

always

**ON**for **Hong Kong**

Thousands of residents and tourists were thrilled nightly by "A Symphony of Lights", a spectacular choreographed light and sound show that illuminated 18 major buildings on Hong Kong Island using power supplied by Hongkong Electric.







# power

A 24-hour city, Hong Kong depends on reliable, uninterrupted power from Hongkong Electric to help maintain its position as a leading financial and commercial centre.

# Business Review

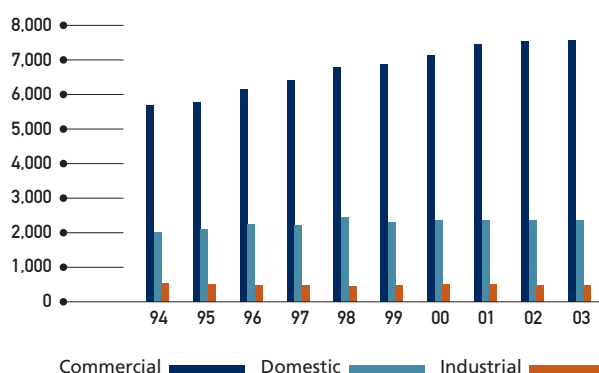
## Generation

The Generation Division of Hongkong Electric met or exceeded its targets in 2003 to achieve excellent reliability, reductions in costs and headcount, increases in productivity, and performance levels in



We reached a milestone with the 1,000th coal vessel unloading its supply at Lamma Power Station.

Units Sold 1994-2003 (millions of kWh)



safety and environmental management that exceeded international standards.

With 3,420 MW of total installed capacity, the Lamma Power Station generated electricity reliably throughout 2003 to maintain Hong Kong's standing as a world-class city. During the peak load season reliability was 100%, a clear indication that the Reliability Assurance Scheme instituted by the Operations Department in 2002 continues to reap benefits.

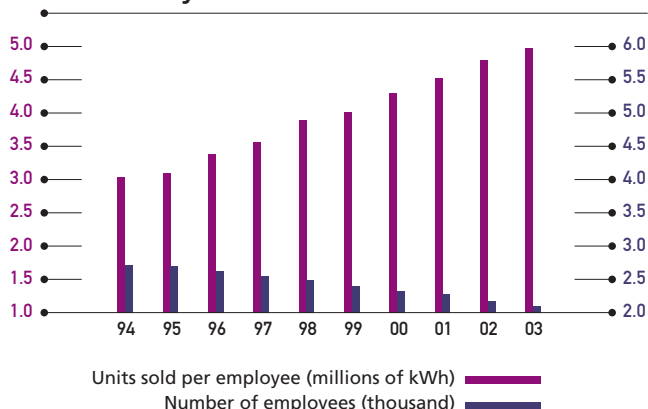
Site formation work and piling for the first 300 MW power unit was substantially completed at the Lamma Power Station extension. However, the commissioning of this first unit will be deferred by one year to 2006 due to the lower than expected maximum demand growth.

The Company was successful in securing the necessary supply of high grade coal to meet our generation requirements. Over 4.1 million metric tonnes were consumed in 2003 and a milestone was celebrated when the 1,000th coal vessel was unloaded at Lamma Power Station. Despite a very challenging market due to strikes, mine explosions and heavy freight demand, the coal cost was maintained at the same level as the previous year. The recent increases in coal price and the tight freight market are forecast to continue into 2004, so the situation is being monitored closely.

The Plant Ownership Scheme, which seeks to empower staff by making them responsible for plant performance, was doubled in 2003 to 18 plant areas. This Scheme has enabled us to further improve reliability of our equipment, reduce operational and maintenance costs and develop our staff.

A number of refurbishment and maintenance projects were undertaken in 2003 to enhance the reliability and productivity of our operations. In particular, we have been able to identify and rectify potential problems in a timely fashion, leading to significant cost savings.

Productivity 1994-2003



Each new customer increases the demand for reliable electricity, which is why the Company continuously enhances the transmission and distribution system.

live



## Business Review

### Transmission and Distribution

Maintaining a reliable transmission and distribution network is vital to Hong Kong's continuing growth and prosperity. In 2003, the Transmission and Distribution Division (T&D) set a record for supply reliability, achieving in excess of 99.999% for the eighth consecutive year.

