

Our Business and Approach to Sustainability



HKEI in Brief

Constituted in January 2014, HK Electric Investments is a fixed single investment trust in Hong Kong focusing purely on the energy sector. Our Share Stapled Units issued by the trust and HK Electric Investments Limited (collectively known as HKEI) are listed on the Main Board of the Hong Kong Stock Exchange. The trust is structured to enable us to maintain a single-minded focus on delivering stable distributions to holders of our Share Stapled Units, while ensuring we have the potential for sustainable long-term growth.

Our main operating company, The Hongkong Electric Company, Limited (HK Electric), commenced operations in 1890 and is one of the longest-serving power utilities in the world. Under a Scheme of Control Agreement (SCA) with the HKSAR Government, HK Electric supplies electricity to more than 583,000 customers on Hong Kong and Lamma Islands through a vertically integrated power-utility operation, including a power station on Lamma Island (known as Lamma Power Station or LPS).

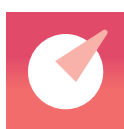
For more than 130 years, we have been powering Hong Kong's growth with safe, reliable, clean and affordable electricity. Our business and approach to sustainability continues to be integral to the city's success. Our Vision, Mission and Core Values guide us in everything we do, reflecting our commitment to serving Hong Kong as a responsible corporate citizen. As a testament to our excellence in sustainable business practices, HKEI has been included in the Euronext Vigeo World 120 Index.

For more information about HKEI and HK Electric, please visit our website www.hkei.hk.



Vision

To excel in the power business in Hong Kong



Mission

- ▶ To enhance shareholder value
- ▶ To deliver excellent customer services and supply reliability
- ▶ To nurture a harmonious and engaged workforce
- ▶ To care for the community we serve
- ▶ To care for the environment in all our activities
- ▶ To drive for efficiency in our operations



Core Values

- ▶ Pursuit of Excellence
- ▶ Integrity
- ▶ Respect & Trust
- ▶ Caring

Our Value Chain

Resources

- ▶ Financial resources
- ▶ Management, employees and business partners
- ▶ Technology and infrastructure
- ▶ Natural resources (particularly fuel for power generation)

Practices and processes

- ▶ Governance practices
- ▶ Stakeholder engagement
- ▶ Sustainability initiatives
- ▶ Innovation
- ▶ Power generation, transmission and distribution
- ▶ Customer services

Outcomes

- ▶ Shareholder value
- ▶ Impact on the environment
- ▶ Power supply reliability
- ▶ Customer satisfaction
- ▶ Contribution to and impact on community
- ▶ Employee wellness, development and satisfaction
- ▶ Operational safety
- ▶ Influence on supply chain

Continuous review
and improvement

Business Profile (as at the end of 2020)



Service territories

Hong Kong Island and Lamma Island

Installed generating capacity

6 coal-fired units: **2,000 MW**
 5 oil-fired gas turbine units: **555 MW**
 3 gas-fired combined-cycle units: **1,060 MW**
 1 solar power system: **1 MW**
 1 wind turbine (Lamma Winds): **0.8 MW**
 Total: **3,617 MW***

Transmission and distribution network

High-voltage circuit length: **444 km**
 Medium-voltage circuit length: **4,000 km**
 Low-voltage circuit length: **2,194 km**
 Total: **6,638 km**

Operations

Number of customers: **>583,000**
 Electricity Sold: **10,134 millions of kWh**

Workforce

Number of permanent employees: **1,713**
 Number of contract employees: **131**

Economic contribution

Total capital expenditure: **\$5,485 million**
 Distributable income: **\$2,830 million**

* To achieve Hong Kong's fuel mix target of around 50% gas generation in 2020, HK Electric not only had to build a new gas-fired unit L10, but also defer the retirement of an old gas-fired unit GT57. Instead of the original schedule of 2020, GT57 will now retire in 2022 when another new gas-fired unit L11 comes into operation. This is an interim measure to achieve government objective. The installed capacity in 2020 without GT57 would otherwise be 3,272 MW.

Sustainability Governance

At HKEI, we believe that sound governance is not only essential for the efficient and transparent operation of our business, it is also integral to achieving our sustainability goals. Our approach to sustainability is built on a robust foundation of corporate governance and high ethical standards based on the principles of openness, integrity and accountability.

Our commitment to sustainability starts at the very top. The Board has overall responsibility for the Group's sustainability strategy, management approach and reporting.

Sustainability Governance Structure



In December 2020, we established a Sustainability Committee at the Board level to oversee sustainability across the Group and advise the Board on implementation of related initiatives. The Sustainability Committee has a primary responsibility for reviewing the related policies and practices, and assessing and making recommendations on matters concerning the Group's sustainable development, as well as sustainability risks and opportunities. For more information, please refer to the Terms of Reference of the Sustainability Committee on our website.

