CHAIRMAN'S STATEMENT

With COVID-19 raging across the world, Hong Kong and our own operations bore the brunt of the pandemic in the first half of the year. Our priority during this challenging time has been to maintain reliable and affordable power supply for our customers while ensuring the safety and wellbeing of our employees and other stakeholders.

Our most noteworthy milestone during the period was the commissioning of L10, the first of three 380-MW gas-fired generating units to be built within the 2019-2023 Development Plan, at the end of February 2020. The launch has enabled us to make a step-change in our proportion of gas-fired electricity generation – from about 30% in previous years to about 50% in 2020 and a commensurate reduction in our coal-fired electricity generation.

Agile operations underpinned by technology have enabled us to maintain normal operations during the period: despite the social distancing measures in place, we have been able to maintain supply reliability and continue to deliver quality customer service.

At the beginning of the year we rolled out a bank of relief measures designed to benefit SMEs, particularly small caterers, and families in need. These measures are supporting the community to ride out the economic impacts of social unrest and later COVID-19.

Half-year Results

For the six months ended 30 June 2020, HKEI's EBITDA amounted to HK$3,204 million (2019: HK$3,287 million) and unaudited profit attributable to holders of Share Stapled Units (SSU) was HK$811 million (2019: HK$709 million).

Interim Distribution

Distributable income for the period was HK$1,408 million (2019: HK$1,408 million), which will be 100% distributed to SSU holders.

The Board of the Trustee-Manager has declared an interim distribution of HK15.94 cents (2019: HK15.94 cents) per SSU, payable on 28 August 2020 to SSU holders whose names appear on the Share Stapled Units Register on 19 August 2020.

Creating a Green Energy Ecosystem for Hong Kong

Our 2019-2023 Development Plan, under which we are investing HK$16.2 billion in new gas-fired generating units and other facilities to decarbonise our operations, saw steady progress. Following the commissioning of L10, work is continuing with the remaining two gas-fired generating units, L11 and L12, and the offshore liquefied natural gas terminal. This is despite ongoing travel and social distancing restrictions and occasional disruptions in the supply of machine parts and engineering expertise following the outbreak of the pandemic. While there is a short-term impact on project schedules, we are confident that construction works will be completed on time.

In support of the Government's vision to transform Hong Kong into a Smart City, we started the mass rollout of smart meters in April 2020. The deployment of smart meters and advanced metering infrastructure across our entire customer base is a complex task. Extensive preparations are required in project management, customer engagement, building IT infrastructure, implementing measures to ensure cybersecurity, and setting up a communication network. Work is in full swing with completion planned for 2025.

Maintaining Performance in Challenging Socio-economic Conditions

Electricity sales for the first half of 2020 were 4% lower than the same period last year. April 2020 in particular saw a drop in sales by almost 20% compared with the same month in 2019. The decline was predominantly due to the anti-pandemic measures in place across the city including the suspension of public services and events, and reduced business and commercial activities, as well as continuing energy conservation efforts, though hot weather in May and June has mitigated the decrease.

As we increase gas-fired generation we are incurring significantly higher fuel costs and capital expenditure. This factor, combined with lower special rebates, led to an increase of 5.2% in net tariff for 2020, to 126.4 cents per unit of electricity. The more frequent fuel clause charge adjustment mechanism allows us to reflect changes in actual fuel costs in a timely and transparent manner.

The outbreak of COVID-19 and the need to implement extensive precautionary measures have posed challenges to our operations – not only do we have to adhere to safeguarding guidelines, but as an essential utility we also have to ensure uninterrupted supply for our customers. In addition to preparing business continuity plans to maintain normal operations, we have segregated work teams and implemented social distancing and work-from-home arrangements. Face masks and hand sanitisers were distributed and office premises were cleaned and disinfected regularly. We also carried out drills to test our preparedness in dealing with COVID-19 confirmed cases should they emerge in the company.

Despite these constraints, we were able to maintain our customary high standards in supply reliability rating of over 99.999% for the first half of 2020.

Network expansion and maintenance took place as needed, with major initiatives such as network extension for the MTR's Shatin to Central Link (Hong Kong Island Section) being completed. Our focus on innovation allows us to both enhance supply reliability and ensure employee safety during this challenging time. Dozens of projects utilising technology to innovate were launched including connected home-grown low-voltage fault indicators to improve the performance of low-voltage circuits, and a facial recognition system to improve employee safety in confined spaces such as storage tanks, chambers and pits.

