

CEO'S REPORT



A SUCCESSFUL INAUGURAL YEAR

This annual report is a milestone for HKEI, marking the completion of our first year of operations since listing on the Main Board of the Hong Kong Stock Exchange on 29 January 2014.

At this important time in our history, we are mindful of our pledge to maintain our legacy of excellence in power provision, and to allocate 100% of our distributable income. We are proud to say that we achieved both during the year.

Throughout this inaugural year, our focus has been to uphold our high standards of reliability and customer service excellence, and to maintain our ethos of environmental stewardship. We also continued to engage with the Hong Kong community and help the underprivileged.





Reliable power to meet Hong Kong's needs

HK Electric has a total installed capacity of 3,737 MW. We generated over 12,000 GWh of electricity during the year, which was distributed to our customer base of 570,000 (2013: 569,000) on Hong Kong Island and Lamma Island. Electricity sales increased by 1.7% to 10,955 million kWh (2013: 10,773 million kWh) due to warmer weather during the second and third quarters of the year.

Lamma Power Station (LPS) is responsible for our generation activities. LPS operates eight coal-fired units, two gas-fired combined cycle units, five oil-fired open cycle gas turbine units, a solar power system consisting of 8,662 thin-film photovoltaic panels mounted on LPS's building rooftops, open space and hill slope, and one commercial-scale wind turbine.

In 2014 a major scheduled maintenance exercise was successfully completed on L9, the most efficient base-load natural gas-fired combined cycle generating unit at LPS. Components were replaced and enhancements were carried out to assure continued high reliability and availability.

To maintain the reliability of the shunt reactors at the LPS 275 kV Switching Station and enhance power quality, an aging 100 MVar shunt reactor was replaced with a new one of the same rating. This new shunt reactor is also equipped with oil pumps to assist cooling. It was commissioned in March 2014.

After more than 30 years of operation, various water supply systems at LPS, including freshwater, potable water, fire service water and hydrant supply water, have shown signs of aging. Therefore, the company embarked upon a

major refurbishment project in 2014, with the main areas targeted for completion in 2017. For the rehabilitation of underground fire hydrant pipes, we have been using a new slip-liner insertion method as far as possible to reduce cost.

In 2012 LPS was awarded a PAS55-1 Asset Management Certificate for "Asset Management for Generation of Electricity". In 2014 the Station successfully aligned its management system with the new ISO 55001 standard and in May 2014 passed a conversion audit conducted by the Hong Kong Quality Assurance Agency (HKQAA), an independent third party certification body established by the Government. The Station was then awarded with an ISO 55001 Certificate for "Asset Management for Generation of Electricity" by the HKQAA. This ISO certificate was among the first batch of its kind in Hong Kong.

Pursuing a vision for green energy

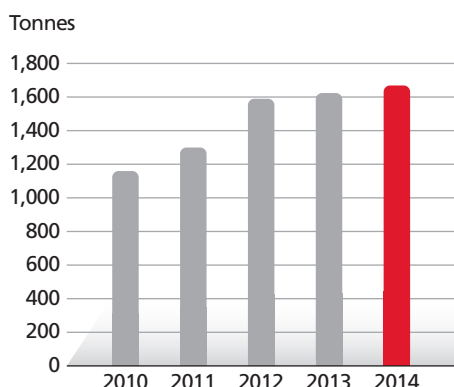
In 2014 natural gas comprised over 30% of our total power output, with low-sulphur coal being the other main fuel. We continued to source our fuel from a range of global sources that adhere to our strict sustainability standards; liquefied natural gas (LNG) was primarily sourced from Australia and Qatar, and our coal supply came from Indonesia and Russia. During the year we extended an existing contract with one of our major liquefied natural gas suppliers, CNOOC Gas & Power Group Limited, to secure a stable supply of natural gas.

Fuel prices remained soft throughout the year, allowing us to lower the fuel clause charge, which could totally offset the slight increase in our basic tariff for 2015, resulting in zero tariff increase to our customers.



