

Business Review



“In 2003, CKI’s overseas investments recorded an impressive performance. Profit contribution from the Group’s projects in Australia and Mainland China was HK\$1.6 billion, an increase of 27 per cent. over last year. This significant contribution generated from investments outside of Hong Kong helped alleviate the impact of Hongkong Electric’s rare decline in profit.

Benefiting from the fast paced economic development in Mainland China and Australia, our energy and transportation infrastructure investments achieved substantial organic growth. The strong growth of these investments managed to offset Hongkong Electric’s decline in profit and generated an 8 per cent. increase in profit before tax and a 1 per cent. increase in profit after tax attributable to shareholders. 2003 marked the eighth year of continued profit growth for the Group.

Hongkong Electric is CKI’s largest investment. During the year, Hongkong Electric’s profit was affected by a one-off tax provision due to a change in accounting policy, an increase in corporate tax and the outbreak of SARS. Profit generated by Hongkong Electric dropped 8.6 per cent., while Hongkong Electric’s profit contribution to CKI decreased by 11 per cent. Despite such challenges, CKI continued to report satisfactory profits, reflecting the Group’s portfolio of strong and solid investments.

Hongkong Electric is indeed a prime asset. It possesses the characteristics of a classic public utility, generating substantial steady income. It has brought reliable profit contributions to CKI year after year. As the negative factors that occurred in 2003 were mostly one-off incidences, Hongkong Electric will continue to be a solid and secure investment of the Group. It is anticipated that the performance of investments in Australia and Mainland China will continue to benefit from the thriving economies of both countries. Growth prospects for the future are bright.

Over the years, CKI has made investments in infrastructure projects in a number of places around the world and has developed into a major infrastructure player in the global arena. The Group has a solid foundation and a strong financial base. Looking forward, it is expected that the worldwide economy will brighten up and more investment opportunities will emerge. With cash on hand of HK\$7.2 billion and a low net debt to equity ratio of 18 per cent., CKI will proactively seek quality investment projects, and continue its course on the growth roadmap.”

H.L. Kam

Group Managing Director
Hong Kong, 9th March, 2004





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Investment in Hongkong Electric



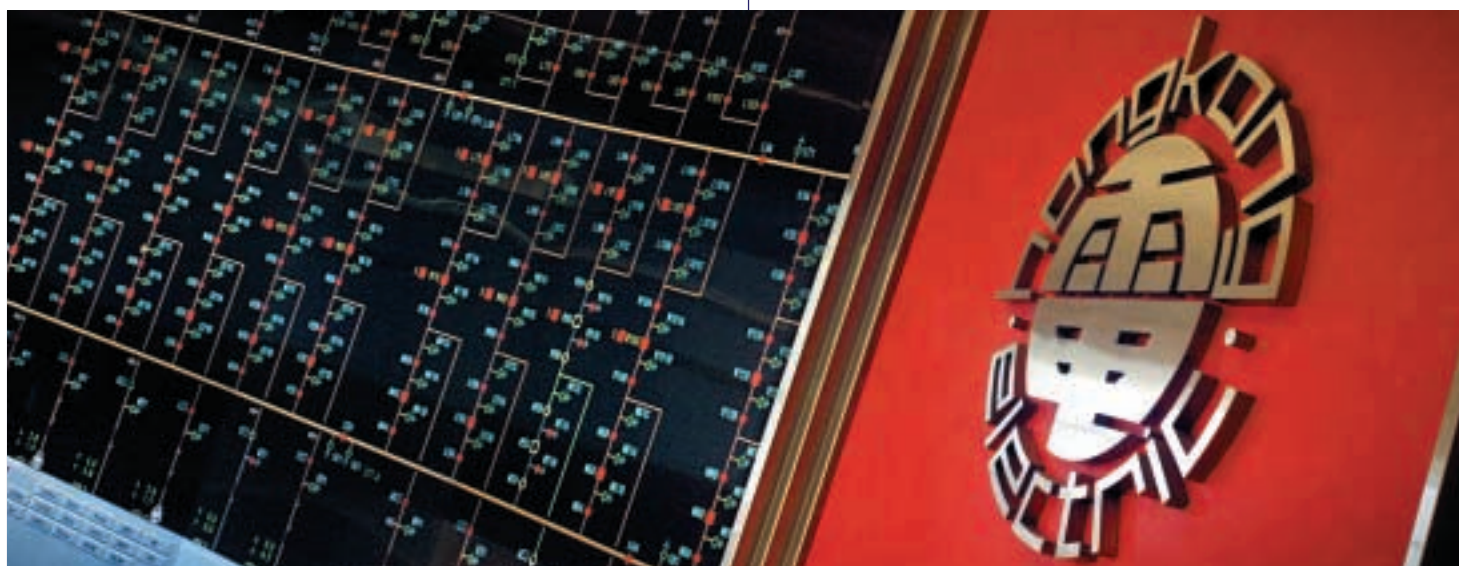
Hongkong Electric plays a major role in supplying reliable power to Hong Kong Island, Ap Lei Chau and Lamma Island. With a 38.87% interest in Hongkong Electric, CKI benefits from a stable income generated by the public utility year after year.

