

Always on for Hong Kong

As certain as Christmas comes in December, Hongkong Electric is always there with reliable electric power that brings light to children's eyes and brightens the city's spirits.





Planning, always.

Planning ahead for uninterrupted fuel supply, a barge lays the new pipeline to carry environmentally friendly natural gas from Shenzhen to Lamma Island for future LNG-powered turbines.



Business Review

Generation

Improving quality, productivity and reliability were key objectives of the Generation Division of Hongkong Electric in 2004. We also continued to reduce costs and exceed international standards for safety and environmental management. We are pleased to report that we met or exceeded our targets during the year.

Hong Kong's position as a world-class city is very much dependent on its ability to generate reliable electricity 24 hours a day. Reliability of the generating units at Lamma Power Station is key to achieving this, and reliability during the critical peak load season was 100%, reflecting a committed and diligent workforce together with the requisite long-term planning.

Securing affordable coal to meet our generation requirements was a significant challenge in 2004 due to volatile coal and freight markets. The average price of coal increased significantly over 2003, although the Company was insulated from the full effect of this increase by virtue of several longer-term supply contracts secured at favourable prices. During 2004, over 4.2 million metric tonnes of coal were consumed. The tight coal and freight markets are anticipated to continue into 2005.

An alternative to coal is natural gas. In April 2004, a long-term contract was entered into for the supply of natural gas to fuel our future power units at Lamma Power Station. The first delivery of gas is targeted for mid-2006. It will be transported to Lamma via a 93 km submarine gas-pipeline from the Guangdong LNG Terminal, which is presently under construction in Shenzhen. The contract for the supply and installation of the pipeline was awarded in May 2004, and pipe-laying work will commence in early 2005. In addition, the contract for the supply and installation of the gas receiving station at Lamma was awarded in December 2004.

Another alternative to coal is wind power. In 2004, we took a first step towards the use of this new source of renewable energy in Hong Kong



Employing the latest methods of laying underwater cable, in this case across the East Lamma Channel to Cyberport, is all part of our engineering planning to meet our customers' needs.

when the contract for the supply of an 800 kW wind turbine on Lamma Island was awarded. The commissioning target is early 2006.

Progress on the Lamma Power Station Extension continued smoothly. The piling works was completed and the superstructure works commenced in March 2004, and the construction of the Main Station Building and the 275 kV Switching Station are both on schedule. The commissioning of Unit L9, which is a 300 MW class gas-fired combined-cycle unit, is targeted for mid 2006. This will enhance our current total installed capacity of 3,420 MW and help us to meet increasing demand, as seen during this summer when we recorded a new system maximum demand of 2,588 MW, an increase of 6.1% over 2003. As Unit L9 will run as a base-load unit, this will help to reduce emissions by reducing reliance on the coal plants.

The Generation Division was reorganized in 2004 to reduce employee cost. Headcount in general continued to fall due to natural wastage, while trainees were recruited at all levels to maintain our core competencies.

The Plant Ownership Scheme, which seeks to empower staff by making them responsible for plant performance, was increased by five in 2004 to 23 plant areas. Through the Scheme we are able to further improve reliability of our equipment and reduce operation and maintenance costs.

Significant cost savings were made in 2004 by enhancing the reliability and productivity of our operations through ongoing refurbishment and maintenance projects.

Solutions, always.

We always believe that where possible overhead electric cables should not mar the landscape, so we build tunnels like this to make sure supply is reliable as well as being out of sight.



Business Review

Transmission and Distribution

2004 was a very successful year for the Transmission and Distribution Division (T&D). We achieved or surpassed world-class service standards and performance indicators, while enhancing reliability, power quality, productivity, health, safety, and environmental protection. Most importantly, we surpassed our pledged service standard for supply reliability, achieving in excess of 99.999%, a record that has been maintained continuously since 1997.

With the adverse effects of SARS behind us and a recovering economy in 2004, sales for the year increased by 1.7% over 2003. Of the 10,593 Million kWh of electricity sold, commercial sales made up 73.5%, domestic sales represented 22.0% and industrial sales were 4.5%. In terms of productivity, our operating cost per kWh reached its lowest level in ten years.

Enhancing Our World-Class Supply Network

Maintaining a reliable transmission and distribution network is vital to Hong Kong's continuing growth and prosperity. In 2004, we continued to review, improve and refurbish the transmission and distribution system to meet customer demand. Proactive measures have also been taken to guard against the major blackouts that have occurred in other parts of the world. 10 circuits of 132 kV cable were overlaid and commissioned, and we commissioned 47 new 11 kV distribution substations, bringing the total number of distribution substations to 3,570. We also laid 15.5 km of 22 kV cable, 44.5 km of 11 kV cable, and 36.6 km of LV cable for new supply and system reinforcement.