Lamma Power Station generates clean electricity to power Hong Kong Island and Lamma Island.

Reduction in Carbon Dioxide Emissions with Lamma Winds and Solar Power System



We continued to pursue our vision of generating as much renewable energy as possible. The iconic Lamma Winds generated 900,000 kWh of green electricity in 2014, enough to supply 257 households. At the same time, the solar power system at LPS produced 1,102,000 kWh of green power. Together, our wind and solar power systems combined to help reduce about 1,660 tonnes of carbon dioxide emissions during the year, equivalent to planting approximately 72,000 trees.

Multifaceted approach to minimise emissions

Cleaner fuels and advanced emissions control equipment underpin our environmental performance strategy, and once again we outperformed the emissions targets set by the Government in 2014.

During the year we worked closely with the Government to review our emissions targets from 2019 onwards, when our emissions allowances will be further tightened by 18% for SO₂, 5% for NO_x and 20% for RSP from their 2017 levels as prescribed in the Government Technical Memorandum 3.



The solar power system makes use of rooftops and open space at Lamma Power Station.

Helping make Hong Kong a data centre hub



As companies in Asia Pacific move towards analytics-based customer engagement, there is increasingly strong demand for data centres. This trend is expected to continue in the coming years. Data centres are usually high consumers of electricity with high load factors. During the year HK Electric set up a task force with the mandate to provide the energy infrastructure that Hong Kong needs to become a location of choice for data centres.

Under this initiative, a number of actions were undertaken during the year, including collecting information to understand the operational and business requirements of large and small data centres, and designing dedicated services for data centre customers.



With an ongoing programme of upgrades to our emissions reduction equipment and proactive management of our fuel mix, we are confident that we can meet these stringent new targets.

As part of our 2014-2018 Five-year Development Plan, we will further increase our gas-fired generation capacity. To achieve this goal, during the year we commenced preparatory work for the installation of a new gas-fired generating unit at LPS pending the Government's written approval. The new unit, which will be called L10, will help us sustain the proportion of electricity generated from natural gas without any compromise on our standards for supply reliability. The unit is expected to be commissioned in 2020 and will replace an old converted gas-fired combined cycle unit.

Contributing our views to Hong Kong's energy future

In 2014 the Government conducted a three-month public consultation exercise to understand the community's views on its preferred fuel mix for electricity generation in Hong Kong. The consultation ended on 18 June 2014, with over 80,000 responses received by the Environment Bureau.

Following a comprehensive stakeholder engagement exercise, we submitted our response to the Government supporting the option of keeping power generation local, and increasing the proportion of natural gas in the fuel mix to 60 per cent. We are confident that this option would continue to ensure a reliable power supply, with affordable tariff and better environmental performance. We are pleased to know that, according to the Government, our view has emerged as the mainstream opinion during the consultation.



An always-on network for a 24 x 7 city

HK Electric's transmission and distribution network is monitored by a remote monitoring and control system, run on a state-of-the-art IT platform at our System Control Centre. To minimise system outages due to inclement weather, and to reduce visual impact on the environment, we have an almost entirely subterranean transmission network using 275 kV and 132 kV underground and submarine cables.

The System Control Centre monitors network performance around the clock and initiates the procedures needed to restore power supply promptly in the event of a high voltage fault. The centre has sophisticated computer systems with smart grid features that ensure safe, reliable and efficient system operation. During the year we commenced upgrading the system to the next generation, incorporating enhanced smart and green grid features. It is due for commissioning in 2016.

We consistently pursue an aggressive schedule of proactive network maintenance and improvement, using early detection and modern diagnostics. By the end of 2014 we had finished testing all the 11 kV outgoing feeder cables at our 25 zone substations to identify components needing replacement. The replacement project is currently in progress. In 2013 three of our zone substations were retrofitted with on-line partial discharge detection systems

to monitor the conditions of the switchgear and cables. Following satisfactory performance of the system in 2014, we now plan to retrofit 11 more zone substations with the system over the next two years.

