



A Word from our CEO

"As one of Hong Kong's major public utilities, HK Electric has an important role to play in supporting Hong Kong to face up to the reality of climate change. In doing so, we must all shoulder our collective responsibilities to protect the environment and to promote the well-being of current and future generations in this city that we call home."

Framework for a Sustainable Future

In April 2017, HK Electric concluded a new Scheme of Control Agreement (SCA) with the HKSAR Government for a 15-year period commencing 1 January 2019, following the expiry of the current SCA. The new SCA creates a stable and effective regulatory framework, which we believe will facilitate investment in essential infrastructure on a scale that is necessary for the continuous supply of safe, reliable, clean and affordable electricity for the city.

Since 1997, HK Electric's customers have been enjoying world-class supply reliability of higher than 99.999%. I am confident that under the new SCA, we will continue to deliver excellent electricity service, while playing an important role in Hong Kong's transition to a low-carbon city in line with the Government's Climate Action Plan 2030+.

Clean, yet Affordable, Energy

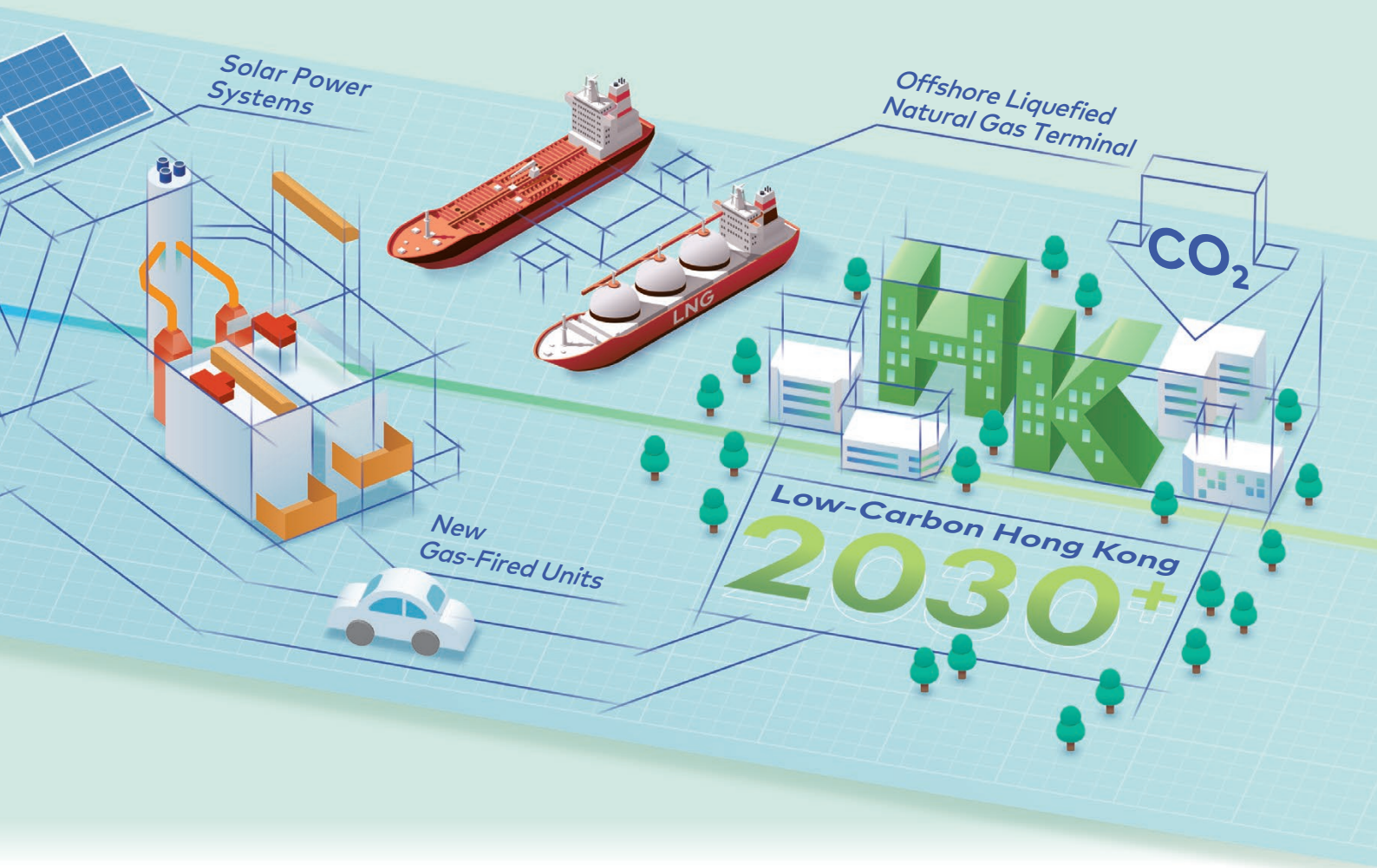
HK Electric's blueprint for clean energy calls for continued displacement of coal by natural gas as the primary fuel for power generation. We retired the oldest coal-fired unit, L1,

in 2017 and are on schedule to construct two new gas-fired units, L10 and L11, for commissioning in 2020 and 2022 respectively. By that time, the share of gas-fired generation in total power output from Lamma Power Station will increase to 55%. This will help further reduce emissions and contribute to lower carbon intensity and better air quality for Hong Kong.

We are mindful that switching from coal to natural gas will lead to higher fuel and operating costs, and we will strive to keep tariffs affordable for our customers. For example, we are working hard to secure an additional supply of natural gas on competitive terms by partnering with CLP Power to develop an offshore liquefied natural gas terminal that would allow us to gain direct access to the international market and thereby increase our bargaining power to negotiate reasonable prices for natural gas.

Sustainable Energy, Sustainable Society

As part of our blueprint, HK Electric is working closely with the community to promote sustainable development of our economy and society. Under the new SCA, we will be



introducing additional measures to encourage energy efficiency and conservation through funding and education programmes, as well as facilitating greater public participation in electricity generation from renewable energy sources.

For many years, we have been collaborating successfully with social service partners and green groups to help address social and environmental challenges in our city. We believe that community investment takes time and commitment to see results. Hence, we will maintain our focus on environmental education and satisfying the needs of Hong Kong's increasing ageing population through various community care and engagement programmes, all of which I have personally supported.

Rising to the Challenge

I am delighted by the various awards bestowed on HK Electric during the year, including the prestigious Grand Award of the Hong Kong Management Association Quality Award. The judging panel's assessment of our strong management systems, good corporate governance and

operational flexibility reaffirms my confidence in HK Electric and our prospects for achieving the vision to excel in the power business in Hong Kong. We will continue to strengthen our capabilities for innovation and strategic management so that we can face up to the challenges and seize the opportunities that lie ahead.

Finally, I wish to extend my thanks to our stakeholders – most importantly our shareholders, customers and employees – for their continued support. I invite you to read in this report about how we are doing to manage environmental impacts of our operations and create shared value for the community. I look forward to working together with all of you to implement our blueprint for a better and sustainable future.

Wan Chi-tin

Chief Executive Officer

March 2018