



BUSINESS REVIEW

► **Infrastructure Materials  
and Infrastructure-related  
Businesses**

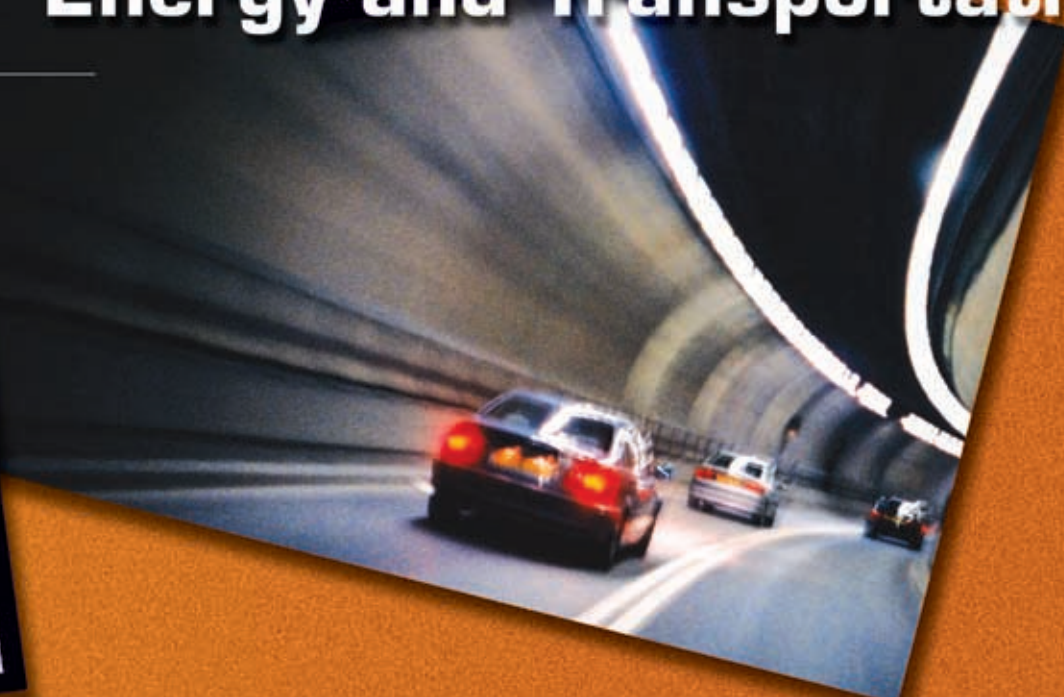




# Investment in Hongkong Electric



# Infrastructure Investments Energy and Transportation





Hongkong Electric has been a premium asset for CKI, providing reliable cash income and stable earnings over the years. It is one of the two electricity suppliers in Hong Kong, serving Hong Kong Island, Ap Lei Chau and Lamma Island. CKI currently holds a 38.87 per cent. stake in the company.



>> Hongkong Electric imports coal to its power station from diverse sources.

### Hongkong Electric

In 2002, Hongkong Electric reported a net profit of HK\$6,827 million, a 4.9 per cent. increase over 2001. The investment of the 38.87 per cent. stake in Hongkong Electric accounted for over 60 per cent. of CKI's profit contribution.

The strong growth and significant contribution were attributable to stable income from Hongkong Electric's domestic business under the Scheme of Control, as well as significant returns from its overseas investments in Australia, including the continued outstanding performance of ETSA Utilities and Powercor, and the immediate contribution from CitiPower upon completion of the acquisition in August 2002.

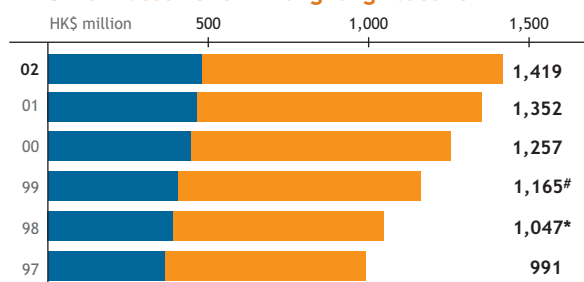


>> The turbine hall of Lamma Power Station



>> Bird's-eye view of  
Hongkong Electric

### Total Dividend Entitlement from CKI's Investment in Hongkong Electric



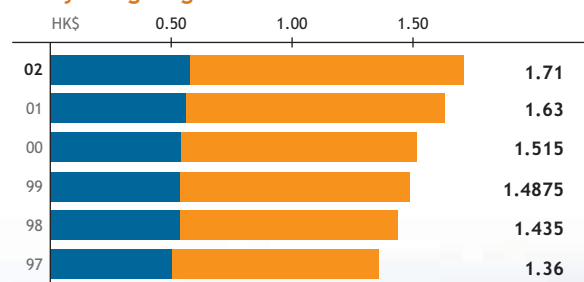
■ Interim Dividend Received

■ Final Dividend Proposed

<sup>#</sup> Interim and final dividends in form of scrip (FY99)

<sup>\*</sup> Final dividend in form of scrip (FY98)

### Dividends per Share Declared by Hongkong Electric



■ Interim Dividend Received

■ Final Dividend Proposed

In line with its prudent development policy, Hongkong Electric has deferred the commissioning of the Lamma extension project. As a responsible corporate citizen, the company has always been careful to adjust its development policy in line with domestic electricity demand growth. This policy enabled the company to freeze power tariffs in 2003. On the other hand, through improved productivity

and stringent cost control, Hongkong Electric has achieved significant savings in operating expenses and will continue to realise its objective of generating good investment returns for shareholders. During the year, the company continued to achieve a 99.999 per cent. level of reliability in power supply - the seventh consecutive year of attaining this exceptionally high standard for a power generation and distribution network serving customers in Hong Kong.

