

# COMBINED CORPORATE GOVERNANCE REPORT

**The Boards of the Trustee-Manager and the Company present their corporate governance report on a combined basis for the year ended 31 December 2018.**

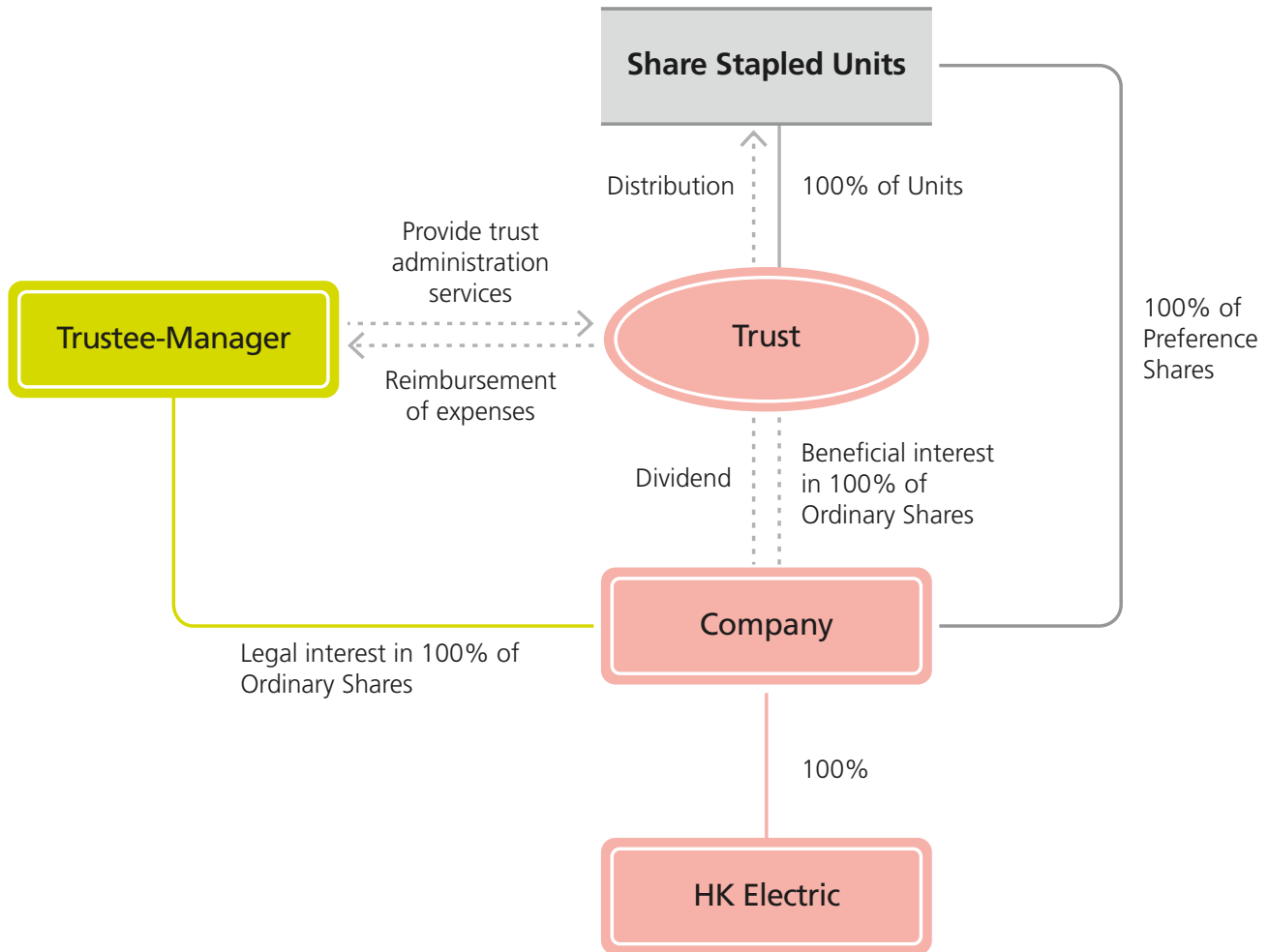


## Structure of the Trust Group and the Share Stapled Units

The Trust, managed by the Trustee-Manager, was constituted under the laws of Hong Kong on 1 January 2014 by the Trust Deed. The Trustee-Manager, as the trustee-manager of the Trust, holds the legal interests in the ordinary shares of the Company whilst the beneficial interests in such ordinary shares form a component of the Share Stapled Units. Each Share Stapled Unit is jointly issued by the Trust and the Company and is a combination of: (a) a unit in the Trust; (b) the beneficial interest in a specifically identified ordinary share of the Company linked to the unit and held by the Trustee-Manager as legal owner in its capacity as trustee-manager of the Trust; and (c) a specifically identified preference share of the Company stapled to the unit. The chart on page 52 is a simplified version of the structure of the Trust Group and the Share Stapled Units.

The Trust and the Company are both listed on the Main Board of the Stock Exchange, and are subject to the provisions of the Listing Rules. Pursuant to the Trust Deed, the Trustee-Manager is responsible for compliance by the Trust with the Listing Rules applicable to the Trust and other relevant laws and regulations, the Company is responsible for compliance by the Company with the Listing Rules applicable to the Company and other relevant laws and regulations, and each of the Trustee-Manager and the Company will co-operate with each other to ensure that each party complies with the Listing Rules obligations and to co-ordinate disclosure to the Stock Exchange.

# Combined Corporate Governance Report



## Corporate Governance

The Boards are committed to maintaining high standards of corporate governance, and recognise that sound and effective corporate governance practices are fundamental to the smooth, effective and transparent operation of the Trustee-Manager and the Trust Group, and the ability to attract investment, protect the rights of Holders of Share Stapled Units and other stakeholders, and enhance the value of the Share Stapled Units. The corporate governance policies of the Trustee-Manager and the Trust Group are designed to achieve these objectives and are maintained through a framework of processes, policies and guidelines.

The Boards delegate their respective responsibility for performing corporate governance duties to the Trustee-Manager Audit Committee and the Company Audit Committee. The governance structure of the Trustee-Manager and the Group was reviewed by the Trustee-Manager Audit Committee and the Company Audit Committee at the meetings held in March and July 2018, together with the compliance status of the Corporate Governance Code for the year 2017 and the first six months of 2018, and the Corporate Governance disclosure in the 2017 Corporate Governance Report and the 2018 interim report. The Trust and the Company have complied with the applicable code provisions in the Corporate Governance Code throughout the year ended 31 December 2018, except as noted hereunder.

