



香港電燈集團有限公司
Hongkong Electric Holdings Ltd.

2003 ANNUAL RESULTS

CHAIRMAN'S MESSAGE

2003 was an extremely challenging year for our business in Hong Kong. The Severe Acute Respiratory Syndrome (SARS) epidemic had a major negative impact on Hong Kong's economy, our local business, and the livelihood of our customers and this resulted in much lower than expected unit sales growth. In addition, earnings were also adversely affected by an increase in tax charges due to an increase in tax rates and a substantial one-off provision for deferred tax. These adverse factors, neither of which was foreseen when it was decided to freeze tariffs for 2003, were partially offset by our continued success in controlling costs, and improving productivity; combined with strong growth in our Australian operations where increased sales and significant improvements in productivity resulted in earnings above expectations. For the eighth consecutive year we delivered on our core commitment to provide an efficient electricity supply which at 99.999% reliability is among the most reliable in the world.

Results

The Group's audited consolidated net profit after tax for the year ended 31st December 2003 was HK\$6,057 million (2002:HK\$6,624 million), including profits from the Group's overseas activities of HK\$437 million (2002:HK\$335 million).

Final Dividend

The Directors will recommend a final dividend of HK\$1.13 per share. This, together with the interim dividend of 58 cents per share, will give a total dividend of HK\$1.71 per share for the year (2002: HK\$1.71).

Hong Kong Operations

The outbreak of SARS in March seriously affected many of our customers, particularly those in the retail, restaurant, hotel and business services sectors. As economic activity stalled, consumption of electricity was naturally affected and normal levels of consumption were not resumed until July/August. As a result, maximum demand remained almost the same at 2,440 MW (2002: 2,436 MW), and unit sales of electricity for 2003 were only 0.4% above that of 2002, but below our forecast. Consequently, profits earned were below the permitted level specified in the Scheme of Control Agreement.

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 rates. This resulted in HK\$94 million more current tax and a one-off provision for deferred tax of HK\$431 million.

At the onset of the SARS epidemic, the Company took immediate precautions to protect the health and safety of our staff and contractors. A SARS Contingency Committee was set up and key employee groups were segregated into two teams to minimise the risk and impact of infection. We also introduced a Remote System Control Centre as a backup to ensure that electricity would continue to be despatched to customers in the most reliable and efficient manner.

Following a series of blackouts around the world causing major disruption and huge financial loss, the Company went to considerable lengths to understand their causes and to review our reliability practices in light of the findings. Against this backdrop, the Company remains fully committed to the provision of a world-class, reliable and cost-effective power supply to support the growth and vitality of Hong Kong.

Supply reliability of 99.999% in 2003 was achieved for the eighth consecutive year. Customers responded to this achievement and to our fulfillment of our 18 demanding service pledges by issuing a record number of unsolicited commendations.

As part of the Company's ongoing development of the transmission and distribution network, the first 22 kV distribution substation was commissioned at Cyberport in January and 63 new distribution substations were added, bringing the total number in service to 3,531.

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. As natural gas will be the fuel for the future power units, a long term gas supply contract was signed in Beijing in March 2003 for the supply of natural gas from the Guangdong LNG terminal.

The Company's safety performance in 2003 surpassed all previous records. At the end of the year, annual safety audits were conducted on the safety management system of both the Generation Division and Transmission and Distribution Division and both were found to be highly effective.

During the year, the Company carried forward its ongoing commitment to environmental responsibility. We increased our use of wastewater and rainwater to reduce our consumption of mains water. We have agreed with Government to build a 600kW wind turbine on Lamma Island, the first commercial scale wind turbine in Hong Kong. The project aims to explore the wider application of wind energy in Hong Kong. We launched a high-profile campaign to promote energy efficiency, targeting secondary school students.

The 2003 Interim Review of the Scheme of Control Agreement was conducted during the year with Government. While some minor changes were agreed, these will not have any material effect on the Company.

Overseas Business

Our operations in Australia continue to grow strongly. The contribution to the Group from ETSA Utilities, Powercor, and CitiPower (acquired in August 2002), all owned in equal partnership with Cheung Kong Infrastructure Holdings Limited, has increased by 30% over last year. We added to our customer base of over 1.6 million, which makes us the largest distributor of electricity in Australia in terms of customers.

Shareholders in Ratchaburi Power Company Limited (formerly Union Power Development Company), which has entered into a Power Purchase Agreement with the Thai Government to construct and operate a 1,400 MW power station, have endorsed the change of fuel from coal to gas. Formal approval to proceed was granted at the end of February 2004. Under the Power Purchase Agreement, the Electricity Generating Authority of Thailand is obligated to purchase the entire output of the power station for 25 years under a cost-matching tariff structure indexed to the U.S. dollar which offers a secure return. Following a reorganization of shareholdings, the Group will have a 25% interest in this project.

