Chairman's Statement

"With our solid base and a global investment portfolio, we remain optimistic as we embark on our second year as Power Assets, notwithstanding the economic uncertainties in global markets."

Fok Kin Ning, Canning
Chairman

Investments outside Hong Kong Power Record Profits Despite Lower Earnings from Hong Kong

2011 marked our first year as Power Assets Holdings Limited. I am pleased to report that we have lived up to the new name, having benefitted from the increased focus of looking beyond Hong Kong to grow our business.

Despite the lower earnings from Hong Kong, we achieved record results in 2011 with earnings from operations outside Hong Kong surpassing those from Hong Kong for the first time. This outstanding financial performance was largely attributed to the decision we made more than a decade ago to begin actively investing in power and utility-related businesses globally in order to build an investment portfolio outside Hong Kong. Earnings from Hong Kong were lower in 2011. In addition we have not collected our full entitlement under the Scheme of Control Agreement as we have deferred passing on the full fuel costs to consumers.

Income from operations outside Hong Kong increased significantly in 2011 and provided the main thrust to the good growth in the Group's overall earnings. The excellent result in 2011 was bolstered by the first full-year of earnings contributions from the acquisitions we made in 2010 of a 40% interest in UK Power Networks Limited (UKPN) and a 25% interest in the Seabank Power Station (Seabank) both in the U.K.

Despite the uncertain global economic environment in 2011 and the volatile fuel prices and exchange rates experienced by utilities, we have benefitted from a solid foundation of regulated returns and strong cash flows from our operations, enabling us to weather the economic uncertainties and create value for our shareholders.

As our investments outside Hong Kong buoyed Power Assets, we remain steadfast in our commitment to provide reliable electricity to our home market in Hong Kong through our subsidiary, The Hongkong Electric Company, Limited (HK Electric), while helping to build a low carbon future for Hong Kong.

Results

The Group's audited profit for the year ended 31 December 2011 was HK$9,075 million (2010: HK$7,194 million), an increase of 26%. Earnings from operations outside Hong Kong were HK$4,563 million (2010: HK$2,535 million). The 80% growth was mainly attributable to full year earnings from the interests in UKPN and Seabank which were acquired in October and June 2010 respectively. Earnings from Hong Kong operations were HK$4,512 million (2010: HK$4,659 million), including earnings from HK Electric of HK$4,480 million (2010: HK$4,620 million). The lower HK Electric earnings were primarily due to higher interest expenses and a higher deferred tax adjustment reflecting the higher year end fuel clause recovery account balance.

Chairman's Statement

Dividends

The Directors will recommend a final dividend of HK$1.7 per share, payable on 7 June 2012 to those persons registered as shareholders on 31 May 2012. This, together with the interim dividend of HK$0.62 per share, will add up to a total dividend of HK$2.32 per share for the year (2010: HK$2.11 per share).

Operations outside Hong Kong

Power Assets currently has investments in mainland China, the United Kingdom, Australia, Thailand, Canada and New Zealand. These businesses all performed well in 2011 with UKPN reporting strong results for its first full year of operations.

The financial performance of UKPN, which supplies electricity to over eight million customers in London and the East and South East of England, was well ahead of expectations. Together with improved operational performance in a number of key areas, UKPN made significant progress in improving the performance of its networks and in minimising the impact of power interruptions. The company in 2011 invested over £550 million in its regulated networks, including the high and low voltage electricity distribution infrastructure for the London 2012 Olympic Park and other venues.

Seabank completed a major scheduled overhaul and lifetime extension of its two gas-fired combined-cycle gas turbine generating units without any lost time incidents or environmental incidents. Revenue for the year was ahead of forecast.

Northern Gas Networks recorded higher total revenue as a result of a gas transportation price increase from 1 April coupled with higher demand due to the cold winter weather, but partially offset by higher emergency and repair costs due to adverse weather conditions.

ETSA Utilities, which is the sole electricity distributor in the State of South Australia serving over 800,000 customers, met all key financial targets in 2011. Regulated revenues exceeded targets due to higher network tariffs as a result of the 2010-15 regulatory reset and appeal outcome.

CitiPower and Powercor in Australia continued to make stable earnings contribution. They achieved significant improvement in network reliability over 2010 and the number of customers increased 2% in 2011.

In mainland China, the 1,400 MW Zhuhai Plant and the 1,200 MW Jinwan Plant generated electricity at higher load factors due to warmer weather and electricity demand within the Guangdong province. Total power sales from the Zhuhai and Jinwan plants were respectively 11% and 7% higher, compared with 2010. The Zhuhai Plant continued to enjoy contractual returns, while the Jinwan Plant recorded satisfactory earnings with improved operating efficiency.

