

# CHAIRMAN'S STATEMENT

## Powering Today for a Cleaner Future

Against a backdrop of transformation affecting the power sector both in Hong Kong and globally, HK Electric has always remained committed to delivering highly reliable electricity at affordable prices. Our century-old commitment to Hong Kong people is as strong as ever as I present the 2016 interim results for HKEI, which holds a 100% interest in the operating company HK Electric.

During the six months under review, HK Electric engaged with the HKSAR Government to review and discuss ways to improve the future regulatory framework that will guide the sector upon the expiry of the current Scheme of Control Agreement (SCA). It is our view, also reflected by the majority of the respondents to the Government's public consultation exercise held last year, that the current framework has performed well. It has achieved the Government's energy policy objectives of safety, reliability, affordability and environmental protection by encouraging prudent and necessary long-term investments. We expect that a satisfactory outcome in the best interests of Hong Kong going forward will be achieved.

## Half Year Results

For the six months ended 30 June 2016, HKEI's EBITDA amounted to HK\$3,817 million (2015: HK\$3,789 million) and unaudited profit attributable to holders of Share Stapled Units (SSU) was HK\$1,101 million (2015: HK\$1,205 million).

## Interim Distribution

The Board of the Trustee-Manager has declared an interim distribution of HK19.92 cents (2015: HK19.92 cents) per SSU, payable on 19 August 2016 to SSU holders whose names appear on the Share Stapled Units Register on 10 August 2016.

## Moving Towards Increased Use of Natural Gas

During the six months under review, HK Electric progressed some key initiatives in support of the Government's policy to increase the proportion of natural gas in the fuel mix to about 50% by 2020. This change in the fuel mix will also help us play a part in the battle against climate change following a global consensus reached in the Paris Climate Change Conference (COP21) held in December 2015.

Construction of the new L10 combined cycle gas-fired unit commenced in January. Piling work has made good progress and is 45% complete. Tendering for the superstructure work and building plan submissions are underway. L10 is scheduled for commissioning in 2020.

In order to obtain secure and competitive long term gas supply, HK Electric and CLP Power Hong Kong Limited are jointly conducting an Environmental Impact Assessment as part of the overall feasibility study on constructing an offshore LNG terminal using floating storage and regasification unit technology in Hong Kong waters for receiving liquefied natural gas from overseas. If the project receives Government approval, the terminal will provide direct access to and enhanced bargaining power in the international market for gas supplies. It will support our long-term goal to increase the use of natural gas to generate electricity locally, allowing us to enhance the security and reliability of natural gas supply.

### **Consistently Dependable Performance**

With milder weather in 2016 compared to 2015, unit sales for the first six months of 2016 were 0.8% lower compared with the same period last year.

HK Electric has consistently achieved excellence on two important metrics for the energy industry: supply reliability and customer service. This is the twentieth consecutive year that we have maintained a supply reliability rating of over 99.999%, with customers facing under one minute of unplanned power interruption on average per year since 2009. We once again met or surpassed all eighteen of our pledged customer service standards during the period.

During the first six months, natural gas comprised over 30% of our fuel mix, with the remainder consisting mainly of low-sulphur coal. Emissions of sulphur dioxide (SO<sub>2</sub>), nitrogen oxides (NO<sub>x</sub>) and respirable suspended particulates (RSP) remained well below statutory levels.

### **Building a Greener Hong Kong**

We progressed a number of community initiatives to help transform Hong Kong into a low-carbon city. With an annual injection of close to HK\$5 million, our Smart Power Fund provides subsidies to owners of ageing residential buildings to implement energy efficiency works or upgrades. Since the inception of the Fund in 2014, a total of 23 projects have been approved. On the education front, our Green Energy Dreams Come True programme provided funding support and technical advice to 12 schools to develop their innovative green energy projects on campus.

Electric vehicles (EV) are a key element in our strategy to support the community's efforts to improve roadside air quality. During the first six months we strengthened our technical and advisory services to residential buildings interested in installing EV charging facilities, while operating free charging facilities at public carparks. At the same time we continued to replace our retired petrol cars with EVs for operational use, making our EV fleet one of the largest in Hong Kong.

## CHAIRMAN'S STATEMENT *(Continued)*

Our Green Hong Kong Green programme which promotes public understanding of ecology and sustainable development was given the "Outstanding Partnership Project" award by the Hong Kong Council of Social Service (HKCSS) at the Caring Company Partnership Expo 2016.

### Outlook

As HK Electric continues with its ongoing discussions with the Government on improving the post-2018 regulatory framework, the coming months are crucial in shaping the long-term development of Hong Kong's power sector. We firmly believe that the future framework should be based on feedback received during the Government's public consultation – that the SCA has worked well and allowed power companies to achieve energy policy objectives; that there is no need to introduce competition to the power industry for the sake of bringing in choices; that the duration of the new framework should be maintained at ten years; and that the rate of return should be maintained at the current level to incentivise power companies to make necessary investments. We are confident that the final framework will serve to give industry participants effective regulation and reasonable returns necessary to provide Hong Kong – Asia's World City – with affordable, reliable, safe and clean energy.

We will also move forward with other initiatives to increase our use of cleaner fuels and support the Government's 2030 carbon-reduction targets yet to be formulated in response to the Paris Agreement reached at COP21.

In conclusion, I would like to extend my thanks to our employees for their dedication. Our success depends on them – and I am delighted that this year we were ranked seventh in Randstad's Top 10 Most Attractive Employers and listed as one of the "Happy Companies" in Hong Kong. My thanks also go to our loyal SSU holders for their continuous support.

**Fok Kin Ning, Canning**

*Chairman*

Hong Kong, 26 July 2016