Investment in Hongkong Electric

the clock for the eighth consecutive year and achieved or surpassed all of its pledged service standards. In the process, it was able to control costs and improve productivity in an effort to maximise shareholder value.

The unexpected onset of the SARS epidemic had a major negative impact on Hong Kong's economy, local business, and the livelihood of the Company's customers, particularly those in the retail, restaurant, hotel and business services

The state-of-the-art Supervisory Control and Data Acquisition (SCADA) system at Ap Lei Chau uses some of the most advanced remote control and monitoring technologies to help Hongkong Electric maintain exceptional reliability around the clock.



Hongkong Electric reported a net profit of HK\$6,057 million in 2003, representing an 8.6% drop over 2002. The performance of Hongkong Electric was affected by a change in accounting rules relating to deferred tax, an increase in the corporate tax rate, as well as a soft domestic economy caused by the Severe Acute Respiratory Syndrome ("SARS") epidemic. Despite these factors, Hongkong Electric continued to generate a substantial profit contribution of 58% for the Group in 2003.

Hong Kong Operations

Hongkong Electric performed steadily in 2003 despite a challenging year for its core business of generating, transmitting and distributing power to Hong Kong Island, Ap Lei Chau and Lamma Island. Hongkong Electric maintained the exceptionally high reliability rating of 99.999% around

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Regular inspection of turbine generators is a part of Hongkong Electric's continuous, preventive maintenance schedule. This constant attention to detail underpins Hongkong Electric's impressive 99.999% reliability rating.

sectors. As a result, consumption of electricity declined during the SARS period and unit sales were only 0.4% above that of 2002. Low consumption growth was the major contributing factor to the Company's inability to earn its full Permitted Return for 2003 in accordance with the provisions of the Scheme of Control.

The other significant factor affecting earnings in 2003 was an increase in tax charges and provisions resulting from the introduction of the new Statement of Standard Accounting Practice on Income Taxes and an increase in tax rate. This resulted in a HK\$94 million increase in current tax and a non-cash accounting item for a one-off provision for deferred tax of HK\$431 million.

Work on the extension of the Lamma Power Station continued in 2003. Site formation work and piling for the first 300 MW power unit was substantially completed, although commissioning will be deferred by one year to 2006 because of less than expected maximum demand growth.

Overseas Operations

Hongkong Electric's Australian operations continued to register strong financial growth in 2003. The contribution to the Group from ETSA Utilities, Powercor and CitiPower – all owned in equal partnership with CKI – increased by 30% over last year.



(above) With total installed capacity of 3,305 MW, Lamma Power Station provides clean, reliable energy to Hongkong Electric's many customers.

(right) Lamma Power Station at night showing important environmental protection facilities: ash silos (foreground) and boilers fitted with low NOx burners (background).

(below) Hong Kong's spectacular nightview is powered by Hongkong Electric, the sole electricity supplier on Hong Kong Island.







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Infrastructure Investments – Energy



CKI has a strong portfolio of infrastructure investments in the energy sector.

Providing solid and steady cash flow from their predominantly regulated returns, these investments have proven to be secure sources of profit contribution for the Group. CKI, together with Hongkong Electric, is one of the biggest overseas investors in Australia with a portfolio worth over HK\$40 billion, serving over 2.5 million customers and employing over 2,600 staff. The Group has also invested HK\$3 billion in China's rapidly growing power sector.

Infrastructure Investments – Energy

Australia Energy

CitiPower I Pty Limited

CitiPower was jointly acquired by CKI and Hongkong Electric in 2002 and is engaged in the operation of the electricity distribution network in the central business district and inner suburban areas of Melbourne. CitiPower, which serves over 270,000 customers, is the most reliable power distribution network in Australia with a reliability rating of 99.994%.



Regular power line maintenance ensures optimal performance for ETSA Utilities, the sole electricity distributor for South Australia.

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CitiPower is the most reliable power distribution network in Australia with a reliability rating of 99.994%.

2003 represented CitiPower's first full year of ownership under CKI and Hongkong Electric. The company has recorded a strong financial performance with a 2% growth in electricity consumption, and 9% growth in network revenue as well as continued improvements in productivity.