## Boards of Directors

Each of the Trustee-Manager Board and the Company Board, led by the Chairman, is responsible for approval and monitoring of strategies and policies, approval of annual budgets and business plans, evaluation of the performance, and oversight of management of the Trustee-Manager and the Company respectively. The Trust Deed requires that the directors of the Company and the directors of the Trustee-Manager shall at all times comprise the same individuals. Management is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer. The Boards consider that the senior management of the Trust Group comprises only the Executive Directors.

The current Directors and their biographical information are set out in the "Boards of Directors and Management Team" section on pages 44 to 50 of the Annual Report. An updated list of Directors containing their biographical information and identifying the Independent Non-executive Directors is maintained on the website of the Company. The names of all Directors and their role and function are posted on the website of HKEX.

The Trustee-Manager Board and the Company Board hold meetings on a combined basis, and they meet at least four times a year. Additional board meetings will be held when warranted. Regular meetings of a year are scheduled during the last quarter of the preceding year providing Directors with adequate time to plan their schedules to attend. The Directors may attend meetings in person, by telephone or other electronic means or by their alternate directors in accordance with the articles of association of the Trustee-

Manager and the Company. Throughout the year, the Directors also participate in the consideration and approval of matters by way of written resolutions, which are circulated to Directors together with supporting explanatory write-up and coupled with briefings from the Chief Executive Officer or the Company Secretary as required. Directors are required to declare their interests, if any, in the matters to be considered by them during board meetings and in the circular resolutions. During the year, the Boards held four meetings, and the Chairman had two meetings with the Non-executive Directors without the presence of Executive Directors.

Directors receive at least fourteen days prior written notice of a regular meeting and may propose matters for discussion to be included in the agenda. An agenda with supporting board papers is sent to the Directors no less than three days prior to a regular meeting. The Company Secretary assists the Chairman in seeing that Directors receive adequate information on each matter set out in the agenda and acts as co-ordinator for management in providing clarification sought by Directors. The minutes of Board meetings are prepared by the Company Secretary with details of the decisions reached, any concerns raised and dissenting views expressed. The draft minutes are sent to all Directors within a reasonable time after each meeting for their comments before being formally signed by the chairman of the meeting. Copies of the final versions of Board minutes are sent to Directors for their information and records. The signed minutes are kept in safe custody by the Company Secretary and are available for inspection by Directors.

## Combined Corporate Governance Report

During 2018 the number of board and committee meetings and the attendance of each Director at these meetings and the combined 2018 annual general meeting are as follows:

Directors	Company				Trustee-Manager			Combined 2018 Annual General Meeting
	Board Meetings	Audit Committee Meetings	Remuneration Committee Meeting	Meetings between Chairman and Non-executive Directors	Board Meetings	Audit Committee Meetings	Meetings between Chairman and Non-executive Directors	
<b>Executive Directors</b>								
Fok Kin Ning, Canning (Chairman)	4/4	–	1/1	2/2	4/4	–	2/2	√
Wan Chi Tin (Chief Executive Officer)	4/4	–	–	–	4/4	–	–	√
Chan Loi Shun	4/4	–	–	–	4/4	–	–	√
Cheng Cho Ying, Francis	4/4	–	–	–	4/4	–	–	√
Shan Shewu <sup>(Note 1)</sup>	2/2	–	–	–	2/2	–	–	√
Chen Daobiao <sup>(Note 2)</sup>	2/2	–	–	–	2/2	–	–	–
<b>Non-executive Directors</b>								
Victor T K Li (Deputy Chairman)	3/4	–	–	2/2	3/4	–	2/2	√
Fahad Hamad A H Al-Mohannadi	4/4	–	–	2/2	4/4	–	2/2	×
Ronald Joseph Arculli	2/4	3/3	–	2/2	2/4	3/3	2/2	√
Jiang Xiaojun	4/4	–	–	2/2	4/4	–	2/2	√
Deven Arvind Karnik	4/4	–	–	2/2	4/4	–	2/2	√
Zhu Guangchao	3/4	–	–	1/2	3/4	–	1/2	√
<b>Independent Non-executive Directors</b>								
Fong Chi Wai, Alex	3/4	–	1/1	2/2	3/4	–	2/2	√
Kwan Kai Cheong	4/4	–	–	2/2	4/4	–	2/2	√
Lee Lan Yee, Francis	4/4	3/3	–	2/2	4/4	3/3	2/2	√
George Colin Magnus	4/4	–	–	2/2	4/4	–	2/2	√
Donald Jeffrey Roberts	4/4	3/3	1/1	2/2	4/4	3/3	2/2	√
Ralph Raymond Shea	4/4	–	–	2/2	4/4	–	2/2	√

Notes:

- (1) Mr. Shan Shewu resigned as an Executive Director of the Trustee-Manager and the Company on 22 May 2018.
- (2) Mr. Chen Daobiao was appointed as an Executive Director of the Trustee-Manager and the Company on 22 May 2018.

Directors at all times have full and timely access to information of the Trust Group. A financial summary outlining the Group's financial position and performance and containing the actual and budgeted results from different operations, with major variances explained, is sent to Directors each month for their information. Directors also have independent access to management team for information on the Trust Group and unrestricted access to the services of the Company Secretary, who advises the Boards on governance matters and board procedures. There is a procedure for Directors to seek independent professional advice whenever deemed necessary by them at the expense of the Trustee-Manager or the Company, as appropriate. Insurance coverage in respect of Directors' liability has been arranged by the Trustee-Manager and the Company.

On or prior to 31 December 2018, neither the Trustee-Manager nor the Company had a nomination committee as provided for in code provision A.5. The Trustee-Manager and the Company did not consider it necessary to have a nomination committee as the full Boards were responsible for reviewing the structure, size and composition of the Boards, appointment of new Directors and succession plan of Directors in accordance with the Group's board diversity policy which sets out the approach in achieving a diversified Board. For any appointment of new director or appointment of director to an executive office during the year ended 31 December 2018, credentials of candidates were put forward to the Boards for consideration, and the appointment was subject to the approval of the Boards. Under the board diversity policy, appointment to the Boards should be based on merit that the selected candidate will bring to the Boards with an aim to build an effective and complementary board with the skills, experience, expertise and diversity of perspectives appropriate for the Group's businesses. The Boards would also take into consideration the benefits of various aspects of diversity, including gender, age, cultural and education background, professional experience and

qualifications and other factors that may be relevant from time to time. Additional considerations would be taken into account when reviewing potential candidates for Independent Non-executive Directors, which include their independence according to the requirements of the Listing Rules, and whether they are able to devote sufficient time to Boards and committee meetings. The board diversity policy was revised on 1 January 2019 (which is available on the Company's website) to enhance the approach in achieving and maintaining the Boards diversity.

