



A Word from our CEO



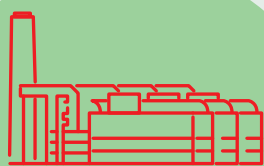


2018 was a special year for HKEI; not only did it mark the successful completion of our previous 10-year Scheme of Control Agreement (SCA) with the HKSAR Government, but we also received approval for our 2019-2023 Development Plan which maps out various pathways for us to help build a smarter and more sustainable Hong Kong.

As we embark on another chapter of our business under the new 15-year SCA, we look back on our performance over the past decade, and ahead to how we will meet the expectations of our stakeholders in the years to come. By building on our firm foundations, I am confident we will live up to the theme of this report – Greener Power | Going Further.

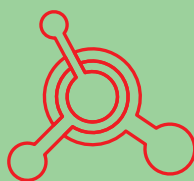
our 2019-2023 Development Plan outlines new investments totalling

HK\$ **26.6** billion



HK\$ **16.2** billion (61%)

Power Generation
System



HK\$ **9.1** billion (34%)

Transmission and
Distribution System



HK\$ **1.3** billion (5%)

Customer and
Corporate Services
Development



TAKING PRIDE IN OUR ACHIEVEMENTS

I know I speak for my colleagues here at HK Electric, our main operating company, that we are proud of the company's notable achievements in supplying Hong Kong with reliable, affordable, clean and safe electricity over the period of the previous SCA from 2009 to 2018.

In addition to maintaining our world-class supply reliability rating, we have honoured the 5-year tariff freeze pledge we made in 2013, while our operations at Lamma Power Station have also continued to evolve with the times. Over the last decade, we have adopted new technologies to utilise cleaner fuel and renewable energy (RE) for power generation and implemented a comprehensive emission control regime to help combat climate change and improve Hong Kong's air quality.

Winning the Grand Award of the Hong Kong Management Association Quality Award in 2017 was a great encouragement to us. The judging panel's positive assessment of our strong management systems, good corporate governance and operational excellence crystallised our vision to excel in the power business in Hong Kong, while inspiring us with new directions for continuous improvements.

Quality and service excellence aside, safety has always been our top priority. It is a testament to the strength of our management systems and safety culture that on 11 November 2018, we achieved a record of 465 days with zero Lost Time Injuries for our employees. Nonetheless, we will continue to strive for zero accidents as our ultimate goal.

A SNAPSHOT OF OUR PERFORMANCE IN THE PAST DECADE

Emission Reduction Performance



Electricity
Output from
Natural Gas

32% in 2018 vs.
16% in 2008



Emission
Reductions
(2018 vs. 2008)

5%
in CO₂e per Unit of
Electricity Sold



Wind &
Solar Power
Generated

Total
16.9 GWh
over 2009-2018

46-89%
in SO₂, NO_x & RSP



Power Supply Services



Supply Reliability

>99.999%
since 1997

Record high
99.9999%
in 2017



Net Tariff in 2018

16.6%
lower than 2013

11.7%
lower than 2008



Average Customer Satisfaction Rating

4.4-4.6 (on a 5-point scale)
over 2009-2018

Social Commitment



Community Investment over 2009-2018

Total **HK\$17.6 million**
of subsidies through
Smart Power Fund

>600,000 participants
in Smart Power Campaign

>7,500 elderly beneficiaries
through CAREnJOY

>50,000 employee
volunteering hours



Safety Performance in 2018

Lost Time Injuries **1**

Lost Time
Injury Frequency Rate **0.05**

Lost Time
Injury Severity Rate **0.05**

All figures are the lowest over
2009-2018

Employee Care



Annual Average Training Hours per Employee

38.9 in 2018 vs.
34.8 in 2008



GOING FURTHER TO ADDRESS CLIMATE RISKS

Global warming is having an increasingly profound impact on Hong Kong's climate. In the past two years, we have experienced two super typhoons, Hato and Mangkhut, which put HK Electric's operations to the test. Although we succeeded in maintaining reliable power supply for the vast majority of our customers, there is no room for complacency. We must continue to review and enhance the resilience of our facilities to withstand extreme weather conditions today and for decades to come.

We have aligned our business strategy with the Government's action in combating climate change by progressively increasing the use of natural gas in our fuel mix. In anticipation of the retirement of three more coal-fired units by 2023, in addition to two others in 2017 and 2018, we are building three new gas-fired units for commissioning in 2020, 2022 and 2023 respectively.