Our 275 kV shunt reactors are responsible for controlling the system's reactive power and voltage. In 2014 an important component of our network upgrade programme was the replacement of the Nam Fung Road 275 kV shunt reactor No. 2 with a new 100 MVar version. The corresponding 275 kV load break switch was upgraded with synchronous control mechanism. The new reactor was commissioned in August 2014.



Sophisticated computer systems at the System Control Centre ensure safe and efficient operations.

The North Point 132 kV switching station facilitates the interconnection between HK Electric and CLP Power's networks, and also acts as the switching hub for HK Electric's 132 kV system. To improve supply reliability, new equipment and cabling was commissioned at the North Point station during the year. Further improvement work will be conducted from 2015 to 2017.

Other facilities across our transmission and distribution network that received upgrades included the Pokfulam Zone Substation, the City Garden Zone Substation and the Taikoo Zone Substation. During the year 39 new distribution substations were commissioned, bringing the total number of substations we operate across our network to 3,835. In addition, a total of 94 km of distribution cables were laid.



Equipment upgrades at the North Point 132 kV Switching Station help maintain reliability.



Powering MTR's West Island Line extension

The MTR West Island Line is a 3 km extension of the existing Island Line, lengthening Hong Kong Island's mass transit railway system to serve Western District. The extension route, consisting of three stations at Sai Ying Pun, The University of Hong Kong and Kennedy Town, started commercial operations on 28 December 2014 (with the exception of Sai Ying Pun Station, which is targeted to open in early 2015).

We have installed and commissioned a new transformer at Admiralty Substation, together with the associated cable circuit from the Tamar 132 kV Switching Station, to meet the new electricity demand of the West Island Line. Two other aging transformers at Admiralty Substation supplying the existing Island Line will be replaced in 2015 and 2016 to enhance supply reliability.



Photo courtesy of MTR Corporation

Regular reviews and enhancements were carried out to ensure that our business-critical information technology systems are protected according to international standards.

During the year HK Electric completed the migration process from the PAS55-1 standard to the new ISO 55001 standard for asset management of our transmission and distribution systems. In October 2014 a conversion audit was carried out by the HKQAA. The audit confirmed that our systems were compliant with the new standard, and we subsequently acquired the ISO 55001 certificate.

Taking a life-cycle and risk-based approach to the asset management of our transmission and distribution systems, and continuously monitoring the network, contributed to our record-breaking reliability performance of over 99.999% for the 18th year in a row.

Running a clean, green operation

Across every facet of our operations, spanning generation, transmission and distribution as well as corporate office functions, we strive to attain efficiencies in every activity, no matter how big or small, by encouraging and facilitating environmental awareness among our staff. We also install systems that minimise waste or recycle it.



To reduce waste, we instituted a system of advance meal booking at LPS and our corporate offices, which gives caterers a more accurate estimate of the quantity of food needed. Taking conservation one step further, the surplus capacity of the food-waste eliminators at our LPS was then redeployed to process other organic waste, such as grass trimmings generated from landscape maintenance activity. Meanwhile, the LPS rainwater and wastewater collection system accumulated more than 109,200 m³ of water for reuse in 2014, thereby reducing the volume of town water used by the power station.

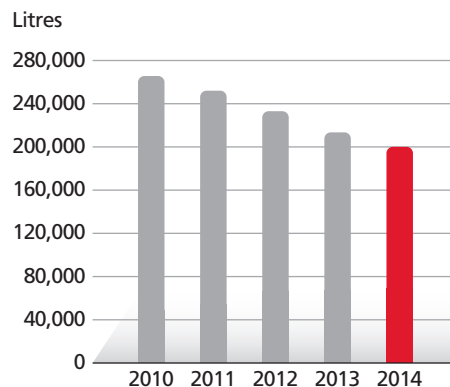


The 4Rs are integrated into day-to-day operations, such as recycling garden and food waste.

Following the ISO 50001 Certification on the Administration & Control Building at LPS in 2013, we further expanded the scope of certification to the Fire & Security Building at LPS during the year under review. The certification audit was completed in October 2014. HK Electric is the first public utility that has been certified with the ISO 50001 Energy Management System by the HKQAA. By adopting this energy management system, we can ensure that energy is consumed in an efficient, accountable and responsible manner in these buildings.