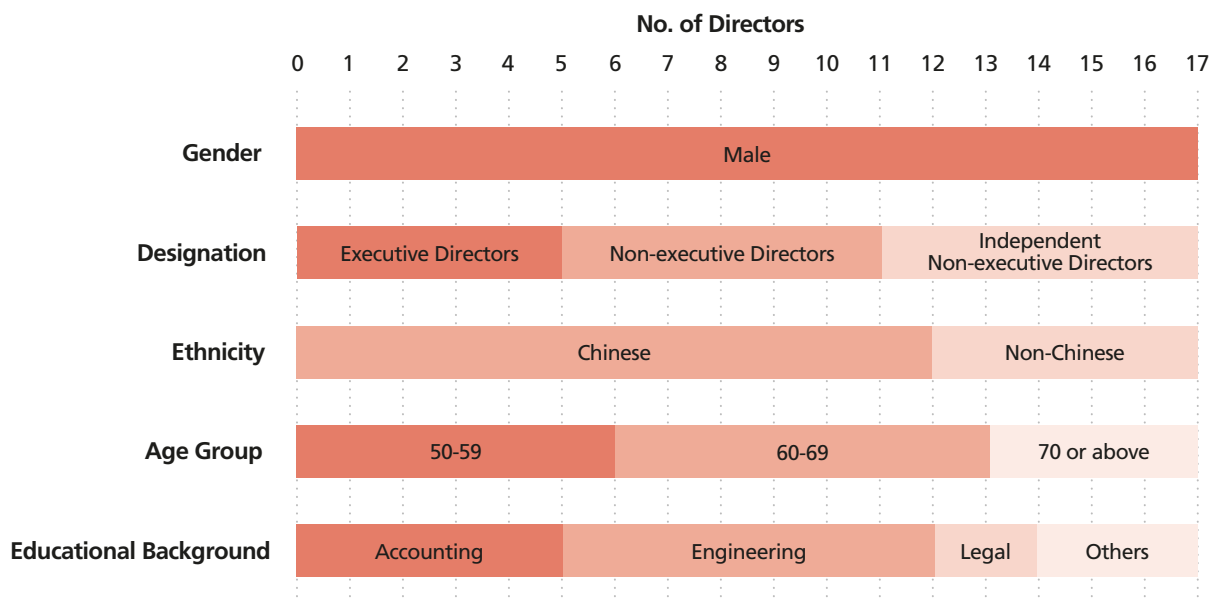
On 1 January 2019, the Company established its Nomination Committee which comprises all Directors and chaired by the Chairman of the Company Board. The Nomination Committee's responsibilities are to review the structure, size, diversity profile and skills matrix of the Company Board, to facilitate the Company Board in conduct of the selection and nomination process, to assess the independence of Independent Non-executive Directors having regard to the criteria under the Listing Rules, and to make recommendations to the Company Board on the appointment or re-appointment of Directors and succession planning for Directors. The terms of reference of the Nomination Committee of the Company are published on the Company's website and HKEX's website. The procedures for the selection and nomination of Directors are set out in the Director Nomination Policy adopted by the Trustee-Manager and the Company on 1 January 2019, which is also published on the Company's website.

The Trustee-Manager does not have a nomination committee as provided for in code provision A.5, since in accordance with clause 29.1 of the Trust Deed and article 82 of the Trustee-Manager's articles of association, the Trustee-Manager Board shall at all times comprise the same individuals who serve as Directors of the Company, and the requirement to establish a nomination committee is hence considered irrelevant to the Trustee-Manager.

# Combined Corporate Governance Report

The diversity profile of the Boards as at 31 December 2018 is as follows:

## Board Diversity



Newly appointed Directors receive briefings and a package of orientation materials on the operations and businesses of the Group, together with information relating to duties and responsibilities of directors under statutory regulations and the Listing Rules.

All Directors have been appointed on annual twelve-month basis (save for the initial period which is for a period up to 31 December in the year of appointment), subject to retirement from office by rotation and re-election at the annual general meeting once every three years pursuant to the Trust Deed and the articles of association of the Company.

Pursuant to the Trust Deed and the Company’s articles of association, any director appointed by the Company Board either to fill a casual vacancy or as an addition shall also be appointed a director of the Trustee-Manager. Any Director appointed to fill the casual vacancy shall hold office only until the next following general meeting of the Company or the next following general meeting of the Trust, as the case may be, and shall be eligible for re-election at that meeting. In the case of an addition, the additional Director shall hold office only until the next following annual general meeting of the Company or the next following annual general meeting of the Trust, as the case may be, and shall be eligible for re-election at that meeting.

Directors retiring by rotation in accordance with clause 29.2(m) of the Trust Deed, article 16.21 of the Company's articles of association and code provision A.4.2 of the Corporate Governance Code and offering themselves for re-election at the forthcoming combined annual general meeting are Mr. Fok Kin Ning, Canning, Mr. Wan Chi Tin, Mr. Fahad Hamad A H Al-Mohannadi, Mr. Deven Arvind Karnik and Mr. Ralph Raymond Shea. Mr. Chen Daobiao and Mr. Duan Guangming, being Directors appointed subsequent to the last annual general meeting, will retire in accordance with clause 29.2(g) of the Trust Deed and article 16.3 of the Company's articles of association and offer themselves for re-election at the forthcoming combined annual general meeting. Information relating to these Directors required to be disclosed under the Listing Rules is contained in the circular to Holders of Share Stapled Units dated 4 April 2019. None of these Directors has a service contract which is not determinable by the Trustee-Manager or the Company within one year without payment of compensation (other than statutory compensation).

## Directors' Training and Commitment

The Company Secretary updates Directors on the latest developments and changes to the Listing Rules and the applicable legal and regulatory requirements regarding subjects necessary in the discharge of their duties.

