Chairman's Statement

Our active yet prudent investment strategy outside Hong Kong has helped build a balanced portfolio of assets which now provide more than half of the Group's earnings and will continue to expand at a measured pace.

Fok Kin Ning, Canning
Chairman

A Year of Continued Growth

2012 has been a year of continued success for Power Assets. The Group has once again reported increases in both revenues and profits, driven by growth in our global portfolio, despite macro-economic volatility around the world. We see this as a validation of our long-term strategy of seeking steady earnings growth via carefully selected global investments, which in 2012 once again surpassed Hong Kong earnings.

The strategy underlying our global investment is to build up a robust, diverse portfolio of assets that deliver predictable income streams over the long term. Today we have investments in power generation, transmission and distribution, as well as gas distribution in the UK, Australia, mainland China, New Zealand, Thailand and Canada, apart from our strong base in Hong Kong. Our international businesses, spearheaded by our operations in the UK, now account for over half of our total earnings.

HK Electric, our electricity business in Hong Kong, maintained its focus on achieving excellence in supplying power to Hong Kong. The business maintained 2011 earning levels while surpassing our own standards in supply reliability, emission reduction and customer service. We continued with our programme of prudent capital investment to enhance our service to customers.

Before I elaborate upon our performance during the year I must pause to express our continuing grief at the tragic accident on 1 October 2012, in which seven employees of HK Electric and 32 others lost their lives when our ferry was hit by a public ferry off Hong Kong's Lamma Island. Our thoughts and condolences stay with those affected.

Results

The Group's 2012 audited profits attributable to shareholders increased by 7% to HK$9,729 million (2011: HK$9,075 million). Of these profits, HK$5,108 million (2011: HK$4,563 million) came from our operations outside Hong Kong and HK$4,621 million (2011: HK$4,512 million) was generated by Hong Kong operations. Earnings per share have grown to HK$4.56 (2011: HK$4.25). Total assets increased by 7% to HK$101,646 million (2011: HK$94,730 million) due to new investments in the UK and Australia as well as an increase in the value of existing assets.

Operations outside Hong Kong achieved satisfactory results with a 12% increase in profits, representing 53% of the Group's total earnings for 2012. Hong Kong earnings were 2% higher than last year while softening of fuel prices has lowered the fuel clause recovery account balance.

Dividends

The Directors will recommend a final dividend of HK$1.83 per share, payable on 4 June 2013 to those persons registered as shareholders on 28 May 2013. This, together with the interim dividend of HK$0.62 per share, will add up to a total dividend of HK$2.45 per share for the year (2011: HK$2.32 per share).

Judicious Global Investments Yield Positive Results

Over a decade ago, Power Assets made a strategic decision to seek growth in segments of expertise within stable, well-structured international markets. We therefore have focussed mainly on electricity and gas distribution, supplemented by a select portfolio of generation businesses. All of our networks yield stable revenues under government regulation, while the income from the majority of our power plants and wind farms is safeguarded by long-term power purchase agreements.

Power Assets Investments Limited, our international investment arm, jointly with our partners, has spearheaded our efforts in identifying and rigorously evaluating suitable opportunities against operational, financial, legal and risk parameters. Once on board, we join the managements of our associates to oversee performance and share best practice. The Group's low gearing ratio and A+ credit rating give us sufficient financial power to be agile while leveraging opportunities.

In 2012 our existing international investments performed well through a combination of increased revenues and operational efficiencies, despite an unfavourable global economic environment.

In the UK, strong fundamentals of our investments in electricity and gas distribution, namely UK Power Networks and Northern Gas Networks yielded satisfactory performance in 2012. UK Power Networks was commended for its faultless delivery of power to the London Olympics. The business won the Utility of the Year and Team of the Year awards for its impressive performance in building and operating the power network for the Olympic Park, without detraction from performance elsewhere. Northern Gas Networks delivered increased throughput and enhanced customer service standards. Seabank Power Limited, our generation business, achieved improved profits through operational efficiencies.

We made our second investment in the UK gas distribution market in October 2012 by acquiring a 30% stake in Wales and West Utilities Ltd, one of the eight major gas distribution networks in the UK.

In Australia, our businesses remained stable despite unfavourable weather conditions and an adverse economic environment. ETSA Utilities rebranded itself as SA Power Networks to reemphasise its identity as a network provider. CitiPower and Powercor were recognised for their commitment to excellent customer service through the receipt of the prestigious "Best of the Best Customer Service Organisation" award.

In September 2012, we forayed into renewable energy transmission in Australia through a new joint venture called Transmission Operations Australia which will construct, own and operate a power transmission link to transport renewable energy to Victoria's power grid.

