## INVESTMENT IN

# Hongkong Electric

CKI holds a 38.87% interest in Hongkong Electric, the sole electricity supplier for over 550,000 customers on Hong Kong Island and Lamma Island. Generating a stable cash income year after year, Hongkong Electric is one of the Group's prime investments.



Hongkong Electric's flue gas desulphurisation plants reduce sulphur dioxide emissions to the environment.



## INVESTMENT IN

# Hongkong Electric



A barge lays a new Hongkong Electric pipeline to carry natural gas from Shenzhen to Lamma Island for future gas-fired turbines.

Hongkong Electric reported a net profit of HK\$6,280 million in 2004, representing a growth of 3.7% over last year. This investment continued to be a major source of profit contribution for CKI.

### Hong Kong Operations

In 2004, Hongkong Electric recorded a year of solid performance in its core business of generating, transmitting and distributing power to Hong Kong Island and Lamma Island. A new system maximum demand of 2,588 MW was recorded, representing a 6.1% increase over 2003. Since 1997, an exceptionally high reliability rating of 99.999% has been maintained, while all of its pledged service standards, especially on the environmental front, were surpassed.

Hongkong Electric's performance was impacted by unforeseen increases in operating costs fuelled by volatile coal and freight markets, a substantial increase in Government rates, as well as a tariff freeze in 2004, resulting in the local business earning less than the permitted return specified in the Scheme of Control Agreement.

Satisfactory progress continues to be made on the target commissioning in 2006 of the new L9 unit at Lamma Power Station. The piling work for the first 300 MW power unit was completed and superstructure works commenced in March 2004. Work on the Main Station Building and the 275 kV Switching Station is on schedule and the manufacture



With total installed capacity of 3,420 MW, Lamma Power Station provides clean, reliable energy to Hongkong Electric's many customers.

of the power block equipment is in progress. Hongkong Electric's land application for a pilot wind turbine site on Lamma Island was approved in November 2004. The contract for the supply of an 800 kW wind turbine was awarded the following month to meet a commissioning target of early 2006. This initiative is an ongoing effort of Hongkong Electric to explore the use of renewable energy in Hong Kong.



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

#### **Overseas Operations**

The Australian operations of Hongkong Electric continued to record robust growth in 2004. Profit contributions from ETSA Utilities, Powercor and CitiPower, all owned in equal partnership with CKI, registered a strong year-on-year growth of over 40%. Strong financial performance was achieved through a combination of customer growth, increased consumption, growth in non-electricity revenue and productivity improvements within and across the businesses. These investments have also benefited from the strengthening of the Australian dollar and the one-off reduction in deferred tax liability reported by Powercor under Australia's new tax consolidation rules.

The arrangements for the development of a 1,400 MW gas-fired power plant in Thailand were finalised in February 2004, with Hongkong Electric being the largest foreign shareholder with a 25% interest in the project. Financing is progressing and the project is on schedule for commissioning in 2008.

During the year, Hongkong Electric has expanded into a new energy market – gas distribution in the United Kingdom – through the acquisition of a 19.9% stake in the North of England Gas Distribution Network. The transaction is due to be completed in mid-2005.

## INFRASTRUCTURE INVESTMENTS

# Energy

CKI has built a strong portfolio of infrastructure investments in the energy sector. Primarily regulated assets, these investments have generated a steady cash flow and attractive returns for the Group. Together with Hongkong Electric, CKI is now one of the biggest overseas investors in Australia with a power and transportation portfolio totaling close to HK\$50 billion. In Mainland China, the Group has invested more than HK\$3 billion in energy projects. In 2004, CKI also extended its energy investments into gas distribution in the United Kingdom.





Zhuhai Power Plant performed strongly in 2004 and reported an excellent safety record.



### **INFRASTRUCTURE INVESTMENTS**

# Energy



The glowing spire above Melbourne's Arts Centre reflects Australia's most dependable power distribution network – CitiPower.

### **Australian Energy**

#### **CitiPower I Pty Limited**

Jointly acquired by CKI and Hongkong Electric in 2002, CitiPower is engaged in the distribution of electricity in the central business district and inner suburban areas of Melbourne. Serving over 270,000 premises, CitiPower is the most reliable power distribution network in Australia, achieving a record reliability rating of 99.996% in 2004.

### **ETSA** Utilities

Jointly owned by CKI and Hongkong Electric since 2000, ETSA Utilities has proven to be a quality investment that continues to generate secure returns to the Group. Serving a customer base of 760,000 users, ETSA Utilities is the sole electricity distributor in the state of South Australia.

#### **Powercor Australia Limited**

Acquired in 2000 by CKI and Hongkong Electric, Powercor is the largest electricity distributor in the state of Victoria. Powercor serves approximately 65% of the state with over 630,000 customers. The company achieved its best supply performance ever during the year, as measured by minutes without supply.

Under Australia's new tax consolidation rules, Powercor revised the tax cost base of its assets and substantially reduced the deferred tax liability. This resulted in a oneoff credit to the income tax expense in 2004. A secure and high yield investment for the Group, Powercor Profit contributions from ETSA Utilities, Powercor and CitiPower registered a strong year-on-year growth of over 40% in 2004.



recorded an exceptional performance and accounted for over half of the profit contribution from CKI's Australian energy investments in 2004.

### **Envestra Limited**

Envestra is the largest listed natural gas distributor in Australia with a network that spans over 18,500 kilometres. Serving 940,000 consumers, Envestra's network covers all states except Western Australia.

CKI has been a major investor of Envestra since 1999. Currently, the Group holds 17.53% of the company. This natural gas distributor continues to represent a stable, high yield investment, and generates cash returns of approximately 11% per annum.

### **China Power**

Generating over 1,900 MW in gross capacity, CKI's power investment portfolio in China continues to perform well and generate satisfactory profits.

The Group holds a 45% stake in the Zhuhai Power Plant, which comprises 2 x 700 MW power units. In 2004, the Zhuhai Power Plant recorded a stellar year as one of the most efficient and reliable coal-fired power generation plants in Guangdong Province. Sales of electricity reached a record high during the year, generating close to 9 billion kWh of electricity; this represents more than 30% over the annual minimum quantity stipulated in the power purchase contract. The feasibility report on two extension units for the Zhuhai Power Plant was approved by the National Development and Reform Commission in August 2004. The Group also holds a 45% stake in the Siping Cogen Power Plants, which consists of three generator sets of 200 MW in total capacity. Supplying reliable power to the Jilin power grid, the plant has operated safely without accident for a consecutive period of 1,575 days. The electricity generated exceeded the power purchase contract amount by 14.8% in 2004.

CKI has a 49% stake in the Qinyang Power Plants which increased its electricity tariff by 10% at the end of 2004. At the Fushun Cogen Power Plants in Liaoning, of which CKI holds a 60% stake, power generation increased by 16% over the previous year.

### **UK Gas**

In August 2004, CKI diversified into the United Kingdom's gas sector through the successful tendering of the North of England Gas Distribution Network, a project worth HK\$20 billion (GBP1.393 billion). It is one of the eight major gas distribution networks in the United Kingdom and serves a total population of 6.7 million. Upon financial closing, which is expected to take place in mid-2005, double-digit returns on equity and cash yields are expected to be booked from the premium asset. In addition, a one-off profit generated from the disposal of a 9.9% stake to two Australian funds will be included in the coming financial year. On completion of the transaction, CKI will hold a 40% in the asset.