CHAIRMAN'S STATEMENT

2019 was the first year for HK Electric Investments (HKEI) and its wholly owned subsidiary HK Electric operating under the new 2019-2033 Scheme of Control Agreement (SCA), when we made significant strides in line with our strategy to build a smarter, greener future for Hong Kong. Our initiatives in this regard fell under two umbrellas: steady migration to gas-fired generation, and support for customers in cutting their own carbon footprints. The successful synchronisation of L10, our new 380-MW gas-fired generating unit, was a major achievement during the year on this first front. At the same time, we launched a total of four funds and three schemes in 2019 under the "Smart Power Services" to promote energy efficiency and renewable energy in the community.

Infrastructure development under our 2019-2023 Development Plan continued to be our top priority. The extensive capital investments under the Plan will not only increase our assets base but also our proportion of gas-fired electricity generation from about 30% to about 70%. Apart from completing testing and commissioning works for L10, we are also constructing L11 and L12, two more gas-fired units, and have finalised plans for one of the world's largest offshore liquefied natural gas (LNG) terminals.

In order to help shape the way forward for carbon reduction in Hong Kong, we responded to the "Long-term Decarbonisation Strategy Public Engagement" launched during the year by the Council for Sustainable Development on behalf of the Government. In the near future, we see room for further increasing the proportion of electricity we generate from natural gas, while continuously exploring ways to introduce more low or zero-carbon electricity.

When the community as a whole is involved, decarbonisation efforts can be transformative. With this philosophy in mind we believe our efforts to promote "Smart Power Services" and local renewable energy help foster widespread momentum for low-carbon lifestyles.

The year saw us upholding our solid performance on all operational fronts, in the midst of the challenges posed by the social unrest that has been gripping Hong Kong since June 2019. We put resources into innovation to drive efficiencies, enhance reliability standards and customer services.

During the year, we reflected changes in actual fuel costs on our tariff in a timely manner every month, while continuing to extend the "Special Rent & Rates Rebate" and "Special Fuel Rebate". In December 2019, we announced the tariff adjustments for 2020 and a series of relief measures to help SMEs, in particular small catering establishments, to weather the economic downturn.

Financial results and distributions

For the year ended 31 December 2019, HKEI's EBITDA was HK$7,194 million (2018: HK$8,100 million) and audited profits attributable to SSU holders was HK$2,327 million (2018: HK$3,051 million).

There has been a material drop of approximately 20% in the rate of permitted return for electricity companies under the terms of the new SCA. As a result, total distribution for the year also dropped by about 20%.

The Board of the Trustee-Manager has declared a final distribution by the Trust of HK16.09 cents (2018: HK20.12 cents) per SSU, payable on 14 April 2020 to SSU holders whose names appear on the Share Stapled Units Register on 1 April 2020. This, together with the interim distribution of HK15.94 cents (2018: HK19.92 cents) per SSU, amounts to a total distribution of HK32.03 cents (2018: HK40.04 cents) per SSU for the year.

Decarbonising to take Hong Kong to a greener and smarter future

Our 2019-2023 Development Plan focuses on moving us to a gas-fired low-emission generation model through a major programme of capital works involving the construction of three new 380-MW gas-fired generating units – L10, L11 and L12 – to replace ageing coal-fired units. 2019 witnessed significant progress as L10 was synchronised in October 2019 and commissioned in February 2020.

Construction of L11 and L12 moved to the superstructure and piling stages respectively in 2019. Once fully operational in 2022 and 2023 respectively, the two generating units will help further cut our carbon emissions. Plans for an offshore LNG terminal based on Floating Storage and Regasification Unit (FSRU) technology moved closer to implementation during the year and suppliers for the FSRU vessel as well as LNG were finalised. The contract for the terminal's engineering, procurement and construction was also awarded in January 2020. The offshore LNG terminal is scheduled for commercial operation in 2022, and will play a central role in our ability to secure gas supplies at competitive prices.