Of our 265 vehicles, we operate 59 environmentally friendly electric vehicles (EVs), representing over 22% of the fleet. This use of EVs allowed us to reduce the fuel consumption of our regular vehicles by 6%, or 12,778 litres, compared to 2013. We support the wider use of EVs across Hong Kong to improve roadside air quality. To this end, we operate seven EV standard charging stations and four EV quick charging stations at various locations on Hong Kong Island. These are free for the public to use until the end of 2015.

Fuel Consumption of HK Electric Vehicle Fleet



Campaigning for energy conservation

Our conservation campaign extends to helping our customers improve the energy efficiency of their homes and businesses, too. In 2014 we conducted more than 50 free energy audits to help business customers identify energy-saving opportunities at their premises.

We also established a Smart Power Fund to help older residential buildings enhance their energy efficiency performance by offering technical advice and subsidies for improvement projects. Eligible buildings have until 2018 to apply for funding and in 2014 the fund approved \$965,000 for six projects.



Smart Power Fund subsidises improvements to energy efficiency in old buildings.



To increase paperless operations, we once again ran a campaign asking customers to opt for e-bills and provided cash incentives to encourage them making the switch. To improve accessibility, our bill formats were improved to make them easier to read and use.

Keeping our customer service promise

For the 15th year in a row, we achieved or surpassed all of our 18 pledged customer service standards in 2014.

During the year under review we successfully secured financial incentives under the Scheme of Control Agreement for the attainment of three customer performance indices: the Average Supply Availability Index, Appointment Punctuality Index, and Connection and Supply Performance Index. Average waiting times for telephone enquiry services and counter services at our Customer Centre were less than 9 seconds and 3.5 minutes respectively. The number of commendations we received from satisfied customers reached a record high.



24-hour telephone services offer customers emergency support.

Our Customer Emergency Service Centre (CESC) provides round-the-clock emergency telephone call services to our customers, using an integrated Service Call Information System. The average waiting time for telephone calls to CESC in 2014 was 1.38 seconds, surpassing our pledged service standard of 9 seconds.

HK Electric staff trained to use sign language to communicate with hearing-impaired customers.



To further extend our care for the needy in society, in 2014, we organised a sign language course for our frontline staff at the Customer Centre in partnership with the Hong Kong Society for the Deaf to enhance the company's communication with hearing-impaired customers.

During the year we completed an extensive upgrade programme to the IT systems underlying our customer database, as well as the customer service delivery and billing platform, in order to improve efficiency. We are now in the process of upgrading our call centre system platform, which includes installing a new telephony system and customer relationship management system to improve the operational efficiency and effectiveness of the call centre. The implementation is scheduled for completion in March 2016.

Hong Kong has over 300,000 small-to-medium-sized enterprises (SMEs), which contribute over 48% of private sector employment. It is the lifeblood of Hong Kong's economy, and we consider it our privilege to provide special services that address the needs of the city's SMEs. This year we further streamlined our application process to shorten the time required for customers to obtain electricity supply. We also extended our fast-track checking service for supply availability, helping more SMEs receive connections quickly. Our SME services led us to be named "Best SME's Partner" by the Hong Kong General Chamber of Small and Medium Business and a "Hong Kong Star Brands (Enterprise)" by The Hong Kong Small and Medium Enterprises Association.

We look to the future with confidence and optimism. Our generation base is evolving to address new regulatory guidelines, and to provide Hong Kong with a cleaner supply of electricity at reliability levels in excess of 99.999%. We are rolling out systems and processes that will help us achieve and surpass even more stringent service delivery standards, at a tariff that is lower than most other places in the world.





A SUSTAINABLE FUTURE

As a leader in Hong Kong's business community we consider it our responsibility to care for the society that we operate in. We do this through environmental consciousness in all our actions, the promotion of energy efficiency among Hong Kong's consumers and treatment of all our stakeholders with respect and consideration.