The SARS outbreak in the spring had a devastating effect on our customers, with the greatest impact felt in the retail, restaurant, hotel and business services sectors. Consequently, the increase in sales for 2003 was only 0.4% above that of 2002. Commercial sales accounted for 72.8% of the 10,418 Million kWh of electricity sold, while domestic sales represented 22.7% and industrial sales registered 4.5%.



New cable, the lifeline of our transmission network being laid as part of a continuous effort to reinforce the system and cater for new demand.

### Meeting Customer Demand with Enhanced Supply

Making sure supply stays ahead of demand is a fundamental responsibility of T&D. In 2003, the Company continued to review and improve the transmission and distribution system to meet customer demand. Major transmission projects included the commissioning of the Wong Chuk Hang 132 kV Switching Station and 132/22/11 kV Zone Substation and Cyberport 275/22 kV Zone Substation.

The distribution system, which transports electricity to our customers' homes and businesses, went through similar improvements in 2003. 63 new distribution substations were commissioned, bringing the total number of distribution substations in service to 3,531. During the year, 42.0 km of 22 kV cable, 107.1 km of 11 kV cable and 53.6 km of LV cable were laid to reinforce the system and cater to new supply.

### Maintaining Quality Management

T&D has eight quality management systems in place covering everything from safety to reliability to meter reading. All were awarded ISO 9001 certification from the Hong Kong Quality Assurance Agency. In 2002, two systems were converted to the latest 2000 version and last year the remaining six were successfully converted. This demonstrates our ongoing commitment to maintaining the highest standards of quality and performance.

### Taking a Proactive Approach in 2004

We will continue to take a proactive approach by exercising tight austerity measures and prudent management of our valuable resources. Supply reliability, safety, quality and customer service will remain our focus. To improve reliability and operational safety even further, a comprehensive Loss Prevention and Reliability Review will be launched in 2004.

## Business Review



Our customers can conduct an energy survey of their office or home on our website, enabling them to make more efficient use of electricity.

### Customer Service

Hongkong Electric understands the paramount importance of reliability as one of Hong Kong's pre-eminent providers of dedicated customer services. In 2003, the Company made further strides in raising its service standards even higher.

Advanced communications and Internet technology continued to be a focus area, underscoring the importance of connecting with our customers quickly and efficiently. A new Service Call System in the Customers Emergency Services Centre was introduced with new features and enhancements to improve operational efficiency.

An "Office Electricity Advisor" was introduced on the Company website. Commercial customers can now conduct an energy survey of their office on the Internet to estimate their monthly and annual electricity consumption. At the same time, the "Home Electricity Advisor" was revamped and upgraded for our residential customers.

In response to the adverse impact of SARS, the Company implemented a loan scheme in May to benefit customers who were worst affected by the outbreak. These customers were able to secure a loan guaranteed by us to cover up to three months of electricity charges, giving access to financing at very attractive terms.

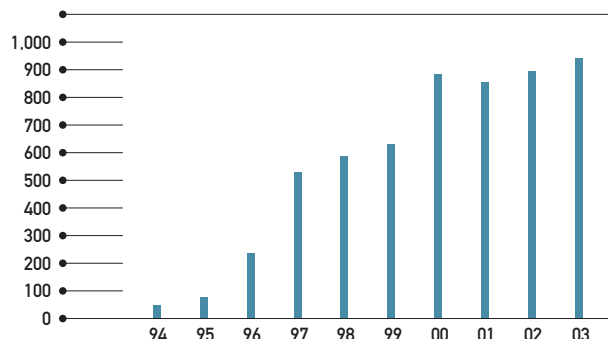
### Raising the Bar for Quality

Hongkong Electric became the first utility in Hong Kong to obtain ISO 9001 certification covering the life cycle of customer account management. This marked another milestone in our pursuit of quality customer service.

During 2003, all of our pledged Customer Service Standards were achieved or surpassed. A new service pledge was added: "Site investigation for power quality enquiries within three working days." Also, the Customer Service Standard on the timely setting of inspection appointments was enhanced with the additional pledge to provide the service within two working days.

Once again, our diligent efforts have been recognised by our customers. The Company received a record number of 939 unsolicited commendations in 2003.

**Written Commendation Statistics 1994-2003**



play

Hongkong Electric demonstrates its reliability for the community every day, including at important events. When Real Madrid played an exhibition match at Hong Kong Stadium, a T&D team was on hand as usual to make sure the players remained in the spotlight.





