

The Hongkong Electric Company, Limited

Ten-Year Scheme of Control Statement

(a) Scheme of Control

The activities of HK Electric are subject to a Scheme of Control Agreement ("SCA") agreed with the Hong Kong SAR Government with a term of 10 years commencing 1 January 2009 and a Government option to extend the agreement for a further term of 5 years.

The agreement provides for HK Electric 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\$26 million was made in 2013 (2012: HK\$28 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 statement of profit or loss of HK Electric. When transfer from the Tariff Stabilisation Fund to the statement of profit or loss 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 statement of profit or loss of HK Electric 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 31 December

HK\$ million	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Sales of electricity	10,176	10,364	10,140	10,338	10,331	12,704	12,452	12,326	12,310	11,442
Transfer from/(to) Fuel Clause Recovery Account	3,510	3,867	3,755	2,794	2,329	1,802	413	15	119	(443)
Other Scheme of Control revenue	67	74	100	62	63	36	455	42	56	51
Gross tariff revenue	13,753	14,305	13,995	13,194	12,723	14,542	13,320	12,383	12,485	11,050
Fuel costs	(5,271)	(5,673)	(5,538)	(4,570)	(4,104)	(3,597)	(2,167)	(1,780)	(1,887)	(1,301)
Operating costs	(995)	(1,040)	(1,040)	(1,097)	(1,158)	(1,283)	(1,260)	(1,155)	(1,190)	(1,105)
Interest	(285)	(264)	(248)	(112)	(91)	(166)	(369)	(186)	(128)	(83)
Depreciation and amortisation	(1,982)	(1,919)	(1,836)	(1,793)	(1,623)	(1,516)	(2,025)	(1,892)	(1,832)	(1,810)
Net revenue before taxation	5,220	5,409	5,333	5,622	5,747	7,980	7,499	7,370	7,448	6,751
Scheme of Control taxation	(988)	(856)	(794)	(930)	(1,025)	(1,218)	(1,331)	(1,453)	(1,314)	(1,167)
Net revenue after taxation	4,232	4,553	4,539	4,692	4,722	6,762	6,168	5,917	6,134	5,584
Interest on borrowed capital	288	271	239	118	103	154	307	285	181	128
Interest on incremental customers' deposits	-	-	-	-	-	1	9	9	3	-
Scheme of Control net revenue	4,520	4,824	4,778	4,810	4,825	6,917	6,484	6,211	6,318	5,712
Transfer from/(to) Tariff Stabilisation Fund	389	72	46	(58)	(174)	(297)	(14)	-	-	-
Shortfall in Tariff Stabilisation Fund	-	-	-	-	-	-	-	487	288	869
Permitted return	4,909	4,896	4,824	4,752	4,651	6,620	6,470	6,698	6,606	6,581
Shortfall in Tariff Stabilisation Fund	-	-	-	-	-	-	-	(487)	(288)	(869)
Interest on borrowed capital	(288)	(271)	(239)	(118)	(103)	(154)	(307)	(285)	(181)	(128)
Interest on incremental customers' deposits	-	-	-	-	-	(1)	(9)	(9)	(3)	-
Transfer to Rate Reduction Reserve	(1)	(1)	(1)	(1)	-	(13)	(1)	-	-	-
Net return	4,620	4,624	4,584	4,633	4,548	6,452	6,153	5,917	6,134	5,584