

Ten-Year Scheme of Control Statement

The Hongkong Electric Company, Limited

(a) Scheme of Control

The activities of The Hongkong Electric Company, Limited ("HEC"), a wholly-owned subsidiary of the Company, are subject to a Scheme of Control ("SOC") agreed with the Hong Kong SAR Government with a term of 10 years commencing 1st January 2009 and a Government option to extend the agreement for a further term of 5 years.

The agreement provides for HEC 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% (2008: 13.5% of average net fixed assets plus 1.5% of average net fixed assets acquired after 1st January 1979 from additional shareholders' investment). The Permitted Return is determined after any excess capacity adjustment, in accordance with the Annex to the SOC. An excess capacity adjustment of \$33 million was made in 2009 (2008: \$43 million). Any excess or deficiency of the gross tariff revenue over the sum of total operating costs, SOC Net Return and SOC taxation charges is transferred to/(from) a Tariff Stabilisation Fund (formerly named Development Fund) from/(to) the income statement of HEC. When transfer from the Tariff Stabilisation Fund to the income statement is required, the amount transferred shall not exceed the balance of the Tariff Stabilisation Fund. In calculating the SOC 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 Rates (2008: fixed 8%) on the average balance of the Tariff Stabilisation Fund is transferred from the income statement of HEC 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 31st December

HK\$ million	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Sales of electricity	10,331	12,704	12,452	12,326	12,310	11,442	11,263	11,522	10,911	10,543
Transfer from/(to) Fuel Clause Recovery Account	2,329	1,802	413	15	119	(443)	(726)	(724)	(740)	(801)
Other Scheme of Control revenue	63	36	455	42	56	51	66	56	59	54
Gross tariff revenue	12,723	14,542	13,320	12,383	12,485	11,050	10,603	10,854	10,230	9,796
Fuel costs	(4,104)	(3,597)	(2,167)	(1,780)	(1,887)	(1,301)	(983)	(972)	(917)	(823)
Operating costs	(1,158)	(1,283)	(1,260)	(1,155)	(1,190)	(1,105)	(918)	(833)	(848)	(845)
Interest	(91)	(166)	(369)	(186)	(128)	(83)	(195)	(196)	(359)	(590)
Depreciation and amortisation	(1,623)	(1,516)	(2,025)	(1,892)	(1,832)	(1,810)	(1,782)	(1,671)	(1,572)	(1,448)
Profit on disposal of fixed assets	-	-	-	-	-	-	317	-	-	-
Net revenue before taxation	5,747	7,980	7,499	7,370	7,448	6,751	7,042	7,182	6,534	6,090
Scheme of Control taxation	(1,025)	(1,218)	(1,331)	(1,453)	(1,314)	(1,167)	(1,193)	(1,134)	(1,010)	(862)
Net revenue after taxation	4,722	6,762	6,168	5,917	6,134	5,584	5,849	6,048	5,524	5,228
Interest on borrowed capital	103	154	307	285	181	128	218	329	524	775
Interest on incremental customers' deposits	-	1	9	9	3	-	-	-	3	3
Scheme of Control net revenue	4,825	6,917	6,484	6,211	6,318	5,712	6,067	6,377	6,051	6,006
Transfer (to)/from Tariff Stabilisation Fund	(174)	(297)	(14)	-	-	-	139	(1)	111	(160)
Shortfall in Tariff Stabilisation Fund	-	-	-	487	288	869	228	-	-	-
Permitted return	4,651	6,620	6,470	6,698	6,606	6,581	6,434	6,376	6,162	5,846
Shortfall in Tariff Stabilisation Fund	-	-	-	(487)	(288)	(869)	(228)	-	-	-
Interest on borrowed capital	(103)	(154)	(307)	(285)	(181)	(128)	(218)	(329)	(524)	(775)
Interest on incremental customers' deposits	-	(1)	(9)	(9)	(3)	-	-	-	(3)	(3)
Transfer to Rate Reduction Reserve	-	(13)	(1)	-	-	-	(6)	(11)	(15)	(14)
Net return	4,548	6,452	6,153	5,917	6,134	5,584	5,982	6,036	5,620	5,054