We once again met or surpassed all our pledged customer service standards during the period. Over the years, we have steadily been increasing the number of services we offer online or via mobile. These e-services, such as e-payment, e-forms and e-billing have proved very useful during this period as customers migrated more of their activities online. We have deployed robotic process automation to handle high-volume and repetitive tasks in our call centre in order to improve customer service through technological innovation.

Supporting Stakeholders during this Unprecedented Time

From January 2020, we have rolled out a platform of five relief measures to support SME customers, especially small catering establishments. Tariff increases were waived for a six-month grace period for more than 70,000 non-residential customers and subsidies were provided to commercial customers including SMEs to purchase energy-efficient equipment.

Separately, 180 SME caterers benefitted from a two-month electricity payment deferral scheme to ease any short-term cash flow problems. We have also distributed 40,000 sets of dining coupons worth HK$20 million in total to families in need, which will help generate additional business for SME caterers. In addition, we have provided a food and beverage subsidy to about 50 NGO-run community centres to organise events for the underprivileged.

In June, we joined other Cheung Kong Group companies in raising funds for The Community Chest by matching public contributions, thus doubling total donations to help the community through the pandemic.

While we had to suspend our routine community outreach activities in line with government guidelines, we continued to reach out through mobile devices. "CAREnJOY Non-stop" saw elders receive weekly messages with information on home electrical safety, tips on energy use, health tips and games while home visits by our volunteers are being replaced by weekly phone calls to care for and support the elderly. The Happy Green Campaign continued to promote environmental messages among younger audiences under the theme "Smart Power for Smart City" via online platforms and social media.

Climate and Emissions Reduction Focus Continues Unchanged

In 2019, we refined and strengthened our approach to achieve three of the United Nations' Sustainable Development Goals (SDGs) most appropriate to our business, namely SDG 7: Affordable and Clean Energy, SDG 9: Industry, Innovation and Infrastructure, and SDG 13: Climate Action. We have since finalised internal targets for the three SDGs with their respective actual implementation. This will provide us with a framework with which to keep track of progress of our decarbonisation and innovation efforts.

Thanks in part to our increased proportion of gas-fired generation and a commensurate reduction in our coal-fired electricity generation, we were able to reduce our emissions of nitrogen oxides, sulphur dioxide and respirable suspended particulates as well as carbon emissions.

CHAIRMAN'S STATEMENT *(Continued)*

Our suite of Smart Power Services plays an important role in promoting energy efficiency in the Hong Kong community, completing more than 100 audits of businesses for energy efficiency during the period. The Smart Power Care Fund approved more than 380 applications for relief measures and subsidies to improve energy efficiency and electrical safety, while the Smart Power Building Fund approved 22 applications for energy efficiency-related building works worth HK$6.3 million.

We connected another 26 renewable energy installations on customer premises to the grid under the Feed-in Tariff Scheme and sold Renewable Energy Certificates covering 1.7 GWh to help customers manage their own carbon footprints. The total renewable energy generated by all customer-side installations during the period was about 600 MWh.

We have expanded our support of electric vehicles (EVs) to enable electrification of public transportation in Hong Kong. We participated in initiatives relating to the development of charging stations for electric buses, the launch of electric ferries and a trial of electric mini-buses. We upgraded two of our free EV charging stations to Multi-standard Quick Chargers to make them accessible to more drivers. Apart from our 12 free EV charging stations, which recorded 8,300 charging operations during the past six months, we are supporting a pilot subsidy scheme by the Government to install charging facilities at car parks of residential buildings.

Outlook

In spite of the continued impact of the pandemic on all sectors which is expected throughout the second half of 2020, we remain committed to our pledge to deliver reliable, green energy to the residents of Hong Kong while helping the city decarbonise over the long term.

Our priority is to move forward steadfastly with the capital projects under our Development Plan. Construction works will take place under an accelerated timeline in the coming years to ensure all projects are completed on schedule.

Our objective is to serve better by achieving sustainable operations, higher efficiencies and continued progress through innovation.

In closing, my heartfelt thanks go to the board and our dedicated employees who have gone above and beyond during this challenging period.

Fok Kin Ning, Canning
Chairman

Hong Kong, 4 August 2020