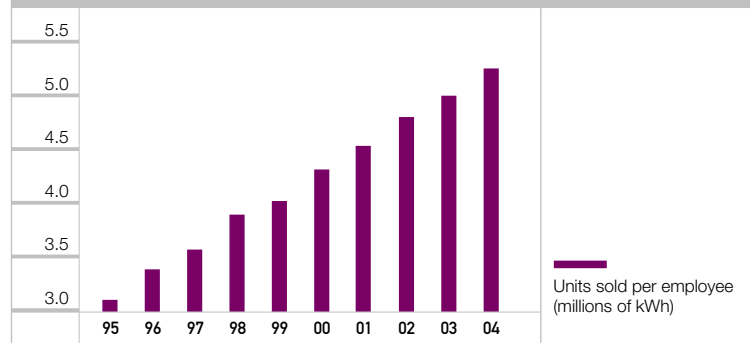
Excellent Power Quality Performance

Ensuring exceptional power quality performance is also a critical aspect of electricity supply. In 2004, we continued to monitor LV voltage dips caused by HV faults and compile statistics to reflect and monitor the power quality performance of the Company in terms of system frequency, supply voltage regulation and voltage dips. We achieved excellent results in 2004.

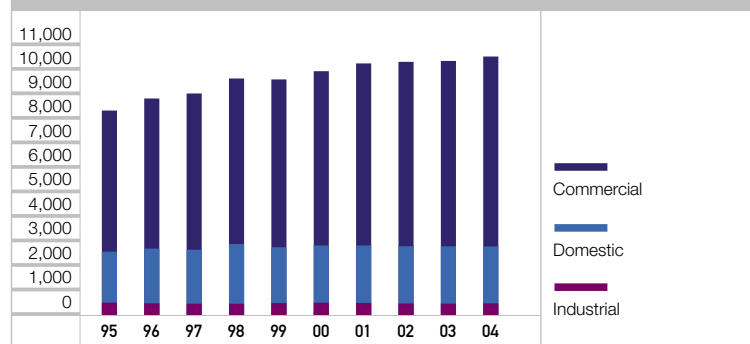
Loss Prevention and Reliability Review

As pledged in 2003, T&D launched a comprehensive Loss Prevention and Reliability Review in 2004 to improve reliability and operational safety yet further. Sixteen work groups were formed to conduct a review on various parts of the transmission and distribution systems, including checking compliance with the relevant standards, codes and practices. A total of 147 recommendations were made to further improve the system and they are being implemented according to priority.

Productivity 1995-2004



Units Sold 1995-2004 (millions of kWh)



Supporting, always.

You are never too young to learn about energy and its conservation. That is why we launched “smart” school projects to put young consumers in the picture.



Business Review

Customer Service

As a customer-focused and service-oriented company, Hongkong Electric is dedicated to providing high quality services for our customers. During 2004, we continued our mission to serve our customers with courtesy and integrity, and successfully implemented a number of new service initiatives. First and foremost, we achieved or surpassed all of our pledged Customer Service Standards in 2004, while upgrading two and expanding one. Our actual results often exceeded the service standard, as demonstrated by our emergency services - the average arrival time, for example, to an urban area in response to an emergency call was only 19 minutes, far better than our service pledge of "less than 28 minutes"; the average waiting time for telephone calls to our Customer Emergency Services Centre was only 3 seconds, well below our service target of "less than 9 seconds".

From July 2004, we extended the service hours of our Customer Centre and Call Centre to Sundays (except festival Sundays) to provide maximum convenience for our customers.

For the fourth consecutive year, we achieved a record number of unsolicited commendations from customers, with a total of 979 in 2004. This reflected a high level of customer satisfaction.

A Web of Success

Being able to communicate quickly and efficiently with our customers is of great importance to the Company. One vital channel is our corporate website, which continues to be enhanced and upgraded for the benefit of our customers.

In July 2004, a programme to revamp the website commenced to improve the design and enrich the content. In the meantime, we introduced helpful sections to enhance the scope of our web services

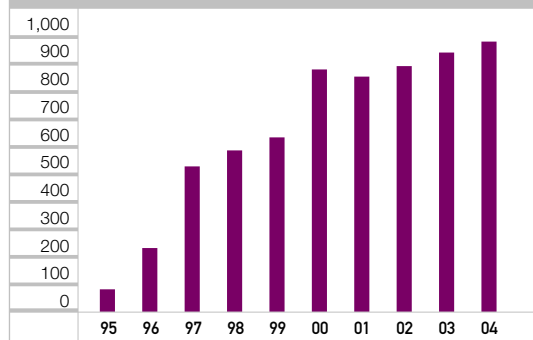
such as "Moving Guide", "Setting Up Business in Hong Kong" and a "Buying Guide for Domestic Electrical Appliances".

