

CEO's Report





I am pleased to present the first management report of HK Electric Investments and HK Electric Investments Limited.

Our vision is to excel in Hong Kong's power sector and provide unitholders of our Share Stapled Units with stable distributions, which will be achieved by developing our business to sustainably enhance unitholder value over the long term. We are starting our new life on a strong footing with a single investment in HK Electric, a company with a long history of supply reliability, customer service and engineering excellence, environmental performance and community engagement.

A Heritage of Performance

HK Electric's journey to become one of the world's longest established utility companies began when Hong Kong's first streetlight glowed into life in Central in 1890. Since then it has supported the extraordinary growth of Hong Kong into Asia's World City. The company's vertically integrated operations span the generation, transmission, distribution and supply of electricity to provide over 569,000 customers on Hong Kong Island and Lamma Island with reliable and affordable power.

A strategic programme of investment in technology ensures the highly dependable delivery of power, achieving a world-leading reliability rating of over 99.999% every year since 1997.

The Lamma Power Station is at the heart of HK Electric's generation capabilities with eight coal-fired units, two combined cycle gas-fired units and five oil-fired open cycle gas turbine units. Together with wind and solar power generation facilities, HK Electric's total installed capacity is 3,737 MW which generates over 10,000 GWh of electricity every year.

HK Electric has long been committed to optimising its operations to enhance air quality in Hong Kong. While historically the Lamma Power Station's primary generation

fuel has been coal, over the years there has been a steady increase in the use of natural gas, which is a cleaner fuel. Today, the station generates over 30% of its electricity from natural gas.

In addition, the Lamma Power Station follows stringent emission control procedures and has deployed emission control equipment such as flue gas desulphurisation plants and low nitrogen oxide burners to achieve significant emission reductions.

HK Electric has been a pioneer in exploring the potential for renewable energy in Hong Kong and has several firsts to its credit. In February 2006, the 800-kW Lamma Winds was commissioned and it remains Hong Kong's first and only commercial-scale wind power station. The company also commissioned Hong Kong's largest commercial-scale solar power system at Lamma Power Station in July 2010 using an innovative thin film photovoltaic panel system that is more effective in Hong Kong's climate than more conventional technologies. The solar power system was extended to 1 MW in 2013 and now generates over 1.1 million units of green electricity annually.



To support its generation capabilities and ensure a reliable supply of electricity, HK Electric has invested in a robust and state-of-the-art transmission and distribution system. Almost all the transmission and distribution power lines are underground to ensure supply reliability even in inclement weather such as typhoons. For some circuits, cable tunnels are used to help transmit electricity without disturbing the surroundings such as country parks, thus minimising visual impact, dust and noise pollution to the environment during construction period. Advanced remote monitoring and control systems operate around the clock at the System Control Centre, which, combined with a year-round proactive and preventive maintenance schedule, has ensured that our customers receive one of the world's most reliable supplies of electricity.

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Serving Hong Kong Today and Tomorrow

Excellence in customer service is rigorously pursued at HK Electric through a comprehensive set of 18 pledged standards against which customer service performance is evaluated every year. As well as consistently achieving our own stringent benchmarks, the company also wins many industry awards for service excellence.

With over 1,800 loyal and skilled employees, the company is and works hard to remain an employer of choice. Remuneration packages are competitive, while our training and development programme helps each employee SHINE through a holistic approach to training and skills development. We recruit apprentices, trainees and graduates and help to build them into skilled craftsmen, technicians, engineers and managers. Promising young employees are fast-tracked through a management development programme to create the leaders of tomorrow at HK Electric.



HK Electric's operations are governed by a Scheme of Control Agreement ("SCA") with the Hong Kong Special Administrative Region ("HKSAR") Government. The current ten-year SCA runs from 1 January 2009 to 31 December 2018, with an option for the government to extend it for a further term of five years.

With deep roots in the Hong Kong community, HK Electric has a team of around 1,000 volunteers who participate in a year-round calendar of activities focussed on caring for those in need such as the elderly and underprivileged. These include 'CAREnival for the Elderly', now in its fifth year, that aims to provide a support network for the less active elderly living alone. Another key initiative is the University of the 3rd Age ("U3A"), which promotes lifelong learning and volunteerism among the retired generation.

We are passionate about the smart use and conservation of energy. HK Electric's Smart Power campaign is a flagship initiative to educate and engage the younger generation on energy efficiency and conservation. We also work actively to promote public understanding of Hong Kong's ecological

resources through our Green Hong Kong Green programme by developing eco heritage routes and organising eco-tours on a regular basis.

We follow the 4R policy to reduce, reuse, recover and recycle materials and resources as much as possible and to minimise our carbon footprint. As a socially responsible company, we also support the wider community's efforts to reduce emissions through education, particularly of students, technical support and advice, and free electric vehicle recharging.

We extend efforts to promote the principles of eco-friendly and electric cooking to restaurants, a priority customer segment, households and residential development projects. Typically at HOFEX, the largest food and hospitality tradeshow in the Asia-Pacific region and Eco-Quality Home Bazaar, the company demonstrate advanced eco-electric equipment and systems to help customers in pursuit of higher energy performance. We also team up with trade associations to help catering customers improve their environmental performance via Quality Restaurant Environmental Management Scheme.

A Strong Launching Point for a Sustainable Future

We are confident of achieving steady growth to deliver long-term value to our unitholders. We will also continue to support the Hong Kong community through the provision of clean and reliable electricity.

The mid-term review of the SCA was completed at the end of 2013 and we brought a pragmatic and experienced voice to discussions during the process. Following the review, we are going to establish an Energy Efficiency Fund to support energy efficiency improvement projects of electrical infrastructure at old residential properties.

With a single focus on the Hong Kong electricity market and our 2014-2018 Development Plan approved by the HKSAR Government, we are well placed to invest timely and react swiftly to the evolving needs of our customers. Improvement works will be carried out for an existing coal-fired unit to extend its useful life while a new gas-fired unit will be built pending further confirmation from the government.

We have committed to the ongoing provision of affordable electricity and expect to be able to freeze net tariffs for the coming four years barring unforeseen circumstances. As always, maintaining tariff affordability to make energy available to every Hong Kong resident, regardless of their economic situation, will remain central to our mission.

Ensuring blue skies and clean air for generations to come is the responsibility of everyone. We have met all emission caps



set by the HKSAR Government and will continue to contribute positively to discussions on measures to improve air quality. We will explore every appropriate avenue to deploy technology to minimise the environmental impact of our operations. In terms of fuel mix, we will strategically decrease our reliance on coal as a fuel and will build upon the foundation we have established to deliver more clean energy from increased gas generation and renewable sources including potential for development of Hong Kong's first offshore wind farm.

We take the maintenance of tariff affordability and environmental sustainability very seriously. The stability and long-term view of the current SCA enables us to anticipate the energy needs of the Hong Kong community and make appropriate investments in good time.

As we embark upon this next stage of HK Electric's journey following a century of successful operations, we look forward to supporting Hong Kong in its future growth and progress, delivering on our mission to provide affordable, cleaner electricity to Hong Kong.

Wan Chi Tin
Chief Executive Officer
6 March 2014