

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 (“SoCA”) agreed with the Government. The current SoCA is effective from 1 January 2009 and will expire on 31 December 2018. In April 2017, the Government, HK Electric and HK Electric Investments Limited entered into a new SoCA for a term of 15 years from 1 January 2019 to 31 December 2033.

The current SoCA 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 SoCA. No excess capacity adjustment was made in 2017 (2016: HK\$21 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, net revenue 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.

(b) Ten-Year Scheme of Control Statement for the year ended 31 December

HK\$ million	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Sales of electricity	11,621	11,373	11,165	11,165	10,176	10,364	10,140	10,338	10,331	12,704
Transfer from Fuel Clause Recovery Account	1,904	1,206	1,861	2,994	3,510	3,867	3,755	2,794	2,329	1,802
Other Scheme of Control revenue	93	79	74	63	67	74	100	62	63	36
Gross tariff revenue	13,618	12,658	13,100	14,222	13,753	14,305	13,995	13,194	12,723	14,542
Fuel costs	(3,785)	(3,105)	(3,697)	(4,818)	(5,271)	(5,673)	(5,538)	(4,570)	(4,104)	(3,597)
Operating costs	(1,592)	(1,460)	(1,277)	(1,143)	(995)	(1,040)	(1,040)	(1,097)	(1,158)	(1,283)
Interest	(719)	(811)	(838)	(789)	(285)	(264)	(248)	(112)	(91)	(166)
Depreciation and amortisation	(2,210)	(2,127)	(2,054)	(1,988)	(1,982)	(1,919)	(1,836)	(1,793)	(1,623)	(1,516)
Net revenue before taxation	5,312	5,155	5,234	5,484	5,220	5,409	5,333	5,622	5,747	7,980
Scheme of Control taxation	(698)	(1,209)	(1,140)	(1,009)	(988)	(856)	(794)	(930)	(1,025)	(1,218)
Net revenue after taxation	4,614	3,946	4,094	4,475	4,232	4,553	4,539	4,692	4,722	6,762
Interest on borrowed capital	873	821	729	690	288	271	239	118	103	154
Interest on incremental customers' deposits	-	-	-	-	-	-	-	-	-	1
Scheme of Control net revenue	5,487	4,767	4,823	5,165	4,520	4,824	4,778	4,810	4,825	6,917
Transfer from/(to) Tariff Stabilisation Fund	(291)	181	84	(249)	389	72	46	(58)	(174)	(297)
Permitted return	5,196	4,948	4,907	4,916	4,909	4,896	4,824	4,752	4,651	6,620
Interest on borrowed capital	(873)	(821)	(729)	(690)	(288)	(271)	(239)	(118)	(103)	(154)
Interest on incremental customers' deposits	-	-	-	-	-	-	-	-	-	(1)
Transfer to Smart Power Fund	(5)	(5)	(5)	(10)	-	-	-	-	-	-
Transfer to Rate Reduction Reserve	(1)	(1)	(1)	-	(1)	(1)	(1)	(1)	-	(13)
Net return	4,317	4,121	4,172	4,216	4,620	4,624	4,584	4,633	4,548	6,452