Chairman's Statement

"The Group reported strong operating results from its operations outside Hong Kong for 2009."

Fok Kin Ning, Canning
Chairman

Results

The Group's audited profit for the year ended 31st December 2009 was HK$6,697 million (2008: HK$8,029 million), a decrease of 17%. Earnings from the Group's Hong Kong operations were HK$4,646 million (2008: HK$7,008 million). The lower Hong Kong earnings were primarily due to the lower Hongkong Electric (HEC) rate of permitted return and to lower cash deposit balances and deposit interest rates. Earnings from the Group's operations outside Hong Kong were HK$2,051 million (2008: HK$1,021 million). The higher earnings from operations outside Hong Kong were primarily due to the inclusion of earnings from the mainland China power station projects, the increased interest in Northern Gas Networks and higher revenue for the Australian businesses.

The Group reported strong operating results from its operations outside Hong Kong for 2009 with earnings more than double that recorded for 2008. In Hong Kong, the lower operating results for 2009 reflected the impact of a full year of HEC's lower rate of permitted return under the new Scheme of Control Agreement (SCA) which became effective 1st January 2009. It is pleasing to note that the proportion of the Group's total earnings arising from activities outside Hong Kong increased from approximately 13% in 2008 to over 30% in 2009 reflecting the steady progress in implementing the Group's strategy of growing its earnings base from activities outside Hong Kong. The increased earnings from activities outside Hong Kong were a substantial offset to the impact of the lower earnings from Hong Kong activities. Overall the Group's earnings were 17% lower in 2009 compared with those for 2008 notwithstanding the 34% drop in earnings from Hong Kong activities in 2009.

The year 2009 saw continued growth in the Group's operations outside Hong Kong with the acquisition of the interests in the mainland China power station projects in April and the increase in the Group's interest in Northern Gas Networks in November. The Group now has interests in 5,649MW of generating capacity outside Hong Kong up from 2,752MW at the end of 2008. In Hong Kong, 2009 was the first year in which HEC operated under the new SCA and I am pleased to be able to report that HEC was able to meet the operational and environmental requirements under the new SCA for the year. The new SCA provides for a rate of permitted return of 9.99% on average net fixed assets with an 11% rate of return on renewable energy assets.

Final dividend

The Directors will recommend a final dividend of HK$1.49 per share, payable on 7th May 2010 to those persons registered as shareholders on 6th May 2010. This, together with the interim dividend of HK$0.62 per share, will give a total dividend of HK$2.11 per share for the year (2008: HK$2.11 per share).

Chairman's Statement

Hong Kong operations

HEC unit sales of electricity for 2009 were 0.5% higher than that recorded for 2008. The higher unit sales were primarily due to the impact of a warmer summer partially offset by various energy saving initiatives. The total number of customers showed a slight increase which came from both the domestic and commercial sectors with the industrial sector continuing its declining trend.

In 2009, Lamma Power Station's gas-fired units generated approximately 20% of the electricity sent out from the power station up from 17% in 2008 with the remainder of the electricity sent out being generated by the Lamma coal-fired units.

While the coal-fired units at Lamma remained the main generator of electricity, a reduction in emission levels was recorded in 2009. The lower emission levels were achieved through the commissioning of an additional flue gas desulphurisation (FGD) plant, the increased consumption of natural gas and efficient operation and maintenance activities. The emission reduction programme at the Lamma Power Station progressed satisfactorily in 2009 with the FGD plant and low nitrogen oxide burner for Unit 5 being commissioned and work on the FGD plants for Units 4 and 2 and the low nitrogen oxide burner for Unit 4 well underway. Completion of these emission reduction projects is scheduled for the first half of 2010. The focus of HEC over the last few years on emission reduction at the Lamma Power Station has resulted in a significant fall in emissions with the power station being able to consistently meet the increasingly tighter emission requirements set by the Government. The reduction in emissions would not have been possible without the required capital investment being made and the operational and maintenance improvements achieved.

The 800 kW wind turbine at Lamma operated satisfactorily in 2009 with an increased capacity factor. In early 2010, we proposed the development of a 100MW offshore wind farm in the south west Lamma channel. An environmental impact assessment study has been completed and made available for public comment.

During 2009, supply reliability was maintained at over 99.999% which surpassed HEC's pledged service standard. This world class supply reliability has the enviable record of having been consistently maintained over the last decade. Supporting the high reliability standards were the improvement and maintenance works carried out on HEC's transmission and distribution network in 2009.

