

CHAIRMAN'S STATEMENT



In 2015, HKEI completed its second year of operations as a business trust, once again achieving all its goals and objectives. While we are a relatively new entity on the Stock Exchange, our heritage in Hong Kong is long: for over 125 years we have been providing electricity to the city's citizens and businesses.

KEEPING OUR PROMISES IN A CHANGING WORLD

The power sector in Hong Kong has evolved over the years, but our promise has always remained the same: to provide customers with safe, reliable, clean and affordable power while ensuring steady returns for our investors. Our constant focus on delivering this pledge has helped both residential and commercial customers in Hong Kong achieve their own aspirations - be they a comfortable lifestyle or business growth. Our experience and deep understanding of Hong Kong's energy sector inform how we move forward to serve our customers' evolving energy needs.

I extend a warm welcome to Qatar Investment Authority which during the year acquired a 19.9% stake in HKEI to become our third largest shareholder after Power Assets Holdings Limited and the State Grid Corporation of China.

In 2015, our performance reflects our success in delivering on three strategic parameters. First, we kept our promise to pay out 100% of distributable income to holders of our Share Stapled Units (SSU). Second, we delivered power at over 99.999% supply reliability while freezing tariffs

for the second year in a row. And thirdly, we reduced our environmental footprint and made investments to enable us to continue to do so in future.

FINANCIAL RESULTS AND DISTRIBUTIONS

For the year ended 31 December 2015, HKEI's EBITDA was HK\$8,035 million (2014: HK\$7,698 million) and audited profits attributable to SSU holders was HK\$3,591 million (2014: HK\$3,201 million).

Distributable income for the year was HK\$3,538 million (2014: HK\$3,218 million – from listing date on 29 January 2014 to 31 December 2014) and will be distributed to SSU holders in its entirety.

The Board of the Trustee-Manager has declared a final distribution by the Trust of HK20.12 cents (2014: HK19.89 cents) per SSU, payable on 13 April 2016 to SSU holders whose names appear on the Share Stapled Units Register on 1 April 2016. This, together with the interim distribution of HK19.92 cents (2014: HK16.53 cents) per SSU, amounts to a total distribution of HK40.04 cents per SSU for the year (2014: HK36.42 cents per SSU – from listing date on 29 January 2014 to 31 December 2014).

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POWER SECTOR NEEDS A STABLE AND BALANCED REGULATORY REGIME

Hong Kong's electricity companies operate on the basis of a Scheme of Control Agreement (SCA) with the government, which sets out their returns and performance obligations. The current SCA will expire in 2018 with an option for the government to extend it by five years. During the year the government conducted a public consultation on the future development of the electricity market in Hong Kong, seeking the community's views on a number of strategic topics including regulatory arrangements going forward and the introduction of more competition to the market.

Following extensive consultation with our stakeholders we have submitted to the government that the proposals contained in the consultation paper will only bring about uncertainties, and not benefits. We are encouraged that the majority of the respondents to the consultation exercise share our views on all key facets of the consultation.

Hong Kong is a highly compact vertical city and an unfailing supply of electricity is fundamental to the lives and businesses of those who work here. In fact, it underpins Hong Kong's very position as a global financial and trade hub. The prevailing SCA is cost-effective and provides stability, allowing industry players to operate effectively. Almost all respondents to the exercise concurred with us that the current arrangement had generally worked well and allowed the government to achieve its energy policy objectives of safety, reliability, affordability and environmental protection.

The rate of return permitted under the current SCA has proven effective in balancing the interests of consumers and industry players, creating a stable environment where the long-term investments necessary for Hong Kong's electricity infrastructure can be made. More than half of the submissions from the public supported the maintenance of the rate of return at the current level of 9.99% to provide the necessary incentives for power companies to make investments.

The majority of the respondents also agreed with our view that the duration of the SCA should be maintained at ten years, with an option exercisable by the government to extend for five more years.

Experiences in overseas markets have proved that deregulation processes are laborious and protracted. Competition may not deliver tariff reduction, and choice may not guarantee customer satisfaction. The majority of the respondents considered that the power supply in Hong Kong was reliable and safe at an affordable price. They did not see a need to introduce competition for the sake of bringing in choice.