Associated Technical Services Limited, a wholly-owned subsidiary of Hongkong Electric Holdings Limited, secured two new consultancy projects in Vietnam and Thailand to complement ongoing projects in Australia, Philippines and Turkey.

Outlook

The difficult, depressing and unexpected circumstances of SARS in 2003 resulted in the Group reporting lower profits.

However, the current prospects for a more buoyant 2004 should help Hong Kong regain its footing on the path of sustained economic growth. The Group has shown its commitment to assisting in this recovery process by continuing to freeze basic tariff for 2004, and the Board considers this short term sacrifice to be in the long term interest of its shareholders. Increasing demand growth resulting from Hong Kong's economic recovery, combined with the restoration of the tariff adjustments allowed under the legally binding Scheme of Control Agreement should enable the Group to return to the path of solid profit growth in the years ahead. In addition, the recent substantial increase in coal prices and freight charges, where market prices have more than doubled, will have to be reflected in the tariff through the agreed fuel cost adjustment mechanism.

In Hong Kong, the Company continues to improve productivity and to re-assess all aspects of its operations in order that our customers will benefit from all possible cost savings. The Company also has sufficient flexibility within its capital expenditure programmes to ensure that its asset base expands only as necessary to match economic and market circumstances. This is in line with our obligation to provide reliable electricity to satisfy current and future demand at the lowest cost to the consumer compatible with the terms of the Scheme of Control Agreement with Government.

Profit diversification continues to be an important Group strategy, and the Group's strong financial position supports the ongoing worldwide search for suitable investment opportunities offering an acceptable return relative to the risks involved.

I wish to thank our Directors and employees for their dedication, cooperation and hard work. It is this ardent commitment that helps maintain the loyalty and confidence of both our customers and investors.

George C. Magnus

Chairman

Hong Kong, 4th March 2004

FINANCIAL REVIEW

Capital Expenditure, Liquidity, Financial Resources and Gearing Ratio

Capital expenditure during the year amounted to HK\$2,106 million, which was primarily funded by cash from operations. As at 31st December 2003, total external borrowings were HK\$13,599 million (2002 : HK\$16,354 million), comprising unsecured bank loans, unsecured deferred creditors and debt securities in issue. In addition, the Group has undrawn committed bank facilities of HK\$3,443 million (2002 : HK\$4,480 million). Gearing ratio (net debt/ shareholders' funds) at 31st December 2003 was 37% (2002 : 50%).

Treasury Policies, Financing Activities and Capital Structure

The Group continues to ensure that its businesses are financed from a variety of competitive sources and that committed facilities are available for refinancing and business growth. In addition, currency and interest risks are actively managed on a conservative basis.

No additional term financing was put in place during the year with the focus being refinancing of existing borrowings at more competitive terms. In June 2003, the Group, through its Australian subsidiary, secured an A\$700M 5-year dual currency loan facility to refinance a portion of the bank borrowings for its Australian electricity distribution business. Influenced by the pace of the capital expenditure programme in Hong Kong, the HK\$4.5 billion syndicated loan facility arranged in 2001 was replaced with a HK\$3 billion 5-year revolving credit facility in December 2003.

As at 31st December 2003, external borrowings of the Group amounted to HK\$13,599 million with the following profile, after taking into account currency and interest rate swaps:-

- (1) 50% was in Hong Kong dollars and 50% in Australian dollars;
- (2) 66% was bank loans, 27% was capital market instruments and 7% was suppliers' credits;
- (3) 20% was repayable within 1 year, 69% was repayable between 2 to 5 years and 11% was repayable beyond 5 years;
- (4) 88% was in fixed rate or capped rate and 12% was in floating rate.

It is the Group's treasury policy not to engage in speculative transactions. Foreign currency transaction exposure is managed in accordance with treasury guidelines, utilising forward contracts and interest rate and currency swaps. As at 31st December 2003, over 85% of the Group's transaction exposure was either hedged or denominated in Hong Kong or US dollars. Currency exposure arising from overseas investments is hedged by arranging comparable level of borrowings in the same currency as the underlying investments. The Group's policy is to maintain a substantial portion of its debt in fixed or capped rate. Interest rate risk is managed by either fixed or floating rate borrowings or by the use of interest rate swaps and caps. The contractual notional amounts of derivative instruments outstanding at 31st December 2003 amounted to HK\$21,394 million (2002 : HK\$18,358 million) equivalent.

