

# Chairman's Statement



**Moving forward, HK Electric will continue to focus on the provision of robust, clean energy to both domestic and commercial customers. We will go on making optimal investments where appropriate to ensure a highly affordable and environmentally friendly power supply, while maintaining a reliability rating of over 99.999% – achieved every year since 1997.**

It gives me great pleasure to present the first report of HK Electric Investments and HK Electric Investments Limited (collectively known as "HKEI").

On 29 January 2014, HKEI acquired from Power Assets Holdings Limited the interest in the Hong Kong electricity business, operated by The Hongkong Electric Company, Limited ("HK Electric"), and commenced trading on the Stock Exchange of Hong Kong by way of listing its issued Share Stapled Units.

With this, HK Electric enters a new era with a heritage of long-term success and deep roots in the Hong Kong community. Powering economic and social development in Hong Kong for over 120 years, HK Electric is justly proud of being one of the longest established power companies in the world, as well as one of the most reliable. It is privileged to form an important part of the robust infrastructure for which Hong Kong is famous.

Going forward HKEI will continue to build and develop the business on prudent, strategic principles with the aim of delivering long-term stable growth in unitholder returns. With a single-minded focus on Hong Kong, coupled with a strong financial position will make the group more agile and better able to respond to Hong Kong's changing market dynamics under the Scheme of Control Agreement ("SCA") of the Hong Kong Special Administrative Region ("HKSAR").

## Key developments during 2013

Two key strategic activities affecting the development of the group over the next five years were completed in 2013.

The first of these was the mid-term review of the current SCA. The review was comprehensive and involved both the company and our stakeholders in an exercise to identify ways in which the effectiveness of the SCA could be enhanced, with an emphasis on energy efficiency and conservation. The SCA forms an effective framework and we are pleased to note that the review reaffirmed the fundamental tenets of the current scheme.

An immediate initiative following the review was the establishment of our Energy Efficiency Fund. HK Electric will inject the annual financial incentive payments it receives for achieving stipulated targets to the fund, which will be used for projects to improve electrical infrastructure in old residential buildings to enhance energy efficiency.

The company's environmental focus will continue through increasing power generation from cleaner fuels, while maintaining supply reliability and affordability.

Another important advance during the year was the approval of HK Electric's 2014-2018 Development Plan by the HKSAR Government. The plan will form the basis of the company's development over the next five years. HK Electric consulted with various stakeholders and took into consideration the government's energy policy and environmental objectives when developing the plan.

Following the plan's approval, HK Electric froze net tariffs for 2014 and forecast that, barring unforeseen circumstances, net tariffs could be maintained at the present level for the next four years in an effort to ensure that electricity remains affordable for its 569,000 customers.

HK Electric will also invest HK\$13 billion in generation, transmission and distribution, customer services and corporate development over the next five years – comparable to the capital expenditure during the previous development plan. These investments will focus on improving reliability, service levels and environmental standards. Of this amount, HK\$3 billion, has been earmarked for the potential construction of a new gas-fired unit pending written confirmation from the government. The new unit is scheduled for completion by 2020 to sustain the company's gas-fired generation capacity and reliability of electricity supply given the scheduled retirement of two coal-fired units in 2017 and 2018, and one gas-fired combined cycle unit in 2020.

Over the past few decades, the operations of the two power companies in Hong Kong have been governed by the SCAs, which is structured to be both long term and transparent. This has enabled HK Electric to invest significant amounts in an appropriate way to benefit customers and the environment well into the future.

The stable framework has also allowed HK Electric to provide Hong Kong's residents and businesses with electricity at affordable prices. The company has embraced government policy objectives on energy efficiency and conservation both to protect the environment and to meet international obligations.

The current SCA was entered into on 7 January 2008 and runs to 31 December 2018, with an option for the HKSAR Government to extend it for a further term of five years ending on 31 December 2023. We welcome stakeholders' input concerning the future direction of the SCA and will participate fully in discussions with the government and all other stakeholders. Our views will be guided by prudent, pragmatic values and our desire to provide world-class infrastructure to Hong Kong and long-term growth in shareholder value.

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Moving forward, HK Electric will continue to focus on the provision of robust, clean energy to both domestic and commercial customers. We will go on making optimal investments where appropriate to ensure a highly affordable and environmentally friendly power supply, while maintaining a reliability rating of over 99.999% – achieved every year since 1997. In the last five years the reliability level has improved to less than one minute of power supply interruption per customer per year which is one of the best records in the world.

I would like to thank my team of hard-working and skilled colleagues at every level and in every division of the group. With them, I look forward to the exciting new era of the group. I also thank our unitholders whose support has made it possible for us to embark on this new stage of our journey with confidence and enthusiasm.

**Fok Kin Ning, Canning**  
Chairman  
6 March 2014