Looking forward, as natural gas will become the primary feedstock for our power generation, it is essential for the new offshore liquefied natural gas (LNG) terminal project to proceed as planned. This project will enable us to mitigate risks with fuel supply, and to have direct access to the international market for cost-competitive LNG supplies.

BUILDING OUR SMART CITY TOGETHER

In support of the Government's goal to transform Hong Kong into a Smart City, we are investing in infrastructure that promotes the widespread adoption of information and communication technologies. We plan to implement progressively by 2025 a large scale roll-out of smart meters for all our customers, facilitating demand-side energy management while improving our customer services.

Since the vast majority of Hong Kong's energy saving opportunities arise in our built environment, energy efficiency & conservation (EE&C) is fundamental to reducing both the energy and carbon intensities of our city's economy. In 2018, we launched a series of new Smart Power Services, including expanded funding schemes and free energy audit services designed to help more building owners enhance the energy efficiency of their properties. We are also expanding our public education on EE&C, RE and low-carbon lifestyle through the Happy Green Campaign for promoting Smart Living and grooming Smart People.

In response to our stakeholders' expectation of a wider application of RE in Hong Kong, our new Smart Power Services also include a Feed-in Tariff Scheme and an RE Certificates Scheme, which target to increase the uptake of RE in our service area.

KEY UPDATES FOR THE COMING YEARS



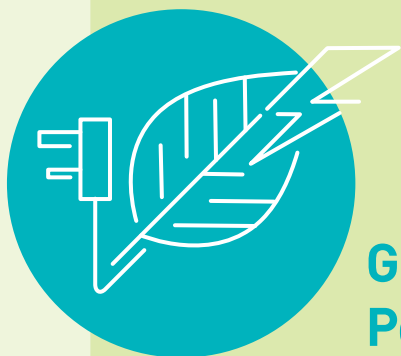
New Smart Power Services

HK\$25 million annually for
Smart Power Building Fund and
~200 free **Smart Power Energy
Audits** annually with **Smart
Power Loan Fund** available

HK\$5 million annually for **Smart
Power Education Fund**

Feed-in Tariff rates of HK\$3-5
and **RE Certificates** at HK\$0.5
premium per unit of electricity

Up to HK\$5,000 subsidy per
eligible household under **Smart
Power Care Fund** with additional
subsidies for eligible sub-divided-
unit tenants



Greener Power

Electricity Output from Natural Gas

~70% in 2023

CO₂e per Unit of Electricity Sold

≤0.6 kg/kWh in 2023

Upward Pressure

- Rising capital expenditure
- Increasing use of natural gas

Alleviating Factor

- Lowered permitted rate of return under the new SCA
- Offshore LNG terminal project for new gas supplies at reasonable prices
- Enhancing operational efficiency and productivity

Future Tariff



UPHOLDING OUR VALUES

Our path to the future should be guided by the principles that have contributed to our success in the past and present. With Pursuit of Excellence as one of HK Electric's Core Values, we will continue to strive to improve various aspects of our business operations, in particular through innovation. In 2018, we formulated a new Innovation Strategy for end-to-end innovation life-cycle management. We are now implementing an Innovation Value Chain at corporate level and managing a company-wide innovation portfolio.

Our Core Values also emphasise Integrity, Respect & Trust as well as Caring; and it is with these in mind that we must continue to give back to society. Our new Smart Power Care Fund lends a helping hand to the underprivileged in our community so that they may take their first steps towards a greener lifestyle. This caring spirit also underpins our two elderly care programmes – CAREnJOY and U3A – that focus on supporting and empowering our senior citizens.

As we strive to maintain tariff affordability, I am mindful of the upward pressure the company's future developments may place on electricity prices. In 2019, we saw a 6.8% increase in our net tariff compared with that of 2018 mainly because of the substantial reduction in two special rebates that we offered in recent years. If the impact of the special rebates was removed, the 2019 tariff would have been lower than that of 2018 by 5.9%. We will spare no effort to ensure the affordability of our services in the years ahead.

With these concluding thoughts, I would like to extend my thanks to all of our stakeholders, particularly our employees, without their support none of our accomplishments past, present or future could be possible.

As HKEI ventures into a new era of serving Hong Kong, we pledge to contribute our best, powering our city to go greener and further towards the goal as a Smart City.

Wan Chi-tin

Chief Executive Officer

March 2019