In mainland China, overall earnings and total units sold declined, mainly because of relatively low demand for the coal-fired units. Our wind farms and coal generation plants focussed on delivering operating efficiencies and preparing to meet new, stricter emission targets scheduled for 2014.

Our operations in Canada, Thailand and New Zealand delivered weaker performances compared with 2011 levels.

Maintain Operational and Service Excellence in Hong Kong

Profit from HK Electric remained stable at HK$4,542 million (2011: HK$4,480 million) for the year. Unit sales of electricity were slightly higher than in 2011.

Our tariff is competitive vis-a-vis other deregulated markets such as New York, Singapore or Sydney. Power costs account for only about 1.8% of household expenditure in Hong Kong, and are more affordable than in many metropolitan cities.

We consider it imperative to maintain high efficiency while complying with all regulatory requirements. We have undertaken regular upgrades, applied state-of-the art predictive and detective maintenance for generation, transmission and distribution equipment and commissioned sophisticated information technology control systems to meet supply reliability standards.

We consumed about 3.2 million tonnes of coal in 2012. The proportion of natural gas in the fuel mix remains at over 30%. We are now evaluating the installation of a new combined cycle gas turbine to take up the base-load generation role of an existing one in order to improve fuel efficiency and emission performance.

Our pioneering efforts to bring renewable energy to Hong Kong on a commercial scale continued. The one-full-year wind measurement at the proposed offshore wind farm at Southwest Lamma was completed in February 2013. The measurement results will be presented in the feasibility study report to be submitted to the HKSAR Government later this year. If approved, the project is scheduled for completion in 2017 when the green energy produced at the wind farm will represent around 1.5% of HK Electric's annual electricity output. It is expected to offset 62,000 tonnes of coal usage and 150,000 tonnes of carbon dioxide emissions annually.

In 2012, we almost doubled the capacity of the solar power system at Lamma Power Station to 934 kW, and maintained satisfactory generation levels at Lamma Winds.

Our efforts on corporate social responsibility and sustainability reporting are recognised at the global level and we are pleased to have been included in the "Dow Jones Sustainability Asia Pacific Index" and "Global 500 Carbon Disclosure Leadership Index".

We will strive to continue to offer the ideal workplace and deploy best practices in recruitment, training, remuneration, communication, and career development. Besides, we continued to contribute to the community through a number of carefully chosen projects.

Outlook

Investors with a long-term perspective will recognise that Power Assets has grown progressively in the last decade despite worldwide economic turmoil and tightening environmental requirements. Key indicators such as earnings and total assets have grown consistently over the past decade, and share performance has been strong. Our active yet prudent investment strategy outside Hong Kong has helped build a balanced portfolio of assets which now provide more than half of the Group's earnings and will continue to expand at a measured pace.

We believe that the volatility in the global economy will persist in 2013, together with periods of instability in the prices of coal and natural gas. The ever-increasing focus on minimising emissions will continue in the next five years, not only in Hong Kong but also in all our markets, which will necessitate continuous capital investment in green technology and processes.

However we remain confident of the continued effectiveness of our long-term strategy. Despite overall uncertainty we remain cautiously optimistic about the long-term stability of key markets, which will in turn ensure income growth and positive returns for the Group.

We will continue to utilise our capital in expanding our portfolio outside Hong Kong through systematic, timely and prudent investment. As ever, our asset choice will be guided by the principles of stable return and a predictable income stream.

In Hong Kong, our priority will be to maintain outstanding supply reliability, enhance operational and environmental performance, continue to excel in customer service while ensuring that tariff remains at an affordable level.

We will continue to control operating costs in our current businesses through stringent monitoring and delivery of efficiencies while meeting all environmental requirements.

As we embark on the interim review of the Scheme of Control Agreement with the HKSAR Government, we will maintain an ongoing and constructive dialogue with our stakeholders with a view to delivering sustainable and optimal performance for our shareholders, our customers and our environment.

I thank the board of directors, the management and all employees of Power Assets for their diligence and commitment, without which none of our achievements would be possible.

I particularly extend my heartfelt gratitude to Mr Tso Kai-sum, who retired from his position as Group Managing Director on 1 January 2013. His wisdom, vision and dedication were invaluable in transforming the company from a Hong Kong utility to a global energy player. I welcome Mr Wan Chi-tin to his new role as he succeeds Mr Tso. Mr Wan's wide-ranging experience and knowledge render him ideally positioned to maintain the company's growth momentum.

In closing, it is impossible to sufficiently express how grateful I am to everyone who supported us during the difficult times of the Lamma ferry accident but I particularly wish to acknowledge the unstinting efforts of Hong Kong's rescue, medical, and welfare teams, the outpouring of sympathy and assistance from the community, and the selfless help from all our colleagues.

Fok Kin Ning, Canning
Chairman
Hong Kong, 6 March 2013