The Company also arranges and provides continuous professional development training and relevant materials to Directors to help ensure they are apprised of the latest changes in the commercial, legal and regulatory environment in which the Trust Group conducts its business and to refresh their knowledge and skills on the roles, functions and duties of a listed company director. In addition, attendances at external forums or briefing sessions and completion of courses organised by professional bodies on the relevant topics also count towards continuous professional development training. The Directors have provided to the Trustee-Manager and the Company their records of

continuous professional development training during 2018, and they have participated in training activities in the following manner:

1. Reading materials and seminars on directors' duties, compliance issues for listed companies and/or legal and regulatory requirements
2. Reading materials and seminars on corporate governance and financial reporting
3. Reading materials and seminars on risk management, internal control and sustainable growth

	1	2	3
<b>Executive Directors</b>			
Fok Kin Ning, Canning	√	√	√
Wan Chi Tin	√	√	√
Chan Loi Shun	√	√	√
Cheng Cho Ying, Francis	√	√	√
Shan Shewu ( <i>Resigned on 22 May 2018</i> )	√	√	√
Chen Daobiao ( <i>Appointed on 22 May 2018</i> )	√	√	√
<b>Non-executive Directors</b>			
Victor T K Li	√	√	√
Fahad Hamad A H Al-Mohannadi	√	√	√
Ronald Joseph Arculli	√	√	√
Jiang Xiaojun	√	√	√
Deven Arvind Karnik	√	√	√
Zhu Guangchao	√	√	√
<b>Independent Non-executive Directors</b>			
Fong Chi Wai, Alex	√	√	√
Kwan Kai Cheong	√	√	√
Lee Lan Yee, Francis	√	√	√
George Colin Magnus	√	√	√
Donald Jeffrey Roberts	√	√	√
Ralph Raymond Shea	√	√	√

The Directors have each confirmed that he has allocated sufficient time and attention to the affairs of the Trust Group, and have also disclosed their offices held in other public companies and organisations and updated the Company on any subsequent changes in a timely manner.

# Combined Corporate Governance Report

## Directors' Securities Transactions

The Boards have adopted the Model Code as their code of conduct regulating directors' securities transactions. All Directors have confirmed following specific enquiry that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2018.

Senior managers, and other nominated managers and staff who, because of their respective positions in the Company, are likely to be in possession of inside information regarding the Trust Group and its securities are also required to comply with the Model Code.

Reminders are sent during each year to Directors, senior managers and other nominated managers and staff that they should not deal in the securities of the Trust and the Company during the "black-out period" specified in the Model Code.

The Trustee-Manager and the Company have established a policy relating to inside information and securities dealing explaining the meaning of inside information and the illegality of insider dealing, and setting out the restrictions in securities dealing, preventive controls and reporting mechanism for all employees of the Group to comply with when they are in possession of confidential or unpublished inside information in relation to the Trustee-Manager and the Trust Group. Such policy is available on the intranet of the Company.

## Directors' Responsibility for Financial Reporting and Disclosure

### Annual and Interim Reports and Financial Statements

The Directors of the Trustee-Manager and the Company acknowledge their responsibility to prepare financial statements for each half and full financial year which give a true and fair view of the state of affairs of the Trust Group, the Group and the Trustee-Manager, as appropriate. The interim and annual results of the Trust Group, the Group and the Trustee-Manager are published in a timely manner within the limits of two months and three months respectively after the end of the relevant periods.

## Accounting Policies

The Directors consider that in preparing financial statements, the Trustee-Manager and the Company ensure statutory requirements are met and apply appropriate accounting policies that are consistently adopted and make judgments and estimates that are reasonable and prudent in accordance with the applicable accounting standards.

## Accounting Records

The Directors of each of the Trustee-Manager and the Company are responsible for ensuring the Trustee-Manager and the Group, as appropriate, keep proper accounting records which disclose at any time the respective financial position of the Trust Group, the Group and the Trustee-Manager from which the respective financial statements of the Trust Group, the Group and the Trustee-Manager could be prepared in accordance with statutory requirements and the appropriate accounting policies.

## Safeguarding Assets

The Directors of the Trustee-Manager and the Company are responsible for taking all reasonable and necessary steps to safeguard the assets of the Trust, the Trustee-Manager and the Group and to prevent and detect fraud and other irregularities within the Trust, the Trustee-Manager and the Group, as appropriate.

## Going Concern

The Directors of the Trustee-Manager and the Company consider that the Trustee-Manager and the Group respectively have adequate resources to continue in operational existence for the foreseeable future and are not aware of material uncertainties relating to events or conditions that may cast significant doubt upon each of their abilities to continue as going concerns. The financial statements of the Trust Group, the Group and the Trustee-Manager have accordingly been prepared on a going concern basis.

## Disclosure

The Boards are aware of the requirements under the applicable Listing Rules and statutory regulations with regard to the timely and proper disclosure of inside information, announcements and financial disclosures and authorises their publication as and when required.



## Chairman and Chief Executive Officer

The positions of the Chairman and the Chief Executive Officer of the Company are held by separate individuals. During 2018 the Chairman of the Boards was Mr. Fok Kin Ning, Canning and the Company's Chief Executive Officer was Mr. Wan Chi Tin. The Trustee-Manager does not appoint a Chief Executive Officer due to its specific and limited role to administer the Trust.

The Chairman is elected by members of the Boards for a term of one year until the conclusion of each annual general meeting whereupon the Chairman is subject to re-election. Both the Chairman and the Chief Executive Officer are subject to retirement from their directorship by rotation and re-election every three years at the annual general meeting.

The Chairman is responsible for providing leadership to, and overseeing the functioning and effective running of, the Boards to ensure that each Board acts in the best interests of the Trust and the Group, as appropriate. The Chairman approves board meeting agendas and ensures that meetings of the Boards are planned and conducted effectively and that all Directors are properly briefed on issues arising at board meetings. In addition to board meetings, the Chairman schedules meeting(s) annually with Non-executive Directors (and starting from the year 2019, with Independent Non-executive Directors only) without the presence of Executive Directors. The Chairman also acts in an advisory capacity to the Chief Executive Officer in all matters covering the interests and management of the Group.

The Chief Executive Officer, working with the executive management team, is responsible for managing the businesses of the Group, attending to the formulation and successful implementation of Group policies and assuming full accountability to the Company Board for all Group operations. The Chief Executive Officer attends to developing strategic operating plans and is directly responsible for maintaining the operational performance of the Group. Working with other Executive Directors and the general managers, he ensures that the funding requirements of the businesses are met and closely monitors the operating and financial results of the businesses against plans and budgets, taking remedial action when necessary. He maintains an ongoing dialogue with the Chairman and all other Directors to keep them informed of all major business development and issues. He is also responsible for building and maintaining an effective team to support him in his role.

## Independent Non-executive Directors

The Boards must be satisfied that an Independent Non-executive Director does not have any material relationship with the Trust Group. They are guided by the criteria of independence as set out in the Listing Rules in determining the independence of Independent Non-executive Directors.