Contingent Liabilities

As at 31st December 2003, the Company has issued performance guarantees and letters of awareness to banks in respect of banking facilities available to associates amounting to HK\$44 million (2002 : HK\$41 million).

The Company has given guarantees and counter indemnities in respect of bank and other borrowing facilities available to subsidiaries and financial commitments of subsidiaries totaling HK\$11,227 million (2002 : HK\$12,691 million) equivalent. Out of this amount, HK\$10,399 million, while being a contingent liability of the Company, is reflected in the Consolidated Balance Sheet of the Group.

During the year, a wholly owned subsidiary of the Company, The Hongkong Electric Company, Limited, has given guarantees to third parties in respect of a loan scheme for electricity charges of HK\$5 million and the value of leased equipment of HK\$210 million at expiry of the lease.

Employees

The Group continues its policy of pay by performance and market pay rates are monitored constantly to ensure competitiveness is maintained. The Group's total remuneration costs for the year ended 31st December 2003, excluding directors' emoluments, amounted to HK\$1,034 million (2002: HK\$1,098 million). As at 31st December 2003, the Group employed 2,117 (2002: 2,204) permanent staff. No share option scheme is in operation.

Apart from well-established training schemes for university graduates, trainee technicians and apprentices, the Group also provides training for staff in language, computer knowledge, and the latest technology relevant to our industry as well as numerous job-related courses to enhance other more general skills and knowledge of our employees.

HONGKONG ELECTRIC HOLDINGS LIMITED

AUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31ST DECEMBER 2003

| | Note | 2003 HK\$ million | 2002 HK\$ million restated |
|--|------|----------------------|----------------------------------|
| Turnover | | 11,250 | 11,605 |
| Direct costs | | (3,915) | (3,728) |
| | | 7,335 | 7,877 |
| Other revenue and net income | | 1,283 | 878 |
| Other operating costs | | (578) | (513) |
| Finance costs | | (646) | (565) |
| Operating profit | 2 | 7,394 | 7,677 |
| Share of results of associates | | 241 | 163 |
| Profit before taxation | | 7,635 | 7,840 |
| Income tax: | 3 | | |
| Current | | (1,092) | (971) |
| Deferred | | (619) | (233) |
| | | (1,711) | (1,204) |
| Profit after taxation | | 5,924 | 6,636 |
| Scheme of Control transfers From /(To): | | | |
| Development Fund | | 139 | (1) |
| Rate Reduction Reserve | | (6) | (11) |
| | | 133 | (12) |
| Profit attributable to shareholders | | | |
| Local activities | | 5,620 | 6,289 |
| Overseas activities | | 437 | 335 |
| Total | | 6,057 | 6,624 |
| Dividends : | | | |
| Interim dividend paid | | 1,238 | 1,238 |
| Proposed final dividend | | 2,412 | 2,412 |
| | | 3,650 | 3,650 |
| Earnings per share | 4 | \$2.84 | \$3.10 |
| Dividends per share | | \$1.71 | \$1.71 |

Notes:**(1) Segment Information****(a) Business Segments**

For the year ended 31st December

| (HK\$ million) | Sales of electricity | | Infrastructure Investments | | Unallocated & Other Items | | Consolidated | |
|-------------------------------------|----------------------|------------------|----------------------------|------------------|---------------------------|------------------|----------------|------------------|
| | 2003 | 2002 restated | 2003 | 2002 restated | 2003 | 2002 restated | 2003 | 2002 restated |
| Revenue | | | | | | | | |
| Group turnover | 11,199 | 11,555 | - | - | 51 | 50 | 11,250 | 11,605 |
| Other revenue | 374 | 21 | - | - | 112 | 248 | 486 | 269 |
| Segment revenue | 11,573 | 11,576 | - | - | 163 | 298 | 11,736 | 11,874 |
| Result | | | | | | | | |
| Segment result | 7,160 | 7,389 | - | - | 83 | 244 | 7,243 | 7,633 |
| Interest income | - | - | 783 | 605 | 14 | 4 | 797 | 609 |
| Finance costs | (195) | (196) | (451) | (369) | - | - | (646) | (565) |
| Operating profit | 6,965 | 7,193 | 332 | 236 | 97 | 248 | 7,394 | 7,677 |
| Share of results of associates | - | - | 239 | 158 | 2 | 5 | 241 | 163 |
| Profit before taxation | 6,965 | 7,193 | 571 | 394 | 99 | 253 | 7,635 | 7,840 |
| Income tax | (1,597) | (1,148) | (113) | (49) | (1) | (7) | (1,711) | (1,204) |
| Profit after taxation | 5,368 | 6,045 | 458 | 345 | 98 | 246 | 5,924 | 6,636 |
| Scheme of Control transfers | 133 | (12) | - | - | - | - | 133 | (12) |
| Profit attributable to shareholders | 5,501 | 6,033 | 458 | 345 | 98 | 246 | 6,057 | 6,624 |

