CHAIRMAN'S STATEMENT

During the first half of 2022, HKEI and its wholly owned subsidiary, HK Electric, focused primarily on maintaining the right balance between providing affordable, reliable, safe, and clean electricity to the Hong Kong community while working systematically to help attain the city's decarbonisation goals. We moved ahead with the key initiatives under our Development Plan, most notably commissioning a new gas-fired combined-cycle generating unit at Lamma Power Station and planning for an offshore wind farm in Hong Kong waters.

We were not immune to the highly challenging local and international socio-economic conditions. While the fifth wave of the COVID-19 pandemic in Hong Kong has dampened the city's economic recovery, unprecedented fuel scarcities and price surges around the world placed pressure on both our fuel costs and our customers' tariff.

To support the vulnerable during this difficult time, we extended a range of relief measures, including free dining coupons and bill payment deferral for those most affected.

Half-year Results

For the six months ended 30 June 2022, HKEI's EBITDA amounted to HK$3,377 million (2021: HK$3,640 million) and unaudited profit attributable to holders of Share Stapled Units (SSU) was HK$894 million (2021: HK$880 million).

Interim Distribution

Distributable income for the period was HK$1,408 million (2021: 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 (2021: HK15.94 cents) per SSU, payable on 26 August 2022 to SSU holders whose names appear on the Share Stapled Units Register on 17 August 2022.

Strategic Transition to Green Energy

We maintained momentum on our strategic plans to transition to a green energy regime in support of Hong Kong's long-term decarbonisation goals. Our approach to accomplishing these aims is three-pronged: increase the use of natural gas, promote renewable energy, and assist community efforts to decarbonise.

Following its synchronisation into the grid in November 2021, L11, the second of the three new 380-MW gas-fired combined-cycle generating units to be built under the current Development Plan, was put into commercial operation in May 2022. With this new unit in place, our proportion of gas-fired generation will increase further. It has also allowed us to retire an older gas-fired unit (GT57) of lower efficiency.

The construction of L12, the last of the three new gas-fired generating units, remains on track for launch in 2023, having completed concreting and erection of structural steel for the main station building, with equipment erection underway. We also made headway on building a new offshore liquefied natural gas (LNG) terminal using Floating Storage and Regasification Unit technology. Shop fabrication and associated offshore installation of the jetty topside structure and equipment have been accomplished, and hook-up and pre-commissioning of the jetty topside equipment continue. The terminal is targeted to go into commercial operation by the first half of 2023. Once commissioned, the facility will provide us with greater access to natural gas at competitive prices and enhance our LNG supply reliability.

We are revisiting the development of an offshore wind farm located southwest of Lamma Island to promote the wider use of renewable energy in Hong Kong. In May, the Government approved our application for variation of an environmental permit obtained years ago, which will allow us to use more effective wind power generation technologies developed in recent years. We are conducting various technical feasibility studies covering wind data, aviation and marine traffic impacts, and wind turbine models. Once it becomes operational, the wind farm's installed capacity of around 150 MW will be capable of generating about 4% of our total electricity output, saving around 284,000 tonnes of carbon dioxide emissions every year.

In addition, customers are encouraged to install their own renewable energy systems through the Feed-in Tariff (FiT) Scheme. During the first half of the year, we connected about 50 new customer installations to the grid, and approved or processed over 250 more applications. Following the decline in solar photovoltaic system costs, the Government lowered the FiT rates to a range of HK$2.5 to HK$4 per kWh beginning on 27 April 2022.

CHAIRMAN'S STATEMENT *(Continued)*

Our Development Plan also details the deployment of smart meters and Advanced Metering Infrastructure, the data from which will empower customers to better manage and control their own electricity consumption via the HK Electric mobile app or corporate website. District-by-district rollout of these meters continued despite COVID-19 restrictions; as a result, 25% of our customer base is now equipped with smart meters. We are on track to install 240,000 meters by the end of 2022.

Other measures we are taking to enable the community to achieve its decarbonisation goals include supporting the electrification of transport and promoting energy efficiency and conservation.