Our activities to engage with and support the wider community are steered by a senior-level Corporate Social Responsibility (CSR) Committee, chaired by the Chief Executive Officer. The committee meets regularly to review our CSR strategies and provides guidance and direction to our efforts.



Stakeholder engagement initiatives

We engage extensively with our stakeholders to provide them with an insight into our operations. Community representatives' visits to our power station and substations are a regular feature of our calendar. Over 200 visits were organised in 2014 for business partners, local communities, opinion leaders and students to our facilities at LPS and other premises.

The HK Electric Customer Liaison Group (CLG), established in 1992, serves as a formal platform for us to communicate and engage with our customers, whose feedback has helped refine our services. In 2014 there were 50 CLG members and a meeting was held in February 2014 followed by a visit to Marsh Road Station Building in May to inform members of the company's latest developments.

We maintain close ties with the Hong Kong community and our five district liaison teams help through increased presence to promote mutual understanding. They serve as the contact points and an important channel to follow up on complaints, enquiries and requests from local community leaders and District Council members. The teams also support the services and efforts of local NGOs and participate in district activities and celebrations.

Employer of choice

We employ staff in careers ranging from engineering to customer care. We have policies and systems in place to attract the finest talent Hong Kong has to offer and to nurture them for a fulfilling career. In 2014, 16.8% of our employees and 9.1% of senior management are women. With a voluntary turnover rate of 4%, we have a committed and loyal workforce.

HK Electric Institute

In October 2014 we inaugurated the HK Electric Institute. The Institute offers a structured portfolio of training programmes that will strengthen the technical knowledge of our employees and accelerate their professional development. The Institute aims to enhance our existing training programmes in respect of quality, scope and depth of the subjects taught. Both retirees and existing employees who were subject experts of specific engineering topics have been invited to be honorary lecturers in order to leverage their immense knowledge and experience.



Our sustained success depends on the quality of our employees and our rigorous recruitment process ensures we identify the best talent. To encourage more young people to take up engineering as a career we participate in several local career fairs and expos.

In 2014, 23 graduate trainees, 16 technician trainees and 10 craft apprentices benefited from our structured trainee programmes, which provide comprehensive training for candidates and equip them with the skills necessary for a competent engineer. Graduate trainees are assigned to an



Stakeholder visits to Lamma Power Station improve mutual understanding.

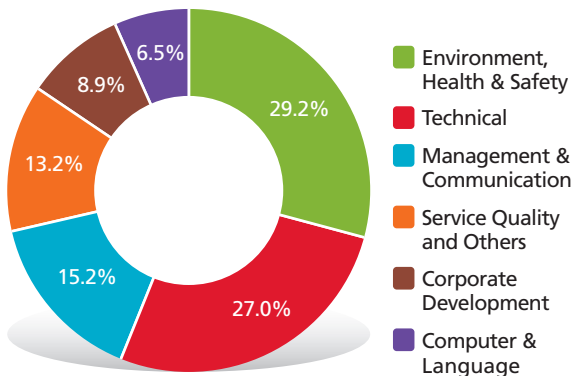


engineering department for a tailored “Direct Objective Training” to offer more chances to learn on-the-job while carrying out intensive projects.

A fair and competitive remuneration package is the cornerstone of being the employer of choice. Our remuneration packages are reviewed annually against relevant industries and organisations. In 2014 we continued our “pay-for-performance” policy that recognises initiative, effort and achievements.

We are committed to providing equal opportunities for all our employees who are appraised and rewarded for their contribution, performance and skill. In addition, we do not tolerate discrimination, harassment, vilification and victimisation under any circumstances in the workplace.

The Distribution of Training Hours



Training enables our people to improve their performance and stay motivated. In 2014 we offered 38.2 hours of training per employee covering not only ongoing skills-based training but also wellness programmes that offer holistic skills to better manage their lifestyles. These included a series of “7 Habits of Highly Effective People” workshop for over 200 managers and supervisors to encourage changes in work behavior by focusing on results and productive collaboration.