(b) Geographical Segments

For the year ended 31st December

| (HK\$ million) | Hong Kong | | Australia | | Unallocated & Other Items | | Consolidated | |
|-------------------------------------|----------------|------------------|--------------|------------------|---------------------------|------------------|----------------|------------------|
| | 2003 | 2002 restated | 2003 | 2002 restated | 2003 | 2002 restated | 2003 | 2002 restated |
| Revenue | | | | | | | | |
| Group turnover | 11,239 | 11,583 | 2 | 3 | 9 | 19 | 11,250 | 11,605 |
| Other revenue | 485 | 267 | - | - | 1 | 2 | 486 | 269 |
| Segment revenue | 11,724 | 11,850 | 2 | 3 | 10 | 21 | 11,736 | 11,874 |
| Result | | | | | | | | |
| Segment result | 7,264 | 7,643 | 1 | 1 | (22) | (11) | 7,243 | 7,633 |
| Interest income | 14 | 4 | 783 | 605 | - | - | 797 | 609 |
| Finance costs | (195) | (196) | (451) | (369) | - | - | (646) | (565) |
| Operating profit | 7,083 | 7,451 | 333 | 237 | (22) | (11) | 7,394 | 7,677 |
| Share of results of associates | 2 | 5 | 239 | 158 | - | - | 241 | 163 |
| Profit before taxation | 7,085 | 7,456 | 572 | 395 | (22) | (11) | 7,635 | 7,840 |
| Income tax | (1,598) | (1,155) | (113) | (49) | - | - | (1,711) | (1,204) |
| Profit after taxation | 5,487 | 6,301 | 459 | 346 | (22) | (11) | 5,924 | 6,636 |
| Scheme of Control transfers | 133 | (12) | - | - | - | - | 133 | (12) |
| Profit attributable to shareholders | 5,620 | 6,289 | 459 | 346 | (22) | (11) | 6,057 | 6,624 |

(2) **Operating profit**

Operating profit is shown after charging/(crediting):

| | 2003 (HK\$ million) | 2002 (HK\$ million) |
|--|--------------------------------------|-------------------------------|
| Depreciation | 1,777 | 1,667 |
| Operating lease charges – equipment | 28 | - |
| Fixed assets written off | 34 | 27 |
| Net realised and unrealised gains on other investments carried at fair value | (44) | (229) |
| Net profit on disposal of fixed assets | (351) | - |

(3) **Income Tax**

| | 2003 (HK\$ million) | 2002 (HK\$ million) |
|--|--------------------------------------|-------------------------------|
| Current Tax – Provision for Hong Kong Profits Tax | | |
| The Company and its subsidiaries | 1,092 | 970 |
| Associates | - | 1 |
| | <u>1,092</u> | <u>971</u> |
| Deferred Tax | | |
| Origination and reversal of temporary differences | 75 | 184 |
| Effect of increase in tax rate on deferred tax balances at 1st January | 431 | - |
| | <u>506</u> | <u>184</u> |
| The Company and its subsidiaries – Hong Kong | 113 | 49 |
| Associates – overseas | - | - |
| | <u>619</u> | <u>233</u> |
| Total income tax expenses | <u><u>1,711</u></u> | <u><u>1,204</u></u> |

Hong Kong profits tax has been provided for at the rate of 17.5% (2002 : 16%) based on the assessable profit for the year. Overseas taxation has been provided for at the applicable rate on the estimated assessable profit.

- (4) The calculation of earnings per share is based on profit attributable to shareholders of HK\$6,057 million (2002 : HK\$6,624 million) and 2,134,261,654 shares in issue throughout the year (2002 : 2,134,261,654 shares).
- (5) Certain comparative figures have been reclassified to conform to the current year's presentation.
- (6) A detailed results announcement containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Exchange") will be published on both the Company's website (www.hec.com.hk) and the Exchange's website (www.hkex.com.hk) in due course.

Book Closure

The Register of Members will be closed from Thursday, 6th May 2004 to Thursday, 13th May 2004 both days inclusive. In order to qualify for the proposed final dividend, all transfers, accompanied by the relevant share certificates, should be lodged with the Registrars by 4:00 p.m. on Wednesday, 5th May 2004.