# work



One of our technicians carrying out a regular inspection of a Turbine Generator, as part of the Company's continuous, preventive maintenance schedule. This constant attention to detail underpins our impressive record of 99.999% supply reliability.

## Business Review



Our dedicated employees work tirelessly day and night to provide the highest standards of customer service.

### Our People

Our dedicated employees are a major asset, and we support them by providing regular training and a safe work environment.

### Coping with SARS

Last year, the unexpected onset of SARS made the health of our staff and contractors an urgent concern for the Company. A plan of coordinated precautionary measures was implemented to guard against the spread of the disease and ensure the continuity of Hong Kong's electricity supply. Generation and T&D Divisions each set up SARS Contingency Committees to monitor the situation daily. For added protection various departments segregated critical workteams, increased cleaning frequency and stepped up cleaning procedures, and supplied face masks to all staff. Thankfully, SARS was weathered without serious incident.

### "Safety First"

The Company's "Safety First" culture was fully in evidence during 2003, with continued achievements, awards and an excellent safety record. We also catered for the safety of our contractors and the public while performing our duties.

For the seventh consecutive year, the Company won the annual Occupational Safety & Health Quiz jointly organised by the Occupational Safety & Health Council and the Labour Department. A Silver Award for Safety Technological Achievement in the 2003 Occupational Safety & Health Award Competition was also won.

Last year, a paper on the Company's policies and strategies relating to workplace health and safety was presented at the Safety & Health Expo 2003, an international conference for safety professionals from around the world. New legislative requirements were also complied with by assessing the health and safety of staff who work with display screen equipment.

### Improving our talent base

Training and career development continued to be a priority for Hongkong Electric in 2003, with Generation and T&D Divisions spending over 75,000 and 11,750 man-hours respectively in these areas. Through seminars, workshops and on-the-job training exercises, we were able to improve our talented people and raise our levels of performance.

### Staff activities

In 2003, our staff continued to participate in many social, recreational and community activities, including a variety of inter-company and inter-departmental sports competitions. A new event was the Hongkong Electric Cup 2003, a fun competition among staff which included a talent contest.

With the Company's encouragement, staff participated in fund-raising activities for charity organisations such as The Community Chest, East China Flood Appeal, Green Power, Oxfam and the Hong Kong AIDS Foundation.

A photograph of a person wearing a bright yellow raincoat, standing in the rain with their arms outstretched and mouth open, enjoying the weather. The background is a dense, green, textured surface, possibly a wall or a large plant. The word "green" is written in a bold, red, sans-serif font on the left side of the image. The word "on" is written in a large, white, pixelated font in the center of the image.

green

on

Hongkong Electric is a responsible and environmentally-conscious group, and in 2003 minimised the consumption of raw water by reusing over 120,000 m<sup>3</sup> of wastewater and collecting rainwater.

## Business Review

### Corporate Citizenship

As one of Hong Kong's leading companies and one that plays a vital role in the daily lives of our city's people, Hongkong Electric is always conscious of its responsibilities to the community and to the environment.

### Rigorous Environmental Protection

In 2003, Hongkong Electric continued to invest in environmental protection measures to minimise the impact on the environment. We are proud to report no environmental incidences during the year and the Lamma Environmental Management System and T&D Environmental Management System passed their second audit review since being established in 2001.

Three environmental management programmes were successfully completed in 2003 – re-using more than 120,000 m<sup>3</sup> of wastewater and collected rainwater to reduce the consumption of mains water; using over 200,000 tonnes of ash for site formation works at our Lamma Power Station Extension; and presenting an environmental seminar to 34 contractors.

### Demand Side Management Initiative

Demand Side Management, a 3-year initiative in partnership with the Government, was concluded in

2003. It helped to influence the level and timing of demand for electricity by consumers, leading to a cleaner and healthier environment. Among the Company's achievements last year, rebate programmes to consumers were offered, an Energy Efficiency Education Kit for primary schools was produced, and radio and TV announcements on energy efficiency and conservation were aired.

### Promoting a Green Message

Hongkong Electric launched a "Smart Power Campaign" in October to promote energy efficiency among secondary school students. With the slogan "Smart Power begins at schools", the campaign included a series of roving exhibitions, an Open Day at the Lamma Power Station, school visits by Company engineers and technical staff, and distribution of 80,000 calendars with energy conservation tips.