It is our belief and conviction that the current Scheme of Control regime, with its clear and proven track record, is the best way forward for Hong Kong.

FURTHER STEPS TOWARDS REDUCING EMISSIONS

As a power company we recognise that our operations affect Hong Kong's environment as a whole and we run a multi-pronged emissions reduction programme to minimise our impact. As a result we have consistently outperformed statutory targets, reducing emissions of sulphur dioxide, nitrogen oxides and respirable suspended particulates by 40% to 90% since 2008.

We strive to constantly improve our emissions performance to leave a clean Hong Kong for the generations to come. In this context we agreed to more stringent environmental targets as contained in the government's relevant Technical Memorandum No. 5, which will come into force from 2020 onwards.

Our primary strategy to achieve these targets is to increase the proportion of electricity we generate from natural gas. Following formal approval by the government, we are moving full steam ahead with the development of a new gas-fired generating unit (L10) at Lamma Power Station. The project is part of our Five-year Development Plan (2014-2018). Among other things, it will enable us to increase the proportion of gas-fired generation to about 50% while maintaining reliability. The L10 unit will play an important role in reducing emissions and our carbon footprint when it is commissioned in 2020.

We have strengthened our support for electric vehicles (EVs) in order to aid the community's efforts to reduce roadside emissions. A special advisory service has been launched to facilitate the setting up of EV charging facilities at private buildings.

The Smart Power Fund, which helps private residential buildings to carry out energy efficiency measures by providing financial support on a matching basis, provided funding to 15 projects in 2015. The programme has now supported 21 projects since its introduction in June 2014.

AN UNCHANGING COMMITMENT TO QUALITY

2015 saw HK Electric successfully maintaining its high standards with respect to system reliability and power quality, excellence in customer service, and community engagement. Through investment in new equipment, proactive network upgrading and monitoring as well as staff recruitment and training, we delivered value to our stakeholders within the community.

During the year power supply reliability was maintained at over 99.999%, a record we are proud to have achieved consistently since 1997. For the 7th consecutive year, our customers experienced on average less than one minute of unplanned power interruption per customer per year. We once again met all our 18 pledged customer service standards and achieved high customer satisfaction ratings. Apart from excellence in service to the residential sector, we won a number of awards during the year for our range of customised services to Hong Kong's thriving SME sector.

Electricity sales in 2015 dropped slightly by 0.7% primarily as a result of energy conservation measures undertaken by consumers despite record high monthly mean temperatures recorded for June and November which have increased the cooling load.

We believe in a healthy work-life balance and strive to offer an environment where employees can perform at their best. During the year we offered a total of 82,288 hours of staff development through comprehensive programmes that included technical skills training, safety courses, management skills and holistic development.

2015 was also a successful year for our employee volunteering programme. Our employees spent 6,708 hours supporting 136 services including environmental work, services for the elderly and fund raising for charities. By lending a helping hand and listening ear they have made a positive difference in the lives of those less fortunate than ourselves. I invite you to review their work in our 2015 sustainability report which will be published later in the year.

OUTLOOK

The current SCA will expire in 2018 and one of the most important priorities in the year ahead is to engage with the government to establish a stable and long-term post-2018 regime to guide the development of Hong Kong's electricity market. The agreed scheme must retain the key elements of the current SCA including the rate of return to enable operators to make long-term investments conducive to the continued provision of safe, reliable and clean electricity to customers at affordable prices.

In order to pass on the benefits of low international fuel prices to customers, HK Electric has reduced net tariffs across the board by an average of 1.1% in 2016. This goes one step beyond our December 2013 commitment to keep tariffs unchanged till end 2018, based on which we had frozen tariffs for the past two years.

Globally and no less in Hong Kong, the power industry is dynamic, affecting and being affected by a wide range of factors including technologies, fuels, climate, emissions policy, consumer behaviour and more. In this environment of change, we strive to be as responsible and responsive as we can to satisfy the evolving energy needs of our customers.

At the heart of our success in keeping this pledge is every employee's zeal for service excellence. It is only when a skilled workforce and a strong management team work together that we can deliver service that the community can rely on. To these dedicated colleagues I am deeply grateful.

FOK KIN NING, CANNING

Chairman

Hong Kong, 15 March 2016