In recognition of our care for the visually impaired, we again received a Web Care Award from the Internet Professionals Association. We won in this very demanding category due to the ease of access to our site and its user-friendly features.



Our customer service people take great pride in the way we achieve or surpass our pledged service standards.

Written Commendation Statistics 1995-2004



Initiative, always.

Reducing emissions is an ongoing project. Here the desulphurisation plant “scrubs” sulphur, which reduces emissions and improves the environment.



Business Review

Training Our People

As a reliable provider of power to Hong Kong, Hongkong Electric relies on the power of its people. Our employees are undoubtedly the brightest lights in our electricity infrastructure. The Company in turn continuously supports our people so they can do their jobs efficiently and safely.

Training is an essential part of both operational efficiency and career development. The Company continues to invest in its people by organising training seminars, workshops and on-the-job training exercises in such areas as quality control, safety and computing skills. In 2004, Generation and T&D dedicated more than 60,900 and 16,600 man-hours respectively in training to improve our talent base.

A Craft Apprentice (Electrical) was selected by the Vocational Training Council as one of the ten outstanding craft apprentices of Hong Kong in 2004. He was awarded a free experience-exchange tour to Shanghai in April 2005. This is the second consecutive year our staff have received such an award.

A "Safety First" Culture

In 2004, the Company posted an excellent safety record. Training, safety promotion and rigorous supervision help to improve safety performance. We also conducted various risk assessments on a regular basis and reviewed all Job Safety Analyses over the last two years.

In preparation for the use of natural gas in the Lamma Extension, a Natural Gas Safety Team was set up in April 2004. Various policies and procedures were drafted and training plans have been prepared.

The Company participated in several safety quizzes and health and safety award competitions. We won the Silver Award in the first-ever Beijing-Hong Kong Safety Quiz 2004; we earned the Plate Champion and 2nd Runner-up honours in the annual Occupational Safety & Health Quiz; and we were

also awarded a Gold Award for Safety Promotion and a Silver Award for Safety Technological Achievement in the prestigious 2004 Occupational Safety & Health Award Competition. This is the 6th consecutive year that we have won prestigious awards in this competition.

Staff Activities

From The Community Chest's Walks for Millions, to Oxfam's Trailwalker, to the Asia Tsunami Disaster Appeal, our staff continued to participate in many fund-raising events with the Company's encouragement and support. A number of social and recreational activities filled the calendar, including a variety of inter-hong and inter-departmental sports competitions.

The Company won the Utilities / Transport Trophy for the fifth consecutive year in the 24-hour Hong Kong Grand Prix Round Table Pedal 2004, as well as trophies for the Formula 2000 Division and Most Reliable Kart. Over HK\$230,000 was raised for charity, which is a Company record for this event.



Hongkong Electric karters came first in both events - Pedal Kart 2004's Transport & Utilities Division and the 5th Solar Cart Race's Advanced Team Division.

Involved, always.

Our Hongkong Electric volunteers take pride in contributing to the community by helping others in their homes.



Business Review

Corporate Citizenship

Being a responsible and caring corporate citizen is a role Hongkong Electric embraces with commitment and enthusiasm.

Protecting the Environment

Hongkong Electric is constantly vigilant in upholding its responsibility to protect and preserve the environment of Hong Kong. We have made and continue to make substantial investments to minimise any impact our operations may have on the environment.

In 2004, the Lamma Power Station continued to improve its environmental performance through the implementation of the Lamma Environmental Management System. Some of our achievements included re-using over 130,000 m³ of wastewater and collected rainwater to reduce the consumption of mains water, and re-using about 36,000 litres of retired oil as a substitute for new lubricating oil.

The Company's long tradition of environmental responsibility was recognised by the Pacific Basin Economic Council (PBEC) in June when the Company received a PBEC Environmental Award, the first time that an electricity utility in the region has been honoured. The Award commends our unique approach to eco-efficiency and sustainable development.

Green Power and a Green Message

One of the most exciting developments in 2004 was receiving the go-ahead for Hong Kong's first commercial-scale wind turbine, which reaffirms the Company's commitment to developing renewable energy. Located on Lamma Island, the 800 kW wind turbine is expected to generate 1 GWh of electricity a year once it is commissioned in early 2006. We will also set up an education corner at the site to promote public understanding of wind power and other forms of renewable energy.

Launched in 2003 to promote energy efficiency among secondary school students, our "Smart Power Campaign" continued to spread its influence in 2004 with a Creativity Award Competition aimed at recognising interesting and educational ideas to improve energy efficiency. More than 1,700 submissions from secondary school students were

received. Building on the success of the Campaign in 2004, we plan a new round of Smart Power activities in 2005 targeting primary school students.

