Chairman's Statement

In 2013, Power Assets made key strategic moves in its business both in Hong Kong and abroad in order to enable the Group to focus on pursuing global opportunities for long-term growth in shareholder value. The most momentous of these is the spin-off and separate listing of its Hong Kong electricity business, which is operated by HK Electric, by way of the listing of the Share Stapled Units jointly issued by HK Electric Investments and HK Electric Investments Limited (collectively as "HKEI") on the Main Board of the Stock Exchange. After completion of the reorganisation in January 2014, the Group now holds 49.9% of HKEI.

Profits from operations outside Hong Kong increased 25%, primarily driven by a 40% growth in profit contribution from the UK, our largest international market. Hong Kong earnings were 3% above 2012.

We also made our first foray both into continental Europe and into a new technology area for the Group by participating in the acquisition in August of 'energy-from-waste' company, AVR-Afvalverwerking B.V. (AVR), in the Netherlands.

These key strategic moves have put Power Assets in a strong position to pursue our portfolio strategy of investing in and supporting robust and diverse assets in stable, well-regulated markets and sectors around the world that can deliver sustained value to our shareholders.

The Group is firmly committed to supporting the people and business community of Hong Kong. Our focus in this, our home market, will be to maintain and constantly improve upon HK Electric's track record of excellent value, reliability and customer services combined with ongoing investment in green and renewable energy.

During the year macro-economic conditions around the world remained uncertain. Nevertheless, Power Assets achieved steady growth in earnings, while extending our geographic reach. Earnings from our operations outside Hong Kong grew during this financial year to make up 57% of the Group's overall operating profit.

Results

The Group's 2013 audited profits attributable to shareholders increased by 15% to HK$11,165 million (2012: HK$9,729 million). Of these profits, HK$6,386 million (2012: HK$5,108 million) came from operations outside Hong Kong and HK$4,779 million (2012: HK$4,621 million) was generated by Hong Kong operations. Earnings per share have grown by 15% to HK$5.23 (2012: HK$4.56).

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Dividends

The Directors will recommend a final dividend of HK$1.90 per share, payable on 30 May 2014 to those persons registered as shareholders on 21 May 2014. This, together with the interim dividend of HK$0.65 per share, will add up to a total dividend of HK$2.55 per share for the year (2012: HK$2.45 per share).

Expanding our boundaries worldwide

For more than a decade, we have followed a proactive and rigorous approach to identify and evaluate suitable opportunities to grow our business in key markets around the world. An investment is made after careful consideration of micro- and macro-economic factors and a rigorous due diligence process. Thereafter, we require our operating companies to maintain strong leadership teams and systems to secure reliable operations and synergies across Group companies. These principles stood us in good stead in 2013. We achieved an increase in overall profits of 25% from our new as well as long-term operations outside Hong Kong.

Chairman's Statement

The acquisition in 2013 of AVR in the Netherlands marked our entry into two new spheres of operation: continental Europe and energy-from-waste technology. While this technology is new to Power Assets, AVR has used it for decades and successfully demonstrated its long-term viability. AVR has a robust business model with secure, long-term contracts in place for the sale of the energy, steam and heat it produces, as well as for the supply of materials required for its operations.

AVR is the largest energy-from-waste operator in the Netherlands, supplying sustainable energy through incineration of household and industrial waste. In 2013, it processed 1.7 million tonnes of waste of which 550,000 tonnes were imported from neighbouring countries including UK, Ireland, Italy, Belgium and Germany.

The Group's UK businesses delivered strong results in the year. In addition to higher revenues, earnings were bolstered by deferred tax credits arising from lowering of UK corporation tax rate from 23% for 2013 to 20% for 2015.

In 2013, the UK gas distribution sector began to operate under a new regulatory approach called Revenue = Incentives + Innovation + Outputs (RIIO). RIIO seeks to incentivise judicious investment and innovation to improve efficiency, and places great emphasis on enhanced environmental performance. RIIO will be extended to the electricity distribution sector in 2015. We welcome this new regulatory framework, which encourages innovation in order to achieve greater efficiency, and will deliver a sustainable energy network at greater value for money to the customers in the medium-to-long term.

