board accepted the resignation of Mr. Richard Li Tzar-kai during the year. On behalf of our directors and shareholders I would like to thank him for his valuable support and contribution. I would like to thank all Group employees for their continued loyalty and hard work which enabled the Group to make such an encouraging start to the new millennium.

**George C. Magnus**

Chairman

Hong Kong, 8th March 2001