

CHAIRMAN'S STATEMENT

2019 has seen HK Electric Investments (HKEI) and its wholly-owned subsidiary HK Electric move into the implementation phase of the new Scheme of Control Agreement (SCA), which is in effect for a period of 15 years. To achieve the energy efficiency and conservation and renewable energy targets under this regulatory regime, we have launched a number of related schemes, services and programmes.

We have moved forward with the initiatives under the 2019-2023 Development Plan to invest HK\$26.6 billion over the next five years in improving our electricity generation, transmission and distribution, and customer service infrastructure. These projects will allow us to significantly expand our gas-firing generation capacity and facilitate the transition to a smart grid.

As we rolled out these strategic initiatives, we remained focused on providing our customers with highly reliable electricity supply and world-class services.

Half-year Results

For the six months ended 30 June 2019, HKEI's EBITDA amounted to HK\$3,287 million (2018: HK\$3,809 million) and unaudited profit attributable to holders of Share Stapled Units (SSU) was HK\$709 million (2018: HK\$982 million).

Interim Distribution

Under the new SCA, there is a material drop of approximately 20% in the rate of permitted return for electricity companies. As a result, distributable income for the period also dropped by about 20% to HK\$1,408 million (2018: HK\$1,760 million), which will be 100% distributed to SSU holders.

The Board of the Trustee-Manager has declared an interim distribution of HK15.94 cents (2018: HK19.92 cents) per SSU, payable on 23 August 2019 to SSU holders whose names appear on the Share Stapled Units Register on 14 August 2019.

Working towards a Smart Green Energy Future

Following the approval of our 2019-2023 Development Plan, we are investing HK\$16.2 billion in new generating units and other generation facilities to replace aged coal-fired generating units and at the same time reduce carbon emission from our electricity generation.

By constructing gas-fired combined-cycle generating units L10, L11 and L12, and developing an offshore liquefied natural gas receiving terminal (LNG Terminal) using Floating Storage and Regasification Unit (FSRU) technology, we will increase our gas-fired generation to about 70% of total output by 2023 and bring carbon emissions down by more than 25% as compared with that in 2018. The emissions of sulphur dioxide, nitrogen oxides and respirable suspended particulates would also drop by 45-55%.

L10 is scheduled to commence commercial operation in January 2020, with testing and commissioning works in progress. Construction of L11 and L12 is on schedule, with commercial operation planned for 2022 and 2023 respectively. Foundation work of the main station building associated with L11 is in full swing while L12 is being constructed in tandem, and piling work is ongoing.

Good progress has been made in the development of an offshore LNG Terminal which is an important piece of infrastructure to secure gas supplies and keep our fuel costs competitive. Following Government's approval of the construction and operation of the terminal, HK Electric and Castle Peak Power Company Ltd. (CAPCO) have entered into a long-term contract with Shell Eastern Trading (Pte.) Ltd. for natural gas supply. HK Electric and CAPCO have also formed a joint venture entity which signed an agreement with Mitsui O.S.K. Lines, Ltd. for the hire of an FSRU vessel.

Advanced Metering Infrastructure (AMI) plays an important role in a smart grid, which is a crucial element of Hong Kong's transformation into a smart city. Our AMI pilot project, which was launched in 2017, continued this year. Thanks to the pilot project, we have enhanced our understanding of and expertise in essential areas from metering and telecommunications to data management and analytics. During the period, an invitation of tender with a comprehensive set of technical specifications was issued for the upcoming full-scale AMI implementation.

High Standards in Operating Performance

With milder weather in the first half of 2019, electricity sales were 1.1% lower than the same six-month period last year, which saw record high temperatures in May 2018.

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Preventive maintenance and the latest technology allowed the transmission and distribution systems to maintain supply reliability and meet the stringent targets under the new SCA. During the period, we once again met or surpassed all our pledged service standards and achieved a reliability performance of over 99.999%.