2009 saw continued participation in environmental and community activities. A new three-year Green Hong Kong Green programme was established to develop new eco-heritage trail routes on Hong Kong Island. The HK Electric Clean Energy Fund continued to promote renewable energy through sponsorship of projects undertaken at schools and tertiary institutions while the HK Electric Volunteers put in more than 4,100 hours of voluntary service.

In 2009, the Government released its Air Quality Objectives Review Study Report which contains 19 phase one control measures for public consultation. HEC supports the Government in its efforts to improve air quality. HEC will in 2010 increase the amount of electricity generated by gas-fired units at Lamma to 30% of the electricity sent out from the power station. This increase will be achieved through the upgrading of existing gas-fired units and through the importation of more gas.

Operations outside Hong Kong

I am pleased to report that all of the Group's operations outside Hong Kong performed satisfactorily in 2009 notwithstanding the uncertain business environment.

In mainland China, the power station interests acquired in April 2009 performed ahead of our expectations. The interests comprise 45% interests in the coal-fired 1,400MW Zhuhai power plant and the 1,200MW Jinwan power plant, both strategically located in Guangdong province adjacent to Hong Kong and the 200MW Siping cogeneration power plant in Jilin province. The Zhuhai power plant operated with high reliability and efficiency in 2009 and with an excellent safety record. Jinwan delivered an outstanding performance benefiting from stable coal costs and increased plant efficiency. Both the Zhuhai and Jinwan power plants are equipped with FGD plant to improve their environmental performance. The Siping cogeneration power plant as well as generating electricity provides steam for heating in the Siping municipality. FGD installation work at the Siping cogeneration power plant is nearing completion.

The 48MW wind project in Dali, Yunnan province and the 49.5MW wind project in Leting, Hebei province in which we have 45% interests achieved commercial operation in January and October 2009 respectively and are operating satisfactorily.

In Thailand, the 25% owned Ratchaburi Power Company Limited which operates a 1,400MW gas-fired power plant in Ratchaburi province achieved full commercial operation in June 2008 and is performing satisfactorily. The plant output is sold to the Electricity Generating Authority of Thailand under a 25-year power purchase agreement and gas is supplied to the power station under a long term supply contract.

In the United Kingdom, the 41% owned Northern Gas Networks (NGN) performed well in 2009 reporting increased revenue. NGN operates a 37,000 km gas distribution pipeline network in the north of England.

In Australia, ETSA Utilities (ETSA) in which the group has a 27.9% interest recorded a strong year with increased revenue. ETSA is the sole electricity distributor in South Australia. In November 2009, the Australian Energy Regulator issued its draft decision in response to ETSA's proposals for the 2010-2015 price reset period. A final decision is due in April 2010. CHEDHA in which the Group has a 27.9% interest reported higher distribution and unregulated revenue in 2009. CHEDHA comprises Powercor which operates an electricity distribution network in western Victoria and CitiPower which distributes electricity to the Melbourne central business district.

In Canada, the Group has a 50% interest in Stanley Power Inc. which holds 49.99% of TransAlta Cogen which has interests in one coal-fired power plant and five gas-fired power plants in Canada. Stanley Power performed satisfactorily in 2009 with the Canadian operations recording higher income for the year.

In New Zealand, the Group benefited from the first full year of operations of the 50% owned Wellington Electricity Lines Limited, which owns and operates a 4,592 km electricity distribution network which supplies electricity to more than 160,000 customers in the city of Wellington and in the Porirua and Hutt Valley regions of New Zealand. The business performed well in 2009 with higher distribution revenue due to colder weather.

Outlook

While there are signs that economic conditions in global markets have stabilised there remains uncertainty as to the strength of any economic recovery in 2010. However, with HEC operating in Hong Kong under the new SCA and with the conservative nature of the Group's businesses outside Hong Kong, the Group is expected to perform satisfactorily in 2010. With its strong balance sheet and low gearing, the Group has the capacity to take advantage of any investment opportunities that may arise.

In Hong Kong, the emission reduction programme at the Lamma Power Station which was commenced several years ago is expected to be completed in 2010 and the focus will move to reducing our reliance on coal-fired generation at the power station.

The success of our investments outside Hong Kong has been very encouraging and we are actively pursuing investment opportunities to further increase our earnings base from operations outside Hong Kong. Going forward we expect to see our investments outside Hong Kong becoming a much more significant part of our overall operations.

I would like to thank the board of directors and the management and staff for their hard work and contributions during the year.

Fok Kin Ning, Canning
Chairman
Hong Kong, 3rd March 2010