Mr. Kwan Kai Cheong, Mr. Donald Jeffrey Roberts and Mr. Ralph Raymond Shea, all Independent Non-executive Directors, have each provided a confirmation of his independence to the Trustee-Manager and the Company pursuant to Rule 3.13 of the Listing Rules. The Boards continue to consider Mr. Kwan, Mr. Roberts and Mr. Shea to be independent.

Mr. Fong Chi Wai, Alex, Mr. Lee Lan Yee, Francis and Mr. George Colin Magnus, all Independent Non-executive Directors, have each made a similar confirmation and stated that, during the two years immediately prior to his appointment on 5 December 2013, he was director of HK Electric, a wholly-owned subsidiary of the Company. In addition, Mr. Magnus has also stated that he had been a director (other than an Independent Non-executive Director) of Power Assets, a connected person of the Company, until he was re-designated as an Independent Non-executive Director of Power Assets on 28 September 2012. The Boards have considered these directorships and are satisfied with Mr. Fong's, Mr. Lee's and Mr. Magnus' independence having regard to all relevant factors including that all of them have not held any executive or management function or position in the Group since their appointment as Independent Non-executive Directors in December 2013 and that Mr. Lee and Mr. Magnus have not held any executive or management function or position in the Power Assets group since their designation as Non-executive Directors in August 2008 and November 2005 respectively.

## Combined Corporate Governance Report

### Directors' Interests and Short Positions in Share Stapled Units, Underlying Share Stapled Units and Debentures

As at 31 December 2018, the interests or short positions of the Directors and chief executives of the Trustee-Manager and the Company in the SSUs, underlying SSUs and debentures of the Trust and the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Trustee-Manager, the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executives of the Trustee-Manager and the Company were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to section 352 of the SFO, or as otherwise notified to the Trustee-Manager, the Company and the Stock Exchange pursuant to the Model Code were as follows:

#### Long Positions in Share Stapled Units

Name of Director	Capacity	Nature of Interests	Number of SSUs Held	Approximate % of Issued SSUs
Li Tzar Kuoi, Victor	Interest of controlled corporations	Corporate	7,870,000 (Note 1)	0.08%
Fok Kin Ning, Canning	Interest of controlled corporation	Corporate	2,000,000 (Note 2)	0.02%
Donald Jeffrey Roberts	Interest of controlled corporation	Corporate	1,398,000 (Note 3)	0.02%
Ronald Joseph Arculli	Interest of controlled corporation	Corporate	502	≈0%

Notes:

- (1) Such SSUs comprise:
  - (a) 2,700,000 SSUs held by Lankford Profits Limited, a wholly-owned subsidiary of Li Ka Shing (Overseas) Foundation ("LKSOFF"). By virtue of the terms of the constituent documents of LKSOFF, Mr. Victor T K Li may be regarded as having the ability to exercise or control the exercise of one-third or more of the voting power at general meetings of LKSOFF; and
  - (b) 5,170,000 SSUs held by Li Ka Shing Foundation Limited ("LKSF"). By virtue of the terms of the constituent documents of LKSF, Mr. Victor T K Li may be regarded as having the ability to exercise or control the exercise of one-third or more of the voting power at general meetings of LKSF.
- (2) Such SSUs are held by a company which is equally owned by Mr. Fok Kin Ning, Canning and his wife.
- (3) Such SSUs are held by a company which is equally owned by Mr. Donald Jeffrey Roberts and his wife.

Save as disclosed above, as at 31 December 2018, none of the Directors or chief executives of the Trustee-Manager and the Company had any interests or short positions in the SSUs, underlying SSUs or debentures of the Trust and the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Trustee-Manager, the Company and the Stock Exchange pursuant to the Model Code.

### Directors' Interests in Competing Business

None of the Directors is interested in any businesses apart from the Group's business which competes or is likely to compete, either directly or indirectly, with the Group's business in the generation, transmission, distribution and supply of electricity in Hong Kong.

### Remuneration Committee of the Company

The Remuneration Committee of the Company is chaired by Mr. Donald Jeffrey Roberts (an Independent Non-executive Director), and the other members are Mr. Fok Kin Ning, Canning (the Chairman) and Mr. Fong Chi Wai, Alex (an Independent Non-executive Director).

The Remuneration Committee's principal responsibilities include the review and consideration of the Company's policy for remuneration of Directors and senior management, and the determination of their individual remuneration packages. It reports to the Company Board at the next board meeting after decisions and recommendations have been made. Committee members may seek independent professional advice at the expense of the Company to discharge their duties. The terms of reference of the Remuneration Committee are published on the Company's website and HKEX's website.

The Group's Human Resources Division assists the Remuneration Committee by providing relevant remuneration data and market conditions for the committee's consideration. The remuneration of Executive Directors and senior management is determined with reference to the Company's performance and profitability, industry remuneration benchmarks and prevailing market conditions. Remuneration is performance-based and, coupled with an incentive system, is competitive to attract and retain talented employees.

The Remuneration Committee held a meeting in December 2018, during which it assessed the performance of the full time Executive Directors and senior management of the Group and considered and determined the performance-based bonus payable to them in respect of the 2018 financial year and their remuneration for the next year. The committee also considered and approved the remuneration package for each of Mr. Wan Chi Tin as Chief Executive Officer, Mr. Chan Loi Shun as Executive Director, Mr. Cheng Cho Ying, Francis as Operations Director and Mr. Chen Daobiao (as Co-General Manager (Transmission & Distribution) with effect from 22 May 2018). None of the Directors and senior management participated in the determination of their own remuneration. The committee, authorised by the Company Board, also reviewed and approved the 2019 wage and salary review proposal.

The emoluments paid to each Director of the Company for the 2018 financial year are shown in note 11 to the financial statements on page 116 of the Annual Report. The remuneration paid to members of the management team for the 2018 financial year is disclosed by bands also in note 11 on page 117 of the Annual Report.

The Trustee-Manager does not have a remuneration committee as provided for in code provision B.1, since under the terms of their letters of appointment the Directors of the Trustee-Manager are not entitled to any remuneration.

### **Trustee-Manager Audit Committee and Company Audit Committee**

The Trustee-Manager and the Company established their respective audit committee, and the Trust Deed requires that the memberships of both committees must be the same.