In 2003, the Company continued as the title sponsor of "Clean Up the World in Hong Kong Campaign" organised by Green Power, and won three major prizes in our first Solar Cart Race. We were also a major sponsor of the First International Conference on Energy Efficiency and Conservation looking at various energy efficiency and conservation issues, as well as how to achieve sustainable development through energy management.

### Community Outreach

Serving the community is a role Hongkong Electric embraces each year. The Community Chest's Award of Distinction was received for our support of "Corporate and Employee Contribution Programme", "Walks for Millions", "Dress Casual Day" and other activities. Company volunteers also carried out inspection and repair of electrical installations for the elderly as part of our community service. For the second year running, the Company received the Caring Company Award from the Hong Kong Council of Social Service in recognition of our community involvement.

Once again, The Hongkong Electric Centenary Trust provided financial assistance to secondary school students and the elderly. In 2003, 170 more scholarships worth HK\$340,000 were awarded and around HK\$500,000 was distributed to organisations providing services to the elderly.

The Company won the Utilities/Transport Trophy for the fourth consecutive year in Pedal Kart 2003, and also the best design award with our 'Fun Kart' in the form of a moving flower basket. Over HK\$214,000 was raised for charity securing for the Company the overall sponsorship trophy for the fourth consecutive year.



The Company is a caring corporate citizen and reaches out to the community with many activities that include educational trips for school children.

## Business Review



Powercor Australia is making a strong contribution to the Group as Victoria's largest electricity distributor.

### International Investments

By taking a prudent approach to overseas investment, Hongkong Electric Holdings Limited (HEH) endeavours to identify business opportunities that offer a high degree of earnings predictability at acceptable levels of risk. Power generation, transmission and distribution are our key areas of focus.

#### ETSA Utilities, Australia

ETSA Utilities is the sole electricity distributor in the State of South Australia. It was acquired in December 1999 in equal partnership with Cheung Kong Infrastructure Holdings Limited (CKI).

2003 was another year of solid financial and operational performance for ETSA. EBITDA of A\$432 million was achieved, which was 7% higher than in 2002. This was a very satisfactory result given the lower than expected throughput caused by a sharp increase in tariffs necessitated by rising power pool prices.

ETSA's supply reliability level for 2003 improved over the previous year and its safety performance was exceptional.