>> Hongkong Electric continued to achieve a 99.999 per cent. level of reliability in power supply.





**CKI's energy investments in both Australia and China have achieved significant milestones in the year 2002. In Australia, together with Hongkong Electric, CKI successfully completed the acquisition of CitiPower I Pty Ltd (CitiPower) in August 2002, which generated additional income upon completion of transaction. In China, the Zhuhai Power Plant has generated electricity in excess of the contractual minimum power purchasing quantity, achieving an excellent investment return for shareholders.**

## CitiPower

CitiPower is the electricity distributor serving 265,000 customers in the central business district and inner suburban areas of Melbourne, Victoria. CKI and Hongkong Electric acquired CitiPower for a consideration of A\$1,418 million. Upon completion of the transaction, Standard & Poor's upgraded CitiPower's credit rating to "A-" from "BBB+" with "Stable" outlook.

Following the earlier acquisitions of Powercor in Victoria, and ETSA Utilities in South Australia, CKI, in partnership with Hongkong Electric, has a total power investment of approximately A\$7 billion in Australia and serves a total of 1.65 million customers. This makes CKI/Hongkong Electric the largest electricity distributor and one of the biggest overseas investors in Australia.

In February 2003, CitiPower successfully completed an A\$675 million refinancing programme in tenors of four, seven and 10 years via the domestic capital markets.

>> About 18,000 new customer connections were made by Powercor in 2002.





>> CitiPower is the electricity distributor serving the central business district and inner suburban area of Melbourne, Victoria.

### Powercor

Strong housing growth in the State of Victoria contributed to an enlarged customer base and increased power demand for Powercor. About 18,000 new customer connections were made in 2002, representing organic growth of 3 per cent. Additional profits were generated from January to May as a result

of fulfilling the one-year transitional services to the purchaser of Powercor's retail business.

Powercor has provided an outstanding power distribution service in Victoria in terms of reliability, productivity and customer services, and it is a low risk and high yield investment for CKI.

## ETSA Utilities

ETSA Utilities is CKI/Hongkong Electric's first power investment in Australia. The privatisation of South Australia's power industry gave CKI the opportunity to establish a presence in Australia's electricity distribution business back in 2000. ETSA Utilities serves the entire State of South Australia with ownership of over 90 per cent. of the state's power distribution network. It is a secure and premium long-term investment for the Group.

## Envestra

CKI's investment in natural gas began with Envestra Limited, which it acquired in 1999. Envestra is the largest listed natural gas distributor in Australia, serving 900,000 customers nationwide and capturing approximately 30 per cent. of Australia's total gas consumption. While contributing to CKI a high cash yield of almost 11 per cent. p.a., Envestra is characterised by the low risk and steady income profile, features common to all CKI's regulated business investments.

In 2002, through Envestra's share purchasing programme, CKI maintained the largest shareholder position with a 19.14 per cent. stake, and an aggregate investment of A\$118 million.

## China Power

2002 was the first full year of operations for the Zhuhai Power Plant's 2 x 700MW coal-fired units. In addition to setting a record of "over 300 days of safe operations" in the Guangdong power network, the plant generated an amount of electricity in excess of the minimum purchase requirement of 6.8 billion kWh stipulated in the power off-take contract. The safe, reliable and efficient operation of the Zhuhai Power Plant is a key driving force behind the economic development in the Zhuhai City hinterland and the Pearl River Delta Region.



from top to bottom:

>> ETSA Utilities is CKI/Hongkong Electric's first power investment in Australia.

>> CKI currently owns a 19.14 per cent. stake in Envestra Limited.

>> CKI's cogen power plant investment in Siping, Jilin.



The Zhuhai Power Plant is CKI's largest power investment in the Mainland. Apart from being able to generate enough cash revenue to service the Japanese export credit and the syndicated commercial loans, the investment has provided shareholders with a high return and accounted for 9 per cent. of CKI's 2002 profit contribution.

CKI's other power projects in China also performed well, with all units operating safely and smoothly throughout the year. Power output from the Fushun Cogen Power Plants increased by 6.4 per cent. over 2001, while the Qinyang Power Plants' electricity generation was about 17 per cent. more than required under the contractual power off-take agreement. In addition, the Siping Cogen Power Plants was honored with several awards in recognition of its achievements in supplying clean and spare heat, a contributing factor for the improvement of air quality in Siping.

The Group's divestment programme for oil-fired power generating assets in China was completed with the disposal of the Shantou Power Plants in 2002.

>> The Zhuhai Power Plant is a key driving force behind the economic development in the Pearl River Delta Region.