Each of the Trustee-Manager Audit Committee and the Company Audit Committee is chaired by Mr. Donald Jeffrey Roberts (an Independent Non-executive Director) and the other members are Mr. Ronald Joseph Arculli (a Non-executive Director) and Mr. Lee Lan Yee, Francis (an Independent Non-executive Director). The Company Secretary acts as secretary to both committees. None of the committee members is a partner or former partner of KPMG, the external auditor of the Trust, the Trustee-Manager and the Company.

The Trustee-Manager Audit Committee and the Company Audit Committee report directly to the Trustee-Manager Board and the Company Board respectively. The principal responsibilities of the Audit Committees are to assist the Boards in fulfilling their audit duties through the review and supervision of financial reporting, risk management and internal control systems, the review of financial information, and the consideration of issues relating to external auditor and their appointment. The Company Audit Committee also oversees the Company's whistle-blowing procedure under which employees and external parties can use in confidence to raise concerns about improprieties in matters related to the Group.

The respective terms of reference of the Trustee-Manager Audit Committee and the Company Audit Committee were amended on 1 January 2019 to incorporate the amendment to the code provision C.3.2 in the Corporate Governance Code to extend the cooling off period for former partner of the listed issuer's existing audit firm before he acts as a member of its audit committee effective on 1 January 2019. The revised terms of reference of the Audit Committees are published on the Company's website and HKEX's website.

# Combined Corporate Governance Report

Each of the Trustee-Manager Audit Committee and the Company Audit Committee held three meetings on a combined basis in 2018. During the meetings, members reviewed and considered matters including the financial statements and Annual Report for the year ended 31 December 2017, the audit fee and auditor engagement letter for the 2017 financial statements, the re-appointment of auditor, the report of the auditor to the Audit Committees in relation to the audit of the 2017 financial statements, the Group's risk management report as of December 2017, the assessment and declaration in respect of the effectiveness of the risk management and internal control systems of the Group for the year 2017 and for the half year to 30 June 2018, the effectiveness of the Company's internal audit function, the internal audit plan for 2018, the 4-year cycle audit plan for 2018 to 2021, the financial statements for the six months ended 30 June 2018, the corporate governance structure, the compliance of the Corporate Governance Code, the disclosure in the 2017 Corporate Governance Report, the corporate governance disclosure in the 2018 interim report, the disclosure in the Sustainability Report 2017, the continuous professional development activities undertaken by Directors and senior managers during 2017 and the six months ended 30 June 2018, KPMG's 2018 audit plan and all internal audit reports compiled during the year. In addition, the Company Audit Committee also reviewed and considered the Group's outstanding litigation and claims as at 31 December 2017 and 30 June 2018, and the statistics on bribery activities and illegal or unethical behaviour of the Group for the year 2017, for the half year to 30 June 2018 and for the nine months period to 30 September 2018.

Representatives from KPMG were invited to attend two of the meetings of the Trustee-Manager Audit Committee and the Company Audit Committee and they discussed the 2017 audited financial statements, the 2018 audit plan and various accounting issues with the members of the Audit Committees.

## Company Secretary

The Company Secretary of the Trustee-Manager and the Company supports the Boards by ensuring good information flow within the Boards and that board policy and procedures are followed. The Company Secretary is responsible for advising the Boards through the Chairman and/or the Chief Executive Officer on governance matters and also facilitates induction and professional development of Directors.

The appointment and removal of the Company Secretary is subject to approval of the Boards. Although the Company Secretary reports to the Chairman and the Chief Executive Officer, all Directors have access for advice and service of the Company Secretary. Mr. Alex Ng, an employee of the Group, has been appointed as the Company Secretary of the Trustee-Manager and the Company since their incorporation in September 2013, and has day-to-day knowledge of the Group's affairs. During the year ended 31 December 2018, Mr. Ng has received no less than fifteen hours of relevant professional training to refresh his skills and knowledge.

## Risk Management and Internal Control

### Introduction

The Trustee-Manager Board and the Company Board have overall responsibility for evaluating and determining the nature and extent of the risks they are willing to take in achieving the Trustee-Manager's and Company's strategic objectives, overseeing the risk management and internal control systems including reviewing their effectiveness through the Trustee-Manager Audit Committee and the Company Audit Committee to ensure appropriate and effective risk management and internal control systems are in place.

Each of the Trustee-Manager Audit Committee and the Company Audit Committee assists the Trustee-Manager Board and the Company Board respectively in meeting its responsibility for maintaining effective systems of risk management and internal control. The Audit Committees review all significant aspects of risk management and internal control, including financial, operational and compliance controls; the adequacy of resources, qualifications and experience, training programmes and budgets of the staff of the Company's accounting, internal audit, and financial reporting functions. They review the process by which the Trustee-Manager and the Company evaluate their control environment and their risk assessment process, and the way in which business and control risks are managed. The Audit Committees review the effectiveness of the internal audit function and its annual work plans, and consider the reports of the Chief Executive Officer and an Executive Director on the effectiveness of the systems of risk management and internal control. These reviews and reports are considered by the Audit Committees before they make their recommendation to the Trustee-Manager Board and the Company Board for approval of the annual financial statements.

At the meetings held in March and July 2018, the Trustee-Manager Audit Committee and the Company Audit Committee have reviewed the effectiveness of the risk management and internal control systems of the Trust, the Company and the Trustee-Manager for the year 2017 and for the half year ended 30 June 2018 respectively, and considered the systems are effective and adequate.

### **Risk Management and Internal Control Environment**

Effective risk management is fundamental to the achievement of the Trustee-Manager's and the Company's strategic objectives, and an enterprise risk management framework is in place to provide top-down and bottom-up approaches to identify, assess, mitigate and monitor key risks at corporate and operating unit levels in a pro-active and structured manner. More details are given in the Risk Management and Risk Factors on pages 74 to 77 of the Annual Report.

The management encourage a risk aware and control conscious environment, setting objectives, performance targets or policies for the management of key risks including strategic planning, business operations, investments, legal and regulatory compliance, expenditure control, treasury, environment, health and safety, and customer service. The Trustee-Manager and the Company have a well-established organisational structure with defined levels of responsibility and authority and reporting procedures. There are inherent limitations in any systems of risk management and internal control and accordingly the Trustee-Manager's and the Group's risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Executive Directors review operational and financial reports and key operating statistics of each division and hold regular meetings with division general managers to review their reports.

Budgets are prepared annually by the management of each division and are subject to review and approval firstly by the Chief Executive Officer and then by the Company Board. Re-forecasts of operating results for the current year are prepared on a quarterly basis, reviewed for differences to the budget and for approval by the Executive Directors.