Overall earnings from the Australian operations were higher than 2012 but their contributions in Hong Kong dollar terms have reduced due to the weakening of the Australian dollar. In November 2013, Transmission Operations Australia commenced operation to transmit electricity from a wind farm to the Victoria grid through a transmission link it built.

Our generation assets, the Zhuhai, Jinwan and Siping power plants have made good progress in the installation and upgrade of emissions reduction facilities for meeting the tighter emission standards effective 2014, while a generation plant in Canada was successful in securing a vital contract with Ontario Power Authority. Meanwhile, Ratchaburi Power in Thailand and the distribution network in New Zealand were taking precautionary measures against natural disasters to ensure smooth operations.

The Group is fully aware of currency and interest rate exposures that come with investments outside Hong Kong. We follow a prudent treasury policy to ensure that adequate financial resources are available for refinancing and business growth. As always, the Group maintains a strong financial position with funds available for strategic moves.

Hong Kong – A commitment to reliability and affordability

HK Electric recorded a 2.4% drop in unit sales of electricity in 2013 because of much milder than normal weather during the year. There were also three fewer working days in 2013 than in 2012 which was a leap year. Despite this, profits rose by 3.6% to HK$4,707 million (2012: HK$4,542 million) after excluding the one-off profit on disposal of four properties by HK Electric.

In January 2014, the spinning off of HK Electric was completed when HKEI was listed on the Hong Kong Stock Exchange and entered into a new era as an associate of the Group. Having served the community and powered the economic development in Hong Kong for over 120 years, HK Electric is committed to building on its heritage of supply reliability and customer services far into the future.

The mid-term review of the current Scheme of Control Agreement (SCA), which governs the operations of power companies in Hong Kong, took place during the year. HK Electric worked collaboratively with the Hong Kong Special Administrative Region (HKSAR) government throughout the process to identify ways of improving the effectiveness of the SCA, especially in the areas of energy efficiency and conservation.

During the year, HK Electric's 2014-2018 Development Plan was submitted to and approved by the HKSAR government. The Development Plan will underpin HK Electric's development activities and tariffs for the next five years and is based on prudent and pragmatic strategies. The Plan took into full consideration the interests of various stakeholders and is conducive to achieving the government's energy policy and environmental objectives.

HK Electric's net tariffs, which include basic tariffs and fuel clause charges, have been frozen at 2013 levels and barring unforeseen circumstances are expected to remain the same for another four years till 2018. A blanket freeze of the net tariff came into effect on 1 January 2014, meaning that there has been no change in the net tariff for the company's 569,000 customers.

Additionally, HK Electric will invest HK$13 billion, comprising HK$6.1 billion in its power generation system, HK$5.3 billion in transmission and distribution system and HK$1.6 billion in customer and corporate services development, over the next five years. Subject to written confirmation by the HKSAR government after a review into the fuel mix in Hong Kong, a new gas-fired generation unit will be built at the Lamma Power Station for commissioning by 2020 to maintain HK Electric's gas-fired generation capacity, and improvement works will be carried out for an existing coal-fired unit which is fitted with a flue gas desulphurisation plant, in order to extend its useful life.

Outlook

Power Assets has remained competitive in a rapidly evolving global marketplace with innovative strategies that adhere to our principles of delivering stable long-term returns to shareholders. With the proceeds from the spin-off of the Hong Kong electricity business, the Group will look to expand into mature, stable markets that offer long-term potential in the energy sector.

Using the experience and expertise gained over past acquisitions, we will focus on high-quality investments in sectors of the power and gas industries of suitable scale and deliver stable income and steady growth. In addition, we will evaluate renewable energy projects that can help meet our sustainability goals.

In the near to medium term, we will look for suitable opportunities to expand in Australia, North America and continental Europe in power generation, transmission and distribution. In Hong Kong, HK Electric will continue to provide reliable, affordable and cleaner energy to Asia's world city.

Our leadership team is strong across all our operating companies and has a committed, skilled workforce supporting them. I extend my thanks to every one of these colleagues, without whom none of our achievements would be possible.

Fok Kin Ning, Canning
Chairman
Hong Kong, 25 February 2014