CHAIRMAN'S STATEMENT

In the context of geopolitical and macroeconomic changes affecting the energy sector worldwide, Power Assets maintained its focus on selective investments in reliable assets for steady growth and recurring returns. Our performance has demonstrated not only the resilience of our strategy and investments, but also our capacity to accommodate and lead advancement in technology for a sustainable low carbon economy.

In July 2016 we made our largest investment since the spinning off of the Hong Kong electricity business three years ago, by acquiring a 48.75% interest in the mid-stream assets of Husky Energy Inc. ("Husky"). Husky operates approximately 1,900 kilometres of oil pipeline in the Lloydminster region and has oil storage capacity of 4.1 million barrels at Hardisty and Lloydminster. Our share of Husky's pipeline portfolio in Canada connects us to a growing market with consistent returns. This is in tune with our long-standing strategy of focussing on dependable investments in low-risk markets that deliver steady returns over the long-term economic cycle.

The Husky investment augments our energy portfolio and expands our presence in North America in the oil transmission and storage sector. The Group's operating companies are spread across North America, Europe, Asia, Australia and New Zealand and include power generation, electricity and gas distribution networks and oil transmission businesses.

In Hong Kong, good progress has been made in charting the way forward for the local electricity market post 2018. Discussions between The Hongkong Electric Company, Limited ("HK Electric") and the Hong Kong Government over the future regulatory regime are expected to yield positive outcomes. We support the company's view that it is in Hong Kong's best interest if the current scheme of control arrangement is maintained to incentivise long-term investments necessary to meet the Government's policy objectives.

Results and dividends

The Group's 2016 audited profits attributable to shareholders amounted to HK$6,417 million (2015: HK$7,732 million). Earnings per share was HK$3.01 (2015: HK$3.62).

The decrease in the Group's profit was primarily due to the weakening of the pound sterling, a lower UK deferred tax credit adjustment when compared with that of last year, a reduction of shareholding in the HK Electric Investments and HK Electric Investments Limited from 49.9% to 33.37% since 9 June 2015 and reversal of provisions and expenses in 2015.

The Directors have earlier declared a one-off special interim dividend in cash of HK$5 per share for 2016, paid out on 28 February 2017. The special interim dividend was distributed in order to address shareholder expectations while keeping in view the Group's need to preserve its financial capacity for future acquisitions.

The Directors will recommend a final dividend of HK$2.02 per share, payable on 25 May 2017 to those persons registered as shareholders on 16 May 2017. This, together with the interim dividend of HK$0.70 per share and special interim dividend of HK$5 per share, takes the total dividend for the year to HK$7.72 per share (2015: HK$2.70 per share).

Operational excellence in key markets

In 2016, Group companies recorded sustainable, organic revenue growth, while maintaining high standards of customer satisfaction. We are insulated from short term cyclicity by regulated revenue schemes or long-term, off-take contracts. All these factors contributed substantially to the Group's robust financial performance.

In the UK, our largest market, our businesses operate in essential services sectors under regulated income regimes. The four Group operating companies in the market earned steady revenues, achieving awards from the regulator for efficient operation and exemplary performance in customer service. The impact of the 'Brexit' decision was limited to reported earnings due to exchange rate uncertainty.

Our operating companies embraced the UK's decarbonisation policy. UK Power Networks became the first distributed generation system to install a commercial scale battery storage system and was at the forefront of research into distributed network system operations. These initiatives will enable us to accommodate disruptive generation from solar power and commercial scale battery installations. Northern Gas Networks is one of the founding organisations collaborating with the UK Government in the H21 Leeds City Gate study – aiming to significantly decarbonise parts of the existing gas system. Wales & West Utilities continues to support the development of biomethane and has connected 16 biomethane producers to the distribution network. Seabank Power completed a lifetime extension maintenance outage for its Module 2 generation unit in 2016 and participated in the UK's capacity auctions to augment the country's electricity supply during times of stress.

In Australia, all our regulated electricity distribution businesses are now under the new regulatory regime, and will consequently enjoy predictable revenues for its duration. Our Australian businesses have been proactive with customer oriented initiatives to tackle the growth of distributed generation, especially solar. SA Power Networks commenced trials of residential battery storage systems to manage solar energy for residential power grids. This exercise will not only yield valuable insights on the long-term management of distributed generation, but also provide customers with the ability to store, use and sell energy. Victoria Power Networks began to offer smart energy services that support the deployment of large scale renewable energy and infrastructure projects and help commercial, industrial and residential customers optimise their usage of self-generated and stored power. Australian Gas Networks is researching the possibility of producing renewable hydrogen for injection into its network to reduce carbon content. Australian Energy Operations completed the Ararat Wind Farm project in July 2016, and began contributing to Group revenues.

In Hong Kong, HK Electric met all of its operating parameters including its world-class reliability record of over 99.999% for twenty consecutive years. In order to meet air quality targets, the company is implementing a major replacement programme to increase the proportion of natural gas in the fuel mix with the construction of two new gas-fired combined cycle generating units. It also continued discussions with the Government on the post-2018 regulatory framework, which will shape the future development of Hong Kong's power sector. In the longer term, more gas-fired units will be built to replace retiring coal-fired units to support the Government's climate change agenda which is to reduce Hong Kong's carbon footprint by 65-70% in 2030 compared to the level in 2005. This will also help reduce the city's air emissions.

Achieving sustainable progress

Our European operating companies in Portugal and the Netherlands both deliver energy from sustainable sources and are the flagship green businesses in the Group's portfolio. Dutch Enviro Energy Holdings B.V., a market leader in the 'energy-from-waste' sector in the Netherlands, continued to increase the delivery of energy to neighbouring industries and households during the year. It is also studying the viability of delivering carbon dioxide to nearby greenhouses through carbon captured from its flue gas. Iberwind, the wind energy company in Portugal which the Group acquired in 2015, initiated a major repowering project to improve wind yield and efficiency.

In Canada, Canadian Power Holdings, working in conjunction with its partners, TransAlta Corporation and ATCO, reached an agreement with the Alberta and Federal governments to end coal-fired emission by 2030 and is embarking on a coal-to-gas conversion study for its largest generating facility, the Sheerness Coal-fired Power Station.

In mainland China, the Government is introducing gradual and progressive market reform to the power sector. We welcome these reforms and will work towards meeting new requirements. Our three coal-fired power plants in the mainland have successfully upgraded their emissions control equipment to meet the stringent near-zero emission environmental targets. Improvement works continued at the wind farms in the Yunnan and Hebei provinces to enhance productivity.

The Ratchaburi plant in Thailand delivered strong performance and achieved its efficiency target. Wellington Electricity in New Zealand performed ahead of budget during the year.

An undeviating strategy going forward

The sound performance of all the Group's operating companies in the current geopolitical climate is testament to the success of our business model based on stable income streams in well-regulated markets and high-quality, efficient operations. This is reinforced by strong management teams, excellence in operations, market-leading customer service, cost controls and returns from recently completed capital projects.

The Group continues to maintain a strong cash position in readiness for opportunities that meet our criteria, especially in developed markets like Australia, North America and Europe.

On behalf of the Board, I would like to thank shareholders for their continued support. My heartfelt gratitude and appreciation to all my colleagues across four continents and all our operating companies for their efforts. Their commitment has delivered another healthy year for the business.

Fok Kin Ning, Canning
Chairman
Hong Kong, 21 March 2017