We have been encouraged by the community's response to our two major schemes to promote renewable energy despite the constraints in Hong Kong. The Feed-in Tariff (FiT) scheme has received 130 applications for solar energy installations involving a total capacity of 2.6 MW. About 60 systems have been connected to our grid, including two large-scale installations at Ocean Park and Canadian International School. The Renewable Energy Certificates (RECs) are also well received by our customers. The RECs covering the total green electricity of over 2 million kWh generated in 2019 have been fully subscribed.

To promote energy efficiency and conservation, the Smart Power Building Fund subsidised 83 buildings for improvement initiatives in 2019 while Smart Power Care Fund provided energy-efficient electrical appliances and offered subsidies to more than 1,100 underprivileged families including those living in sub-divided units.

Smart metering can enable communities to manage energy consumption more effectively. In 2019, we completed a successful pilot project of Advanced Metering Infrastructure (AMI) and smart meters, and plan to fully roll out across our entire customer base as far as practicable by end 2025. Smart meters provide customers a clearer picture of their own electricity usage in near real time with the potential to trigger energy-wise behaviours that allow them to contribute to carbon reduction while saving money.

Our long-standing support for electric vehicles (EV) through the provision of free charging facilities at 12 EV charging stations on Hong Kong Island is aligned with the

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Government's green and smart mobility push. We also handled 280 advisory service requests to help customers install EV chargers at residential and commercial buildings.

Recognition for high operating performance

Alongside these strategic projects, we maintained our focus on our most fundamental priority – ensuring high-quality, reliable power supply and excellent customer services.

We served more than 580,000 customers and delivered 10,519 million kWh of electricity over the year, and maintained our world-class reliability performance of over 99.999% for the 23rd year in a row since 1997. Another remarkable result is achieving an unplanned customer minutes lost record of less than one minute every year since 2009.

We were honoured to have received the Sustainability Award from the Hong Kong Management Association in November 2019 with special recognition in innovation. At the same time, we were recognised as the 4th most attractive company to work for amongst 75 employers in Hong Kong in the 2019 Randstad employer brand awards, motivating us to do even better in the coming years.

Outlook

The energy sector and the community at large have much to do to tackle climate change and leave the planet in a better state for future generations. In the coming year, HK Electric will continue to work in partnership with all our stakeholders to support the Government's strategic plans for decarbonisation, climate change mitigation and smart city development.

In 2020, as always, we are committed to the continued delivery of highly reliable electricity supply with a minimal environmental impact to underpin Hong Kong's status as a World City. We also pledged to work hard to ensure the smooth implementation of L11, L12 and the offshore LNG terminal projects while progressing with other strategic initiatives such as smart meter deployment.

Amid Hong Kong's economic slowdown, we have taken the matter of tariffs for 2020 very seriously. To reflect the higher fuel costs and capital expenditure associated with the substantial increase in gas-fired generation and as a result of much lower special rebates, the average net tariff for 2020 increased by 5.2% to 126.4 cents per unit of electricity, which is comparable to the level about 10 years ago – 123.3 cents in 2011. Excluding the impact of the significant reduction in the special rebates, the tariff increase was merely 1.7%.

At the same time, we have announced a package of five special relief measures to help customers, particularly SMEs, who have been hit the hardest. These include a 6-month grace period for tariff increase for about 70,000 non-residential customers, as well as subsidies and dining coupons to stimulate spending. These measures, together with the Government's subsidy schemes, will mean that almost all HK Electric customers will pay less for electricity in 2020 than in 2019.

Following the novel coronavirus outbreak in January, we have stepped up health and safety measures across our entire operation and implemented contingency plans to ensure that the potential impact on our services can be minimised.

I would like to close my report by thanking all our employees for their dedicated efforts in bringing a green energy future to Hong Kong, and our SSU holders and the Board for their continuous support.

Fok Kin Ning, Canning
Chairman
Hong Kong, 17 March 2020