The Group Finance Division has established guidelines and procedures for the approval and control of expenditure. Operating expenditure is subject to overall budget control, with approval levels being set by reference to the level of authority of each executive and officer. Capital expenditure is also subject to overall control within the approved budget of individual projects with more specific control and approval being required for overspending, unbudgeted expenditure and material expenditure within the approved budget. Monthly reports of actual versus budgeted and approved expenditure are also reviewed.

The Treasury Department, reporting to an Executive Director, is in charge of the treasury function overseeing investment and funding activities. It regularly reports on the Group's cash and liquid investments, borrowings, outstanding contingent liabilities and financial derivatives commitments. The Boards have approved and adopted a treasury policy governing the management of financial risks (including interest rate risk, foreign exchange risk and liquidity risk) and the operational risks associated with such risk management activities. The treasury policy is reviewed by the Audit Committees from time to time.

The Group Legal and Company Secretarial Department, reporting to the Chief Executive Officer, is in charge of legal and company secretarial functions, overseeing, among other things, the Trust Group's compliance of the Listing Rules and other legal and regulatory requirements.

The Internal Audit Department, reporting to an Executive Director and the Trustee-Manager Audit Committee and the Company Audit Committee, provides independent assurance as to the existence and effectiveness of the risk management activities and internal controls in business operations. Staff members of the department are from a wide range of disciplines including accounting, engineering and information technology. Using risk assessment methodology and taking into account the scope and nature of the Group's activities and changes in operating environment, the Internal Audit Department prepares its yearly audit plan which is reviewed and approved by the Audit Committees. Its internal audit reports on the Group's operations are also reviewed and considered by the Trustee-Manager Audit Committee and the Company Audit Committee. The scope of work

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performed includes financial and operations review, recurring and unscheduled audits, fraud investigation, productivity efficiency review and laws and regulations compliance review. The Internal Audit Department follows up audit recommendations on implementation by the operating units and the progress is reported to the Audit Committees.

With the assistance of Internal Audit Department, the Chief Executive Officer and an Executive Director review, among other things, the profile of the significant risks and how these risks have been identified, evaluated and managed, the changes since the last annual assessment in the nature and extent of significant risks, and the Company's ability to respond to changes in its business and the external environment, the scope and quality of management's ongoing monitoring of the risk management and internal control systems. In addition, they review the work of internal audit function and other assurance providers, the extent and frequency of communication of monitoring results to the Audit Committees which enables them to assess control of the Company and the effectiveness of risk management, any significant failing or weaknesses in internal control that have been reported, the necessary actions that are being taken promptly to remedy any significant failings or weaknesses, and the effectiveness of the Company's processes for financial reporting and Listing Rules compliance. They also review the results of the self-assessment on internal controls. The assessment of the effectiveness of entity-level controls is the first tier of the internal control self-assessment. Division general managers and department heads conduct surveys on entity-level controls self-assessment with reference to five components of internal control, namely, Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring Activities. The second tier of internal control self-assessment at key business process level is also conducted to assess the effectiveness of controls over the operations within their areas of accountability and compliance with applicable laws and regulations. These assessments form part of the bases on which the Chief Executive Officer and an Executive Director formulate their opinion on risk management and internal control systems and report their findings to the Audit Committees and the Boards.

The Chief Executive Officer and other Executive Directors also have the responsibility of developing and implementing risk mitigation strategies including the deployment of insurance to transfer the financial impact of risk. The Group Finance

Division, working with each division, is responsible for arranging appropriate insurance coverage for the Trustee-Manager and the Trust Group.

Reports from the external auditor on material non-compliance with procedures and significant internal control weaknesses, if any, are presented to the Trustee-Manager Audit Committee and the Company Audit Committee. These reports are considered and reviewed and appropriate action is to be taken if required.

There are also procedures including pre-clearance on dealing in the Trust Group's securities by designated Directors, notification of regular blackout period and securities dealing restrictions to Directors and relevant employees, and dissemination of information for specified purpose and on a need-to-know basis have been implemented to guard against possible mishandling of inside information within the Group.

The Company entered into an agreement dated 14 January 2014 with Power Assets for sharing of support services, pursuant to which the Company shares the relevant financial and accounting, treasury and internal audit services with Power Assets to support risk management and internal control functions outlined above.

### Code of Conduct

The Trustee-Manager and the Group recognise the need to maintain a culture of corporate ethics and place great emphasis on employees' ethical standards and integrity in all aspects of the Group's operations. The Group's Code of Conduct, posted on the Company's intranet for reference by all employees, aims to give guidance in dealing with ethical issues, provides mechanisms to report unethical conduct and helps to foster a culture of honesty and accountability. Employees are required to adhere to the standards set out in the Code of Conduct.

The Trustee-Manager and the Group prohibit any form of bribery or corruption. Accepting or offering advantages in any manner from or to clients, suppliers, or any person in connection with the Trustee-Manager's and the Group's business is prohibited. An anti-bribery and anti-corruption control assessment is conducted biannually to evaluate the effectiveness of controls for managing bribery risks. A monitoring mechanism has been established to review

compliance with anti-corruption laws and the Code of Conduct. There is a whistle-blowing procedure, which is set out in the Code of Conduct, to allow employees and external parties such as customers, suppliers, debtors and creditors to report possible improprieties, and actual or alleged violations, including fraud and illegal acts. Investigations are carried out on all reported cases, the results of which are reported to the Company Audit Committee and the Chief Executive Officer, and disciplinary and remedial actions are taken as appropriate. During 2018, there were four reported cases, not involving any breaches of the Code of Conduct or any bribery or corruption cases.

It is the responsibility of each Director and employee to avoid situations that may lead to or involve a conflict of interest. They should make full disclosure in case any of their dealings may have a conflict of interest with the activities of the Trustee-Manager and the Group. It is the responsibility of all Directors and employees who have access to and in control of the Trustee-Manager's and the Group's information to provide adequate safeguard to prevent any abuse or misuse of that information. The use of inside information to secure personal advantage is strictly prohibited.

The Trustee-Manager and the Group promote fair and open competition, and procurement of supplies and services are conducted in a manner of high ethical standards. There are procurement and tendering procedures in place to ensure impartial selection of suppliers and contractors, and that the hire of services and purchase of goods are based solely upon price, quality, suitability and need.

## Sustainability Reporting

The Trustee-Manager and the Group are firmly committed to sustainable development and consider sustainability reporting to be one of the important platforms for stakeholder engagement. The Trust Group's Sustainability Report 2018 sets out its approach, commitments and strategy to sustainability, highlights its key achievements in 2018 with regard to its sustainability performance, outlines its plans and targets for the future, and addresses other concerns and comments raised by its stakeholders on its sustainability performance and reporting.

