

The Hongkong Electric Co., Ltd.
Information relating to tariff freeze for 2010

1. Sources of Information

The Hongkong Electric Co., Ltd. (HEC) is a wholly owned subsidiary of Hongkong Electric Holdings Ltd. (HEH) which is a publicly listed company in Hong Kong. Under the Listing Rules of the Hong Kong Stock Exchange a listed company and its subsidiary companies are prohibited from disclosing future forecasts to avoid share price speculation. It is also not appropriate for a company to disclose commercially sensitive information to protect its interest in future procurement of products and services.

In compliance with the Hong Kong Stock Exchange's Listing Rules HEH customarily publishes reports for its full year and mid year results. These reports - Annual Report and Interim Report - contain detailed information on its operation. The latest annual report for 2008 and interim report for 2009 are posted on HEH website. They can be downloaded from the following web links:

2008 Annual Report

http://www.heh.com/hehWeb/InvestorRelations/FinancialReports/AnnualReports/AnnualReport2008_en.htm

2009 Interim Report

http://www.heh.com/hehWeb/InvestorRelations/FinancialReports/InterimReports/InterimReport2009_en.htm

2. Key Data extracted from 2008 Annual Report and 2009 Interim Report

	2008	2009	2010 Tariff Review
Tariff (cents per kWh)			
Basic Tariff	116.9¢	94.5¢ (-22.4¢)	94.5¢ (no change)
Fuel Clause Charge	10.5¢	25.4¢ (+14.9¢)	25.4¢ (no change)
Net Tariff	127.4¢	119.9¢ (-7.5¢ or -5.9%)	119.9¢ (no change)
Rate of Permitted Return	13.5%-15%	9.99%	9.99%
Reportable Profit from Sales of Electricity	\$2,533M at end June	\$1,754M at end June (-30.8%) due to reduction of Basic Tariff by 22.4¢/kWh	2010 Basic Tariff frozen
Fuel Mix	~85% coal ~15% gas	~85% coal ~15% gas	~70% coal ~30% gas
Coal Price	High >US\$100/MT	Very High >US\$120/MT	High but lower than 2009 level
Total Coal Cost	High	Very High	Lower due to lower price and lower volume
Gas Price	Stable due to long term contract entered in 2002	Stable due to long term contract entered in 2002	Higher due to higher gas prices for additional gas required
Total Gas Cost	Stable	Stable	Higher due to higher price and double volume
Total Fuel Cost (full year)	\$3,597M	Higher than 2008 level	Higher than 2009 level
Fuel Clause Account Balance	-\$998M at end December	-\$855M at end June	Higher than 2009 year end balance

3. Analysis

A. 2009 Tariff Review

The new Scheme of Control Agreement (SCA) came into effect on 1 January 2009. The Rate of Permitted Return was reduced from 13.5-15% in the old SCA to 9.99% in the new SCA. This reduction in the Permitted Return has enabled HEC to reduce its Basic Tariff by 22.4¢. This reduction in Basic Tariff is reflected in the 30.8% reduction of the Company's mid year Reportable Profit from sales of electricity in 2009 over 2008.

Due to a very high negative balance in the Fuel Clause Account (-\$998 million) at end December 2008 and the rising trend of coal price in 2009 there was a need to increase the Fuel Clause Charges for 2009. As seen again in the high negative FCA balance at end June 2009 (-\$855 million) the increase of Fuel Clause Charges of 14.9¢ from 1 January 2009 was appropriate.

For 2009, with a reduction of Basic Tariff by 22.4¢ and an increase of Fuel Clause Charges by 14.9¢, the Net Tariff in 2009 is 119.9¢. The net reduction is 7.5¢ or 5.9%.

B. 2010 Tariff Review

The Basic Tariff for 2010 will be frozen at 94.5¢.

The fuel mix in 2010 will be substantially changed from about 85% coal + 15% gas to about 70% coal + 30% gas. As the cost of gas for electricity generation is more than twice of that of coal for generating the same amount of electricity the increase of fuel cost for this fuel switching is very significant. Despite expected lower coal price in 2010 the total fuel cost in 2010 is expected to be higher than that of 2008 and 2009. It is a great challenge for HEC to maintain the same Fuel Clause Charges for 2010.

With a view to helping Hong Kong recover from the financial crisis while minimising the impact on customers, HEC decided to freeze both Basic Tariff and Fuel Clause Charges resulting in Net Tariff for 2010 remaining the same as that for 2009 at 119.9¢.