

The Hongkong Electric Company, Limited
Ten-Year Scheme of Control Statement

(a) **Scheme of Control**

The activities of The Hongkong Electric Company, Limited ("HEC"), a wholly owned subsidiary of the Company, are subject to a Scheme of Control ("SOC") agreed with the Hong Kong Government. This Scheme of Control was renewed with effect from 1st January 1994 with revision effective from 1st January 1999, and is effective until 31st December 2008.

The Scheme provides for HEC to earn a permitted return of 13.5% of average net fixed assets plus 1.5% of average net fixed assets acquired after 1st January 1979 from the additional shareholders' investment as defined in the SOC Agreement. Any difference between this permitted return and the SOC net revenue of HEC must be transferred to or (from) a development fund from or (to) the Profit and Loss Account of HEC. In calculating this SOC net revenue, interest relating to the acquisition of fixed assets (whether it has been charged to revenue or capitalised) up to 8% per annum, is added to, and a tax adjustment is made against, profit after taxation. In addition 8% of the average balance of the development fund is transferred from the Profit and Loss Account of HEC to a rate reduction reserve.

In accordance with the renewed Scheme of Control Agreement effective 1st January 1994, HEC is required to retain revenue reserves equal to a SOC tax adjustment at historical tax rates. These reserves shall be retained within HEC until such time as it may be required to pay the tax.

(b) **Ten-Year Scheme of Control Statement for the Year Ended 31st December**

HK\$ Million	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
Sales of electricity	10,911	10,543	9,577	9,627	8,366	7,980	7,271	6,974	6,197	5,517
Less : Transfer to Fuel Clause Account	(740)	(801)	(745)	(623)	(479)	(449)	(458)	(512)	(402)	(332)
Other Scheme of Control revenue	59	54	64	62	66	86	60	61	51	49
Gross tariff revenue	10,230	9,796	8,896	9,066	7,953	7,617	6,873	6,523	5,846	5,234
Fuel costs	(917)	(823)	(842)	(973)	(1,036)	(1,034)	(965)	(878)	(892)	(894)
Operating costs	(848)	(845)	(798)	(755)	(742)	(711)	(899)	(813)	(804)	(755)
Interest	(359)	(590)	(648)	(778)	(436)	(424)	(241)	(282)	(240)	(221)
Depreciation	(1,572)	(1,448)	(1,348)	(1,382)	(1,152)	(1,070)	(845)	(817)	(943)	(801)
Net revenue before taxation	6,534	6,090	5,260	5,178	4,587	4,378	3,923	3,733	2,967	2,563
Scheme of Control taxation	(1,010)	(862)	(747)	(822)	(748)	(713)	(649)	(603)	(505)	(452)
Net revenue after taxation	5,524	5,228	4,513	4,356	3,839	3,665	3,274	3,130	2,462	2,111
Interest on borrowed capital	524	775	790	867	780	666	601	445	359	325
Interest on incremental customers' deposits	3	3	1	-	-	-	-	-	-	-
Scheme of Control net revenue	6,051	6,006	5,304	5,223	4,619	4,331	3,875	3,575	2,821	2,436
Transfer from/(to) Development Fund	111	(160)	251	(2)	218	82	6	(274)	27	76
Permitted return	6,162	5,846	5,555	5,221	4,837	4,413	3,881	3,301	2,848	2,512
Interest on borrowed capital	(524)	(775)	(790)	(867)	(780)	(666)	(601)	(445)	(359)	(325)
Interest on incremental customers' deposits	(3)	(3)	(1)	-	-	-	-	-	-	-
Transfer to rate reduction reserve	(15)	(14)	(17)	(27)	(36)	(48)	(51)	(40)	(31)	(35)
Net return	5,620	5,054	4,747	4,327	4,021	3,699	3,229	2,816	2,458	2,152