Effective communication is one of our priorities and the Joint Consultation Committee is an important platform for communication and consultation between employees and management. In 2014 elections were held to select 72 representatives for a two-year term. The committee held 16 meetings during the year.

Safe and productive workplace

HK Electric is eager to nurture a culture that is mindful not only of one’s own safety but also that of others. In 2014, the power station achieved 269 days of continuous operation

without disabling injury. The transmission and distribution network completed the entire year without disabling injuries and the cumulative achievement stands at 1,484 days.

The accredited OHSAS 18001 Safety Management System guides our policies and activities to create a safe working environment. The award-winning Work Safe Behaviour programme instituted in 2013, as well as a range of training and promotion campaigns for employees and contractors continued during the year.

Apart from workplace safety we follow a holistic approach to looking after employees’ health and across the year we organised approximately 20 talks, campaigns and workshops to provide employees and contractors with techniques to manage their own well-being, from precautions and tips relating to occupational health to health seminars.

Our efforts towards promoting a safe and healthy attitude to work were recognised in the 13th Hong Kong Occupational Safety and Health Award jointly organised by Occupational Safety and Health Council (OSHC), the Government and 13 other organisations. In 2014, 120 organisations competed for awards in nine categories. HK Electric won five awards at the event including the Gold Award for promoting work safe behaviour. We also won four occupational safety and health awards from OSHC and Labour Department.

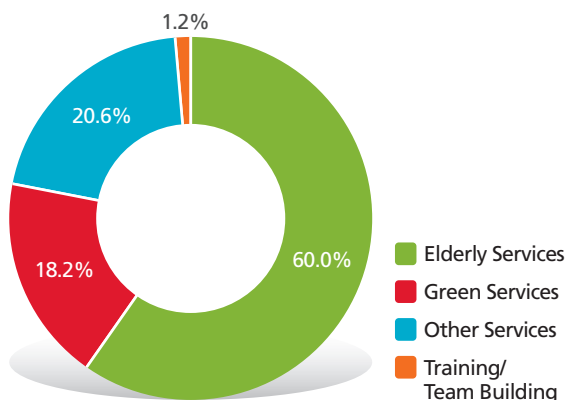


HK Electric's CEO Mr. Wan Chi-tin joins home visits to the elderly.

Community services

Hong Kong is our home in every sense of the word and we are deeply involved in its social fabric. Making a meaningful contribution to the community is an integral part of our mission and 2014 saw the 10th anniversary of our 889-strong team of volunteers, comprising almost half of our entire workforce. During the year, the team participated in 391 voluntary service initiatives, providing 5,665.5 service hours, engaging in services

Volunteers Team: 5,665.5 Service Hours



such as electrical inspections, provision of hot meals for the underprivileged, elderly and environmental services, mentorship programmes and many others. Services for the elderly and efforts to promote a green Hong Kong form the mainstay of our volunteering efforts.

Founded in 2006 by HK Electric and the Hong Kong Council of Social Service, the University of the Third Age (U3A) promotes lifelong learning and volunteerism among the retired population in Hong Kong. U3A leaders offered 769 courses in 2014, providing 14,349 learning opportunities for the pursuit of knowledge and interests, while encouraging healthy living and community service.

Now in its sixth year, "CAREnival for the Elderly", our flagship elderly care programme, is a scheme of monthly home visits to the single elderly conducted by HK Electric volunteers and elderly ambassadors. Partnering with five elderly service organisations on Hong Kong Island, we conducted more than 300 visits in 2014, encouraging single elders to reach out for help and providing assistance through the purchase of bulky daily necessities. Training was provided to volunteers and elderly ambassadors in June on electricity safety at home, fall prevention tips, and benefits provided to older persons by the Government and major public utilities.

Building on the positive feedback received, the programme has been extended to include the Central & Western District Council (DC) and Wan Chai DC as partners. HK Electric volunteers, with the support of district liaison team members and volunteers from the two DCs, have visited over 400 older persons living alone in the two districts.