At management level, the Sustainability Management Committee (formerly the Corporate Social Responsibility Committee) supports the Sustainability Committee in fulfilling its responsibilities. The Sustainability Management Committee meets quarterly and is chaired by the CEO. It drives and coordinates the Group's sustainability efforts and promotes understanding of sustainability within the Group.

For the management of sustainability risks, the Board's Audit Committee also assists the Board in ensuring that appropriate and effective risk management and internal control systems are in place.



Sustainability Management Committee



<p>(Rear)</p> <p>Alex Ng Group Legal Counsel and Company Secretary</p>	<p>Francis Cheng Operations Director</p>	<p>Bill Ho General Manager (Corporate Development)</p>	<p>Dennis Wu General Manager (Human Resources)</p>
<p>(Front)</p> <p>Wong Kim-man Chief Financial Officer</p>	<p>Wan Chi-tin Chief Executive Officer</p>	<p>Mimi Yeung General Manager (Public Affairs)</p>	



Sustainability considerations are integrated into every aspect of our corporate culture and business operations—from the Board to management and individual business units. To provide specific and consistent guidance on sustainability matters across the Group, we have formalised our Sustainability Framework that is guided by our Vision, Mission and Core Values and aligned with our Sustainability Policy (previously CSR Policy) and other key corporate policies.

Built on four strategic pillars, the framework incorporates 14 material focus areas to help us translate our values and commitments into measurable actions and progress across all areas of our business.



Our Sustainability Framework

Guided by our **Vision, Mission and Core Values**

Aligned with our **Sustainability Policy** and other **Key Corporate Policies**

Commitment	Objective	Approach
Operating our business in a responsible and transparent manner while supporting sustainable development and meeting the long-term energy needs of our community	Striving to be a world-class electricity supplier, a good corporate citizen and an employer of choice	Integrating sustainability considerations into our operations and engaging with our stakeholders to create shared value

Strategic Direction			
 <p>1. Running a Sustainable Business</p> <p>Ensuring a strong foundation for supporting sustainable development</p>	 <p>2. Sharing our Planet</p> <p>Sustaining a beautiful and liveable planet for our future generations</p>	 <p>3. Serving Hong Kong</p> <p>Making our home a prosperous, smart and caring city</p>	 <p>4. Working with Partners</p> <p>Engaging with our employees and business partners to ensure safe and responsible business operations</p>

Material Areas:			
<p>1.1 Delivering long-term value for our investors through sustainable growth</p> <p>1.2 Upholding high standards of corporate governance and disclosure</p> <p>1.3 Managing risks and opportunities effectively</p> <p>1.4 Building mutual trust with our stakeholders</p> <p>1.5 Fostering a culture of innovation</p>	<p>2.1 Combating climate change</p> <p>2.2 Minimising the environmental impact of our operations</p> <p>2.3 Promoting environmental awareness</p>	<p>3.1 Providing reliable and affordable electricity supply</p> <p>3.2 Delivering excellent customer services</p> <p>3.3 Caring for the community</p>	<p>4.1 Caring for our employees and their families</p> <p>4.2 Improving health and safety performance continuously</p> <p>4.3 Managing our supply chain responsibly</p>

Supporting the United Nations' Sustainable Development Goals, specifically:		
 <p>Goal 7 Affordable and Clean Energy</p>	 <p>Goal 9 Industry, Innovation and Infrastructure</p>	 <p>Goal 13 Climate Action</p>



Materiality

Every year, we conduct a comprehensive assessment to identify material sustainability issues for reporting. This exercise ensures that our disclosures reflect the Group's significant economic, environmental and social impact, and/or are sufficiently important to substantively influence the assessments and decisions of our stakeholders. The materiality assessment is based on the following three-step process and the outcomes help us allocate resources more effectively in order to create additional shared value for the Group and our stakeholders.

Assessment Process

Step 1

Identification of relevant sustainability issues based on the Group's business operations and with reference to local and international sustainability reporting guidelines, while also taking into consideration important incidents and emerging trends

Step 2

Prioritising the sustainability issues identified in Step 1 by determining their relative importance based on the associated impact and risks, as well as our interpretations of the views and expectations of stakeholders through ongoing stakeholder engagement activities

Step 3

Review and endorsement of the materiality assessment outcomes by the Sustainability Management Committee and the Board's Sustainability Committee