ETSA Utilities

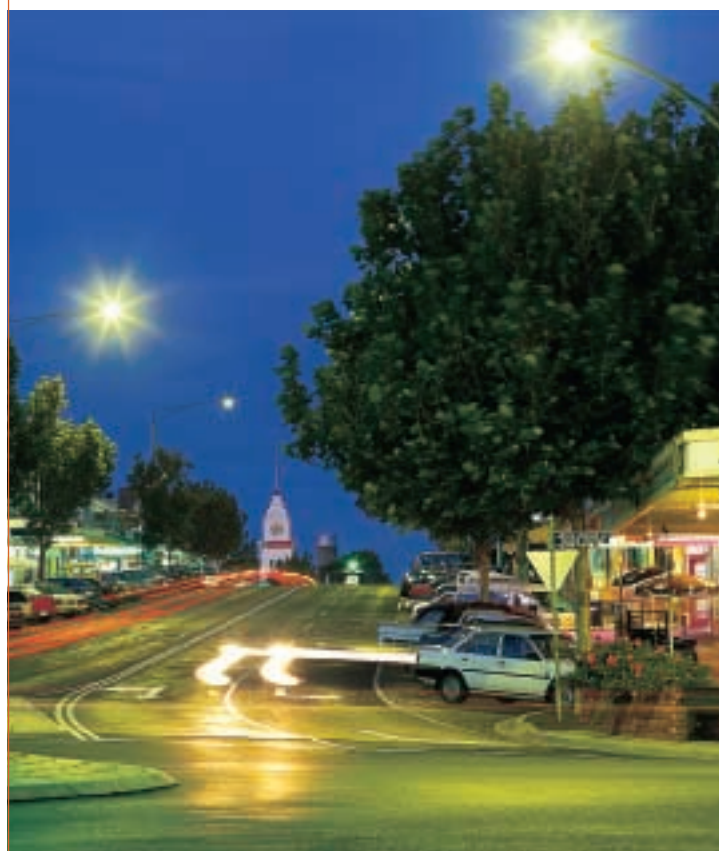
ETSA Utilities has been jointly owned by CKI and Hongkong Electric since 2000 and has proven to be a secure and premium investment. As the sole electricity distributor in the state of South Australia with a customer base of over 760,000 users, ETSA Utilities has recorded another year of solid financial and operational performance in 2003.

Powercor Australia Limited

Powercor was acquired by CKI and Hongkong Electric in 2000 and is the largest electricity distributor in the state of Victoria. With a network that reaches approximately 65% of the state and serving over 620,000 customers, Powercor has established itself as a secure and high yield investment for the Group.

2003 marked a year of continued growth for Powercor as strong growth in the real estate and housing sector in Victoria boosted demand. 16,000 new customer connections as well as a best-ever achievement in supply reliability were recorded during the year.

Powercor lights up around 65% of Victoria, providing reliable electricity supply to over 620,000 customers.





Envestra serves the natural gas needs of over 900,000 consumers in every Australian state except Western Australia through an extensive gas distribution network.

Envestra Limited

CKI has held a 19% stake in Envestra, the largest listed natural gas distributor in Australia, since 1999. With a natural gas distribution network that spans over 18,000 kilometres and over 1,110 kilometres of transmission pipelines, Envestra serves over 900,000 consumers across all states except Western Australia; this accounts for 30% of Australia's total gas consumption.

In 2003, CKI's fifth year of investment, Envestra continued to generate an attractive cash yield, amounting to approximately 11% p.a.

China Power

The Group's China power investment portfolio comprises assets that generate over 1,900 MW in gross capacity. In 2003, these investments performed well, delivered considerable cash inflow and generated satisfactory profits for CKI.

CKI holds a 45% stake in the Zhuhai Power Station, which consists of two 700 MW coal-fired units. 2003 represented a year of strong growth for the operations and a new electricity generation record of 8.6 billion kWh was set. This exceeded the minimum purchase requirement stipulated in the power off-take contract of 6.8 billion kWh by 27%. The plant also achieved an excellent safety record of over 200 days of safe operation. The safe, reliable and efficient operation of the Zhuhai Power Plant plays a contributing role in the economic development in Zhuhai City and the Pearl River Delta region.

The Group also holds a 45% stake in the Siping Cogen Power Project, comprising three generator sets totalling 200 MW. This project supplies reliable power to the Jilin power grid in northeastern China and operated accident-free for a consecutive period of 1,208 days as of December 31, 2003. The Qinyang Power Plants, of which CKI has a 49% stake, performed well in 2003. During the year, the equivalent of 6,512 full load operating hours was generated; this represented 18.4% more than the annual minimum capacity of the off-take contract. At the Fushun Cogen Power Plants in Liaoning, a marginal drop of 4% in power generation was recorded, while total heat sold during the year posted an 8.5% growth though the winter of 2003 was unusually warm.

Zhuhai Power Plant, CKI's largest energy investment in China, performed strongly in 2003 and enjoyed an excellent safety record.