Hongkong Electric has been a keen supporter of green activities. We continued to be the title sponsor of the annual "Clean Up the World in Hong Kong Campaign" organised by Green Power. More than 100 staff and their families gathered to clean Aberdeen Country Park.

Caring for the Community

The Company helped to raise or donate millions of dollars to community, environmental and professional bodies in 2004. We received The Community Chest's President's Award for our support of "Corporate and Employee Contribution Programme", "Walks for Millions", "Dress Casual Day" and other activities.

The Hongkong Electric Volunteers, a group of over 600 employees led by a very active Steering Committee, boosted their community service in 2004 through two major programmes to benefit the elderly. One provided monthly electrical inspections for elderly families to check and replace any sub-standard wirings, plugs and sockets. The other programme was jointly organised with the Christian Family Service Centre to promote the use of music therapy to benefit the mental and physical health of the elderly.

Celebrating its 15th year of giving, The Hongkong Electric Centenary Trust once again provided financial assistance to secondary school students and the elderly. In 2004, we awarded 170 scholarships worth HK\$340,000 and dispersed over HK\$420,000 to organisations providing services to the elderly. We continued to receive the Caring Company Award from the Hong Kong Council of Social Service in recognition of our community involvement.



Our staff always show great care for the environment. More than 100 HEC staff and their families volunteered to clean up the Aberdeen Country Park.

Investing, always.

Prudent investment opportunities overseas, like our stake in the North of England Gas Distribution Network, are part of our ongoing diversification plans.



Business Review



Powercor Australia Limited is the State of Victoria's largest electricity distributor.

International Investments

Hongkong Electric Holdings Limited (HEH) seeks prudent overseas investment opportunities that offer a high degree of earnings predictability at acceptable levels of risk. In order to capitalise on our technical expertise, we focus on the areas of power generation, transmission and distribution.

North of England Gas Distribution Network

In December 2004, HEH entered into an agreement with Cheung Kong Infrastructure Holdings Ltd. (CKI) to acquire a 19.9% stake in the North of England Gas Distribution Network (NEG). Serving a total population of 6.7 million, NEG is one of the eight major gas distribution networks in the United Kingdom. Its network extends south from the Scottish border to South Yorkshire, containing a mixture of large cities (Newcastle, Middlesbrough and Leeds) and a significant rural area. It comprises approximately 36,000 km of distribution gas mains, with a total gas demand of 94 TWh.

By acquiring a stake in NEG, we are able to extend our successful partnership with CKI to the United Kingdom. Also we are confident that this acquisition can provide a platform from which we can make further investments in Europe.

ETSA Utilities, Australia

ETSA Utilities is the sole electricity distributor in the State of South Australia, serving over 765,000 customers. It was acquired in January 2000 in equal partnership with CKI.

ETSA achieved excellent financial and operational performance in 2004 with EBITDA of A\$444 million. The business exceeded key financial and customer service targets, maintained its outstanding safety performance and continued to improve on key employee commitment measures. Importantly, supply reliability improved over the previous year.

Powercor Australia Limited

Powercor Australia is the State of Victoria's largest electricity distributor, with a network covering around 66% of the State and over 637,000 premises. It is also jointly owned by HEH and CKI, having been acquired in September 2000.

Powercor's financial performance for 2004 was very strong with EBITDA of A\$400 million. That represented 10% growth for the second consecutive year. This strong performance was achieved through a combination of strong customer and revenue growth, growth in non-electricity revenue, and the ongoing focus on improving productivity within the business.

Business Review



ETSA plays its part in making Adelaide sparkle.

Over 17,000 new customer connections were made in 2004 and we recorded our best-ever result in supply reliability, which was 58% better than the regulatory target. Customer satisfaction reached a 6-year high.

CitiPower I Pty Ltd, Australia

CitiPower has been jointly owned by HEH and CKI since 2002. Last year, it continued to be the most reliable distribution network in Australia, delivering electricity to around 280,000 premises across Melbourne's densely populated central business district and inner suburbs.

2004 was another year of strong financial performance for CitiPower, with EBITDA at A\$176 million.

In terms of customer service, CitiPower recorded its best-ever result for supply reliability, which was 41% better than the regulatory target.

Ratchaburi Power Company Limited, Thailand

As the largest foreign shareholder, HEH has a 25% interest in the Ratchaburi Power Company, which is contracted to build and operate a 1,400 MW

gas-fired power plant 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.

The shareholding arrangements in the consortium were finalised in February 2004. Financing is progressing and the project is on schedule for commissioning in 2008.

Associated Technical Services Limited (ATS)

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 2004, we secured three new overseas consultancy projects in Libya, the Philippines and Thailand, and secured six projects in Hong Kong.

The glowing spire above Melbourne's Arts Centre reflects Australia's most reliable distribution network, CitiPower, another Hongkong Electric international investment.

