

Ten-Year Scheme of Control Statement

The Hongkong Electric Company, Limited

(a) Scheme of Control

The activities of The Hongkong Electric Company, Limited ("HEC"), a wholly-owned subsidiary of the Company, are subject to a Scheme of Control Agreement ("SCA") agreed with the Hong Kong SAR Government with a term of 10 years commencing 1st January 2009 and a Government option to extend the agreement for a further term of 5 years.

The agreement provides for HEC to earn a Permitted Return of 9.99% of average net fixed assets other than for renewable energy fixed assets for which the Permitted Return is 11%. The Permitted Return is determined after any excess capacity adjustment, in accordance with the Annex to the SCA. An excess capacity adjustment of HK\$30 million was made in 2011 (2010: HK\$32 million). Any excess or deficiency of the gross tariff revenue over the sum of total operating costs, Scheme of Control Net Return and Scheme of Control taxation charges is transferred to/(from) a Tariff Stabilisation Fund from/(to) the income statement of HEC. When transfer from the Tariff Stabilisation Fund to the income statement is required, the amount transferred shall not exceed the balance of the Tariff Stabilisation Fund. In calculating the Scheme of Control net revenue, interest relating to the acquisition of fixed assets (whether it has been charged to revenue or capitalised) up to 8% per annum, is added to, and a tax adjustment is made against, profit after taxation. In addition, each year a charge calculated by applying the average of one-month Hong Kong Interbank Offered Rate on the average balance of the Tariff Stabilisation Fund is transferred from the income statement of HEC to a Rate Reduction Reserve, the purpose of which is to rebate electricity charges to customers.

(b) Ten-Year Scheme of Control statement for the year ended 31st December

HK\$ million	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Sales of electricity	10,140	10,338	10,331	12,704	12,452	12,326	12,310	11,442	11,263	11,522
Transfer from/(to) Fuel Clause										
Recovery Account	3,755	2,794	2,329	1,802	413	15	119	(443)	(726)	(724)
Other Scheme of Control revenue	100	62	63	36	455	42	56	51	66	56
Gross tariff revenue	13,995	13,194	12,723	14,542	13,320	12,383	12,485	11,050	10,603	10,854
Fuel costs	(5,538)	(4,570)	(4,104)	(3,597)	(2,167)	(1,780)	(1,887)	(1,301)	(983)	(972)
Operating costs	(1,040)	(1,097)	(1,158)	(1,283)	(1,260)	(1,155)	(1,190)	(1,105)	(918)	(833)
Interest	(248)	(112)	(91)	(166)	(369)	(186)	(128)	(83)	(195)	(196)
Depreciation and amortisation	(1,836)	(1,793)	(1,623)	(1,516)	(2,025)	(1,892)	(1,832)	(1,810)	(1,782)	(1,671)
Profit on disposal of fixed assets	-	-	-	-	-	-	-	-	317	-
Net revenue before taxation	5,333	5,622	5,747	7,980	7,499	7,370	7,448	6,751	7,042	7,182
Scheme of Control taxation	(794)	(930)	(1,025)	(1,218)	(1,331)	(1,453)	(1,314)	(1,167)	(1,193)	(1,134)
Net revenue after taxation	4,539	4,692	4,722	6,762	6,168	5,917	6,134	5,584	5,849	6,048
Interest on borrowed capital	239	118	103	154	307	285	181	128	218	329
Interest on incremental customers' deposits	-	-	-	1	9	9	3	-	-	-
Scheme of Control net revenue	4,778	4,810	4,825	6,917	6,484	6,211	6,318	5,712	6,067	6,377
Transfer from/(to) Tariff Stabilisation Fund	46	(58)	(174)	(297)	(14)	-	-	-	139	(1)
Shortfall in Tariff Stabilisation Fund	-	-	-	-	-	487	288	869	228	-
Permitted return	4,824	4,752	4,651	6,620	6,470	6,698	6,606	6,581	6,434	6,376
Shortfall in Tariff Stabilisation Fund	-	-	-	-	-	(487)	(288)	(869)	(228)	-
Interest on borrowed capital	(239)	(118)	(103)	(154)	(307)	(285)	(181)	(128)	(218)	(329)
Interest on incremental customers' deposits	-	-	-	(1)	(9)	(9)	(3)	-	-	-
Transfer to Rate Reduction Reserve	(1)	(1)	-	(13)	(1)	-	-	-	(6)	(11)
Net return	4,584	4,633	4,548	6,452	6,153	5,917	6,134	5,584	5,982	6,036