#### Powercor Australia Limited

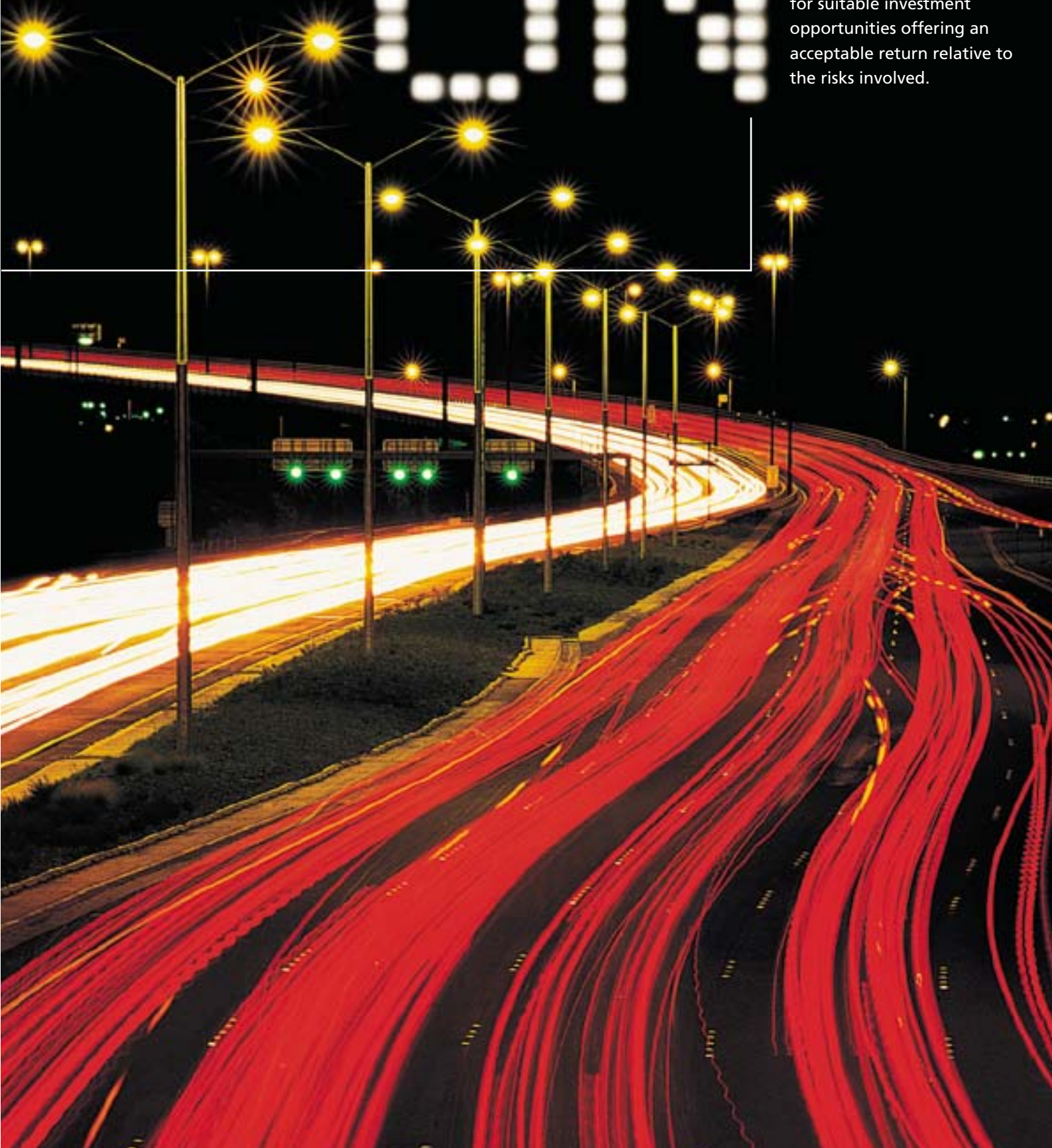
Powercor Australia is the State of Victoria's largest electricity distributor, with a network covering around 65% of the State and 620,000 premises. It is also jointly owned by HEH and CKI, having been acquired in September 2000.

Powercor continued to perform strongly in 2003 with EBITDA at A\$364 million. 16,000 new customer connections were made and a best-ever result in supply reliability was recorded. There were also significant improvements in productivity gained through synergies with ETSA and CitiPower.

Powercor received two prestigious awards in 2003: the Best Specific Environmental Initiative category of the United Nations of Australia World Environment Day Awards and the Australian Maintenance Engineering Excellence Awards 2003.

# venture

Hongkong Electric International Limited, the Company's international investment arm, supports the ongoing worldwide search for suitable investment opportunities offering an acceptable return relative to the risks involved.





## Business Review

### CitiPower I Pty Ltd, Australia

CitiPower is the most reliable distribution network in Australia, delivering electricity to around 270,000 premises across Melbourne's densely populated central business district and inner suburbs.

CitiPower registered strong financial performance in 2003, the first full year of ownership under HEH and CKI. EBITDA was A\$190 million, reflecting 2.5% growth in electricity consumption, 9% growth in network revenue, and continued improvements in productivity.

In addition to CitiPower's exceptional reliability record, the Company achieved industry leading levels in health and safety performance.

### Ratchaburi Power Company Limited, Thailand

HEH has a 25% interest in Ratchaburi Power Company (formerly Union Power Development Company, Limited), which plans to build and operate a 1,400 MW gas-fired combined cycle power station in Thailand. Under a Power Purchase Agreement, the Electricity Generating Authority of Thailand is obligated to acquire the entire output of the power station for 25 years.

All documents on development conditions were finalised and signed at the end of February 2004. The first 700 MW plant is scheduled to be commissioned in 2008.

### Associated Technical Services Limited

Associated Technical Services Limited (ATS) is a wholly-owned subsidiary of HEH specialising in a full range of professional consultancy and engineering services in Hong Kong and overseas. In 2003, two new consultancy projects in Vietnam and Thailand were secured and a new line of business was started in Hong Kong to inspect high voltage electrical installations. With the continual revival of the Hong Kong economy and growing power demands in ASEAN countries, more business opportunities in 2004 are expected.

**The Melbourne Symphony Orchestra lights up the Melbourne Concert Hall with the help of CitiPower, the most reliable distribution network in Australia.**