As a long-term advocate and enabler of the electrification of Hong Kong's transport, both private and public, we provided technical consultancy and support to customers seeking to install charging facilities for electric vehicles (EVs) under the Government's EV-charging at Home Subsidy Scheme (EHSS) or using their own resources. We have processed about 400 applications for electricity supply, covering close to 50,000 parking spaces under the EHSS. Apart from the Scheme, we also provided one-stop service to assist other customers to install EV chargers on their premises, covering around 300 parking spaces so far. We also served as EV-charging consultants for the Government's own fleet of vehicles, as well as for public light buses, ferries, and taxis.

The funding and service schemes under the Smart Power Services umbrella successfully assisted our customers interested in cutting their own energy footprints. The Smart Power Building Fund approved 54 applications covering 71 buildings, providing a subsidy total of approximately HK$18 million for projects that will enhance energy efficiency.

Last year, to help promote green living, we launched a competition under the Happy Green Campaign inviting members of the public to illustrate their vision for a decarbonised future. This year, we used the winning designs from that competition to decorate nine of our roadside pillar boxes, furthering our aim of increasing environmental awareness.

Maintaining High Quality and Performance Standards

Electricity sales in the first half of 2022 were significantly depressed by prevailing social distancing measures and milder weather in May as compared with last year, as well as the increased uptake of energy efficiency and conservation efforts across our customer base. Electricity sales showed a decrease of 6.8% as compared to the same six-month period in 2021.

Gas-fired electricity comprised about 50% of the total output from Lamma Power Station. Proactive network maintenance and state-of-the art IT systems helped us achieve a world-leading electricity supply reliability rating of over 99.9999% with unplanned power interruption of less than 0.5 minute per customer on average. We launched a new Security Operations Centre to protect our critical information and utilities assets from cyber-attacks. During the fifth wave of the COVID-19 pandemic, we optimised the call centre system to enable our call centre agents to handle customer telephone enquiries at home when required.

We froze the basic tariff for 2022 and offered a special rebate of one cent per unit of electricity to alleviate the tariff impact on our customers under the current economic climate. We also support the new round of electricity charges subsidy from the Government, which offers a total of HK$1,000 to each eligible residential account from June 2022.

Unprecedented upward volatility in fuel prices and scarcity of fuel supply played a critical role in our operating performance during the period. Ongoing geopolitical tensions, combined with a ban on coal exports from Indonesia in the beginning of the year, drove international coal and natural gas prices to record-high levels, creating enormous fuel cost pressure for HK Electric. Although these circumstances were beyond our control, they necessitated the frequent adjustments of the fuel clause charge mechanism to reflect changes in actual fuel costs in a timely and transparent manner. As with most utilities around the world, our net tariff had to increase; the net tariff in June was about 15% higher than that in January of this year.

Community and staff support during fifth wave

The COVID-19 pandemic continued to wreak havoc on lives and livelihoods during the period under review. To help small catering establishments and underprivileged families, we issued a third round of "Care and Share" dining coupons worth a total of HK$10 million. Fifty thousand low-consumption or concessionary-tariff residential customers can use these coupons at more than 200 eateries. About 500 small caterers also benefitted from a concession that allowed them to defer for two months the payment of their electricity bills between March and May of this year.

We continued to engage with single elderly individuals via social media and online channels under the "CAREnJOY Non-stop" initiative. Limited community and volunteer services resumed on a smaller scale in May, incorporating stringent social distancing measures.

The fifth wave of the pandemic has been characterised by its quick spread; more than 400 HK Electric employees were affected, but the overall high vaccination rate of over 99% meant that most only had mild symptoms. Thanks to a host of precautionary and contingency measures, the infections have not impacted our electricity supply or services to customers.

Outlook

We are cautiously optimistic for a gradual return to normalcy for businesses and the community in the second half of the year, as the Government begins to relax social distancing measures and local vaccination rates continue to increase. Our foremost priority remains supplying reliable energy while maintaining the momentum of our decarbonisation journey. We are working hard to ensure the commissioning of the offshore LNG terminal and L12, roll out smart meters, support EVs, and develop the offshore wind farm.

However, uncertainties in the pace of economic recovery and an interest rate hike will continue to pose challenges in the immediate future. Volatility in global fuel prices, which we expect will persist for the rest of the year, remains a particular concern. We will closely monitor market changes and stay poised to secure the fuels essential to providing a stable and reliable power supply to Hong Kong.

To close, I would like to acknowledge the commitment of the Board and every one of our talented employees. All our successes and achievements are due to their efforts.

Fok Kin Ning, Canning
Chairman

Hong Kong, 2 August 2022