Establishing environmental awareness

We embrace our 4R policy (reduce, reuse, recycle and recover) to reduce our consumption of resources every year and measure our progress against preset targets.

Good Neighbour Programme

In 2014 our Good Neighbour Programme provided funding for employees to launch four of their own community projects to support the needy in society. A "Language Café" gave students opportunities to speak English outside the classroom. A visual skills training equipped students from socially deprived families with the techniques to take wedding and family photos for elderly people. Other projects included visits to retired employees and improvements in service standards of orphanages for children with disabilities in mainland China.



About 400 employees took part in the corporate green campaign launched by HK Electric in support of World Environment Day 2014. The campaign, which ran for a month between May and June, appealed to colleagues to reduce food waste and go green around the four basic necessities of life: apparel, food, living and transport through the adoption of a list of Low Carbon Pledges. A new element for the year's campaign was the collection of used electrical / electronic appliances for reuse / recycling purposes.

HK Electric is dedicated to promoting electric cooking to improve the kitchen environment. In 2014 we supported the Green Cooking Competition jointly organised by Gourmet Magazine and Food for Good, in which celebrities including Michelin starred chefs prepared food in all-electric kitchens.

The HK Electric Home Management Centre (HMC) promotes a low-carbon lifestyle through courses that promote environmentally friendly electric living. During the year, 920 cooking and interest courses were organised alongside promotional activities including cooking contests for secondary school students. HMC Club members were



The Smart Power Campaign promotes wise energy use among the younger generations.

invited to join exclusive activities to meet with celebrities to share the joy of cooking and healthy lifestyle tips through electric cooking.

To create a green supply chain five sessions were held for our suppliers in 2014 to educate them on the HK Electric environmental policy, code of practice for suppliers and green purchasing policy, principles and guidelines. The feedback received from participants will help us improve our processes.

In support of local green groups, HK Electric participated in WWF's "Earth Hour 2014" by switching off the external and decorative lighting at nine of the company's buildings for one hour. Some of the other initiatives and functions by local green groups that we supported include "Clean Up the World in Hong Kong" and "Coastal International Clean-up".

Green Campaigns

The Smart Power Campaign educated students on upcycling through 11 workshops co-organised with The Conservancy Association and Friends of the Earth. We also continued to recognise "green" schools through the "Happy Green School" initiative, with our network expanding to 274 schools in 2014.



Following the success of the inaugural Green Hong Kong Green Eco-Festival in 2013, we organised a second eco-tour festival in 2014. The day-long event saw over 1,200 people participating in eco-heritage tours and enjoying a carnival with fun and games around a green theme. The Green Hong Kong Green app has been immensely popular and received more than 12,000 downloads.

Monthly eco-tours continued on Hong Kong's eight eco-heritage routes with over 1,600 participants attending in 2014. An independent social impact assessment concluded that the programme had been successful in increasing environmental awareness as well as tourism to Lamma Island. Feedback made in the assessment will enable further improvement of the programme.

Sustainability performance and disclosure

In 2014, we published our first Sustainability Report after separate listing detailing HK Electric's 2013 performance on sustainability to improve transparency and stakeholder accountability. The report conforms to the Global Reporting Initiative's Sustainability Reporting Guidelines with external independent assurance. Our Sustainability Reports are available on the HKEI website at www.hkei.hk.

As a participant in the Carbon Disclosure Project (CDP) we report annually on our performance and progress in greenhouse gas emission reduction. During the year we also provided information about the risks arising from water scarcity and our water saving initiatives to the CDP. In 2014, HKEI was awarded with a position on the Asia ex-Japan Climate Disclosure Leadership Index under the CDP.

Our way forward

As a mainstay of Hong Kong's community we consider it an important part of our role to care for the environment and community we operate in. To this end we will continue to review and constantly enhance our programmes to help enable a clean, green and caring Hong Kong for future generations.

Wan Chi Tin

Chief Executive Officer
Hong Kong, 10 February 2015

Celebrity chefs demonstrate healthy electric cooking to HMC students.