Outcomes of Assessment

Identified sustainability issues	Material area(s) in our Sustainability Framework	Identified sustainability issues	Material area(s) in our Sustainability Framework
Most material		22. Learning and development	4.1
1. Compliance	1.2	23. Sustainable use of materials and waste management	2.2
2. Anti-corruption	1.2	24. Notice periods for employees regarding operational changes	4.1
3. Customer privacy	3.2	25. Stakeholder engagement	1.4
4. Operational performance (e.g. supply reliability, plant availability and generation efficiency)	3.1	26. Promoting environmental awareness	2.3
5. Customer health and safety	4.2	27. Water resources conservation and effluent management	2.2
6. Corporate governance	1.2	28. Indirect economic impact (e.g. affordable energy, energy infrastructure investments and local hiring)	1.1, 3.1, 4.1
7. Management of risks and opportunities	1.3	29. Innovation	1.5
8. Asset management and security, including cyber security	3.1	30. Contribution to and impact on local communities	2.3, 3.3
9. Occupational health and safety	4.2	31. Product and services information and labelling and marketing communications	3.2
10. Contingency preparedness	1.2, 4.2	32. Human rights assessment	4.1
11. Customer services	3.2	33. Rights of indigenous peoples	3.3
12. Climate-related risks and actions	1.3, 2.1	34. Human rights training for security personnel	4.1
Material		35. Biodiversity conservation	2.2
13. Employment practices	4.1	Not material	
14. Anti-competitive behaviour	1.2	36. Tax issues	—
15. Child, forced or compulsory labour	1.2, 4.3	37. Freedom of association and collective bargaining	—
16. Impact on air quality	2.2	38. Participation in public policy specifically political contributions	—
17. Non-discrimination, diversity and equal opportunity	4.1		
18. Procurement practices	4.3		
19. Economic performance	1.1		
20. Energy consumption and saving	2.2, 3.2		
21. Supplier sustainability assessment	4.3		



Sustainable Development Goals

We support the United Nations' 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals (SDGs). These aim to end poverty, protect the planet and ensure peace and prosperity for all people by 2030.

In 2019, we identified three SDGs that are closely aligned with our corporate strategy and business priorities. From among the 17 SDGs, we believe we can make the most significant impact on helping achieve these three SDGs: Affordable and Clean Energy (Goal 7), Industry, Innovation and Infrastructure (Goal 9) and Climate Action (Goal 13).

In 2020, we took the next step of establishing internal targets to help us gauge our progress on the three SDGs.



Our Internal Targets

Goal 7: Affordable and Clean Energy



Internal targets

Status in 2020

Maintain a safe and reliable electricity supply
→ **to maintain better than 99.999% reliability rating**

Achieved
(>99.999% in 2020)

Gain access to diverse and cost-competitive liquefied natural gas (LNG) supplies worldwide to alleviate considerable pressure on tariffs due to increased consumption of natural gas
→ **to commission the offshore LNG terminal in 2022**

Construction works in progress

Provide subsidies to underprivileged households for adopting energy-efficient electrical appliances
→ **to subsidise 4,000 households by 2023**

In progress
(1,570 households subsidised as at the end of 2020)

Increase the use of RE
→ **to increase the aggregate electricity generated from RE sources of HK Electric and its customers to over 3 GWh/year by 2023**

Achieved
(~3.5 GWh in 2020 and the target has been revised to "over 6 GWh/year by 2023")

Provide free energy audits for non-residential customers and subsidies to building owners for implementing energy efficiency enhancement projects
→ **to complete 1,000 audits and subsidise 500 buildings by 2023**

In progress
(420 audits completed and subsidies approved for 214 buildings as at the end of 2020)



New Era of Gas Generation



Goal 9: Industry, Innovation and Infrastructure



Internal targets

Enhance asset integrity
(in the face of climate change)
→ to complete anti-flooding enhancement for low-lying substations within 100 m of the northern coastal line of Hong Kong Island by 2021

Deploy smart meters
→ to complete full-scale deployment by 2025

Status in 2020

In progress
(~88% completed as at the end of 2020)

In progress
(~6.7% completed as at the end of 2020)

Goal 13: Climate Action



Internal targets

Replace coal-fired units with gas-fired units
→ to commission three new gas-fired units, L10, L11 and L12, in 2020, 2022 and 2023, respectively

Reduce carbon emissions per unit of electricity sold
→ to ensure yearly average emissions do not exceed 0.6 kg of CO₂e per kWh by 2023

Engage stakeholders on combating climate change and adopting low-carbon lifestyle
→ to organise 1,000 education and promotion activities by 2023

Build capacity in HK Electric's supply chain
→ to update our "Code of Practice for Suppliers" to address climate change concerns in 2020

Status in 2020

L10 commissioned in February 2020; construction works for L11 and L12 in progress

In progress
(~0.71 kg of CO₂e per kWh in 2020)

In progress
(391 activities organised as at the end of 2020)

Achieved
(updated in November 2020)