The Dali Wind Farm in Yunnan Province and Laoting Wind Farm in Hebei province operated smoothly in 2011 with total unit sales of 202 GWh of electricity, offsetting 194,000 tonnes of carbon emissions.

In Thailand, Ratchaburi Power Company Limited (RPCL) recorded a successful year for 2011. Both its power units achieved full availability required under a 25-year power purchase agreement with the Electricity Generating Authority of Thailand. RPCL's units also exceeded their production targets in thermal efficiency.

In New Zealand, Wellington Electricity Lines Limited's (WELL) network continued to perform reliably in 2011. Though the heavy snowfall in August had affected targeted reliability levels for the month, the network was restored promptly to minimise customer disruption.

In April 2011, Stanley Power completed the acquisition of the interests in the 220 MW Meridian Cogeneration gas fired plant in Saskatchewan which it did not already own. Electricity and steam from the Meridian plant is sold to SaskPower and Husky Energy respectively under contracts extending to 2024 and gas is supplied by Husky Energy. TransAlta Cogeneration LP, which holds interests in five power generation plants in Canada and in which Stanley Power has a 49.99% interest, performed well in 2011.

Operations in Hong Kong

At HK Electric, unit sales of electricity in 2011 remained substantially the same as that for 2010. Our customers continued to enjoy a world-class supply reliability rating of over 99.999%, a record we have maintained since 1997.

The Hong Kong Government and the local community are working toward a low carbon future and we are moving in step to help attain this goal. We support the Government's Climate Change Strategy and Action

Agenda to provide electricity with a clean and low carbon fuel mix by 2020. We consider the strategy an achievable target, provided there is a stable and proven regulatory framework under which to operate, enough time for planning and construction of the necessary infrastructure and a supportive government policy.

In support of a cleaner Hong Kong, we have continued to invest in facilities at the Lamma Power Station to lower emissions and to increase the use of renewable energy and cleaner fuels. Even though coal still remains the primary fuel source for the Lamma Power Station, we have been able to reduce emissions through the use of more low-sulphur coal together with lower coal consumption. Our coal consumption was lowered by 19% as compared with 2008 while our gas-fired generation units contributed 33% of total electricity supply in 2011. As compared with 2008, emissions of sulphur dioxide, nitrogen oxides and respirable suspended particulates in 2011 have fallen by 84%, 39% and 64% respectively.

Our renewable energy assets also performed well with Lamma Winds generating 868 MWh of electricity in 2011. Since commissioning in 2006, the wind turbine has offset more than 4,400 tonnes of carbon dioxide emissions. In its first full year of operation, the 550 kW thin-film photovoltaic (TFPV) solar power system installed on the building roofs of Lamma Power Station has generated 691 MWh of green electricity.

To increase our renewable energy portfolio in Hong Kong, plans are in the pipeline to install another 450 kW TFPV panels to expand the solar power system to 1 MW with work scheduled for completion in the latter half of 2012. A wind measurement programme is to commence soon for the 100 MW offshore wind farm project in the Southwest Lamma Channel.

We also expanded our transmission and distribution network and undertook various projects to enhance reliability. To protect stability in electricity supply, we further improved our reliability with advanced cable diagnostic systems to assess the condition of cables and joints for early detection of any weak components.

Against a backdrop of fluctuations in global energy prices, fuel costs continued to apply pressure on electricity tariffs. Both coal and natural gas prices continued to be at higher levels and this situation is expected to continue through 2012.

Our continuous efforts in environmental protection and management, and corporate social responsibility practices were recognised by various external organisations in 2011. In April, the Hong Kong Council of Social Services presented us with the Total Caring Award under the Caring Company Scheme, which recognises model corporate citizens that demonstrate all-round commitment to caring for the well-being of the community, employees and the environment. This was followed in December by the Gold Award presented by the Hong Kong Productivity Council under the Hong Kong Corporate Citizenship Programme. We also topped the list of 15 Hong Kong companies participating in the Carbon Disclosure Project while receiving numerous awards recognising our efforts and performance in customer services, health and safety and environmental protection.

Outlook

At Power Assets, the success of our strategy of growing the earnings base by investing outside Hong Kong has been reflected in the record Group results achieved in 2011.

With our solid base and a global investment portfolio, we remain optimistic as we embark on our second year as Power Assets, notwithstanding the economic uncertainties in global markets. We will continue to grow our earnings base outside Hong Kong, building on our strong foundations.

In Hong Kong, we expect fuel costs to continue to put pressure on tariffs. Going forward we will work with the government on its low carbon policy and in particular on the future fuel mix for electricity generation in Hong Kong.

I would like to thank the board of directors and all the Group's employees for their hard work and dedication that has contributed to our success in the past year.

Fok Kin Ning, Canning
Chairman
Hong Kong, 7 March 2012