Following extreme weather events in recent years, we have carried out measures to enhance the security and resilience of our infrastructure, such as installing anti-flooding systems and replacing equipment with better flood-withstand capability at low-lying substations. We continued to identify other initiatives to further enhance supply reliability. These included replacement of our 132-kV transmission gas insulated switchgear at the Wong Nei Chong Gap and North Point Switching Stations and upgrading the 11-kV switchboards at Heung Yip and Chai Wan Zone Substations. In addition, more advanced online monitoring systems were installed in our transmission system to further enhance our asset management capabilities.

We implemented a more frequent adjustment of fuel clause charge mechanism to reflect changes in actual fuel costs in a timely and transparent manner in our tariffs. Thanks to lower fuel costs in the first half of the year, our net tariff in June was 3.3% lower than that in January 2019.

Diverse Measures to Reduce Emissions

During the period, we launched a series of Smart Power Services to promote energy efficiency and conservation in the community, and drive the development of renewable energy. These services and schemes covered areas such as energy audits, subsidies for energy-efficient appliances and improvement works, as well as Feed-in Tariff to encourage customers to set up their own renewable energy installations. We are gratified by the positive response and uptake from the community.

We met statutory requirements in respect of emissions and are set to outperform our annual emission targets for sulphur dioxide, nitrogen oxides and respirable suspended particulates.

We have agreed with the Government on a set of even more stringent emissions allowances from January 2024 as proposed under the Eighth Technical Memorandum (TM8) of the Air Pollution Control Ordinance. Subject to the vetting result of the Legislative Council, TM8 is anticipated to be promulgated within 2019. The targets proposed under TM8 are very challenging and we will make our best efforts to achieve them.

We maintained our longstanding support of electric vehicles (EV) through the provision of free EV charging services and technical support to owners wishing to install charging facilities on their premises. We responded to about 130 enquiries to facilitate the setup of EV charging facilities on customer premises and provided some 6,000 free charges at our public EV charging stations.

Promoting Energy Efficiency the Fun Way

During the period, we continued to run community programmes with the twin focus of caring for the elderly and supporting environmental conservation.

Equipped with multi-media display and interactive games, the newly-opened Smart Power Gallery in Sheung Wan promotes public understanding of energy efficiency and conservation, climate change and the move to a smart city. More than 600 visitors have enjoyed the displays and the video games in the Gallery since its inauguration in April 2019. To enhance environmental awareness among the young, the Happy Green Campaign promoted the theme “Smart Power for Smart City” through various activities.

More than 400 elderly residents had an enjoyable time learning about energy efficiency and electrical safety at CAREnJOY for the Elderly talks in the first half of 2019, while 54 U3A students-turned-Smart Power Ambassadors pursued their mission to spread green messages to their communities.

Outlook

Our top priority for the remainder of the year is to complete all aspects of construction, testing and commissioning for the commercial operation of L10 in January 2020. We are also moving full steam ahead to ensure the smooth construction of the other two new gas-fired generating units, L11 and L12, and the offshore LNG Terminal. Looking ahead, we will continue our rollout of smart meters and invest in appropriate new technologies to help Hong Kong achieve its goals under the Climate Action Plan 2030+. With the progressive build-out of the asset base, we are delivering long-term value to our SSU holders.

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Commissioned by the Hong Kong Government, the Council for Sustainable Development launched a public engagement on Hong Kong's Long-term Decarbonisation Strategy in mid-June 2019. As a major player in the city's power industry, we recognise the impact that our activities have on the environment and will actively participate in the public engagement to support the Government in mapping out Hong Kong's long-term decarbonisation strategy.

In closing, this has been a busy and productive period for HK Electric as we progress confidently to implement the different initiatives for which we have spent many months planning and preparing for. I would like to thank the Board, our SSU holders and each of our employees, without whose efforts none of this would be possible.

Fok Kin Ning, Canning

Chairman

Hong Kong, 30 July 2019