The Trust Group's Sustainability Report 2018 is available on the Company's website and HKEX's website.

## External Auditor

### Independence

KPMG, the external auditor, have confirmed that they have been, for the year ended 31 December 2018, independent of the Trustee-Manager, the Trust Group and the Group in accordance with the independence requirements of the HKICPA.

### Rotation of Engagement Partner

KPMG adopt a policy of rotating the engagement partner servicing their client companies in accordance with the requirements under the HKICPA's Code of Ethics for Professional Accountants.

### Reporting Responsibility

The reporting responsibilities of KPMG are stated in the Independent Auditor's Reports on pages 80 to 85 and pages 166 and 167 of the Annual Report.

### Remuneration

An analysis of the fees of KPMG is shown in note 9 to the consolidated financial statements of the Trust and the Company on page 114 of the Annual Report and note 4 to the financial statements of the Trustee-Manager on page 174 of the Annual Report.

### Re-appointment

A resolution for re-appointment of KPMG as auditor of the Trust, the Trustee-Manager and the Company will be proposed at the forthcoming annual general meeting. There has been no change in auditor since the respective dates of incorporation of the Trustee-Manager and the Company and the date of constitution of the Trust.

## Distribution Policy

The Boards have adopted a distribution policy which outlines the principles of payment on distribution on 1 January 2019. The distribution policy states that the Boards have a single-minded focus on delivering stable distribution to Holders of Share Stapled Units in accordance with the stated intention contained in the Trust Deed and the amended and restated articles of association of the Company. The level of such distribution from time to time will depend on prevailing business conditions and the Company's capital requirements and earning performance.

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## Holders of Share Stapled Units

The Trustee-Manager and the Company have established a range of communication channels between themselves and Holders of Share Stapled Units and investors. These include the annual general meeting, the annual and interim reports, notices, letters, announcements and circulars, news releases, the Company's website at [www.hkei.hk](http://www.hkei.hk) and meetings with investors and analysts. All Holders of Share Stapled Units have the opportunity to put questions to the Boards at general meetings, and at other times by e-mailing or writing to the Company. The Boards have adopted a communication policy which provides a framework to promote effective communication with Holders of Share Stapled Units. The policy is available on the website of the Company.

Holders of Share Stapled Units may at any time notify the Company by mail or email of any change in their choice of language (English or Chinese or both) or means of receiving (printed copies or through the Company's website) corporate communications from the Trustee-Manager and the Company.

The Trustee-Manager and the Company handle registration of Share Stapled Units and related matters for Holders of Share Stapled Units through Computershare Hong Kong Investor Services Limited, the share stapled units registrar, whose contact details are set out on page 181 of the Annual Report.

Pursuant to the Company's articles of association, any two or more shareholders of the Company (or a shareholder of the Company if such shareholder is a recognised clearing house or its nominees) may requisition for the convening of an extraordinary general meeting, provided that such requisitionists hold as at the date of deposit of the requisition not less than, for as long as the Trust Deed remains in force, 5% or, thereafter, one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. The requisition stating the objects of the meeting should be signed by the requisitionists and deposited at the principal office of the Company in Hong Kong. Pursuant to the Trust Deed, the Trustee-Manager may (and the Trustee-Manager shall at the request in writing of registered holders of units of the Trust holding not less than

5% of the units (as a component of the Share Stapled Units) of the Trust for the time being in issue and outstanding) at any time convene an extraordinary general meeting of registered holders of units at such time or place in Hong Kong. The registered holders of units of the Trust and shareholders of the Company can also refer to the detailed requirements and procedures as set forth in the relevant sections of the Trust Deed and the articles of association of the Company when making any requisitions or proposals for transaction at the general meetings of the Trust and the Company. Pursuant to article 16.5 of the Company's articles of association, a shareholder of the Company may propose a person other than a retiring director of the Company for election as a director of the Company at any general meeting, the procedures for which are posted on the Company's website.

## 2018 Annual General Meeting

The annual general meeting is a main channel of communication between Directors and Holders of Share Stapled Units. The 2018 annual general meeting was held at Harbour Grand Kowloon on 9 May 2018.

The notice of meeting, the annual report and the circular containing information on the proposed resolutions were sent to Holders of Share Stapled Units on 4 April 2018 which was more than 20 clear business days (as defined in the Listing Rules) and more than 21 clear days (as required by the Company's articles of association) prior to the meeting. The chairman and members of the Audit Committees and the Remuneration Committee respectively were available at the meeting to answer questions from the Holders of Share Stapled Units. Representatives from KPMG, the external auditor, also attended the meeting and were available to answer questions. A separate resolution was proposed by the Chairman in respect of each substantially separate issue, and voting on each resolution was conducted by way of a poll. The poll voting procedure was explained fully to Holders of Share Stapled Units during the meeting. Computershare Hong Kong Investor Services Limited, the share stapled units registrar, was appointed as scrutineer to monitor and count the poll votes cast at the meeting. The resolutions proposed were passed by Holders of Share Stapled Units at the meeting and the percentage of votes cast in favour of each of them is set out below:



### Ordinary Resolutions

- Audited Financial Statements of the Trust and the Company and of the Trustee-Manager, the Combined Report of the Directors, and the Independent Auditor's Reports for the year ended 31 December 2017 (99.9992%);
- Election of Mr. Victor T K Li (97.9971%), Mr. Chan Loi Shun (97.8527%), Mr. Jiang Xiaojun (99.7664%), Mr. Kwan Kai Cheong (96.5159%), Mr. Shan Shewu (97.9030%) and Mr. Zhu Guangchao (99.7052%) as Directors;
- Re-appointment of KPMG as auditor of the Trust, the Trustee-Manager and the Company and authorisation of Directors of the Trustee-Manager and the Company to fix auditor's remuneration (99.2011%); and
- General mandate to Directors of the Trustee-Manager and the Company to issue and deal with additional Share Stapled Units (92.5285%).

The results of the poll, which included the number of Share Stapled Units voted for and against each resolution, were posted on the Company's and HKEX's websites on the same day of the meeting.

### Company's Website

The Company maintains a website at [www.hkei.hk](http://www.hkei.hk). It contains a wide range of information of interest to investors and other stakeholders. For the dissemination of published

information, such information including financial results, notices of meetings, announcements required under the Listing Rules, circulars to Holders of Share Stapled Units, sustainability publication, press releases and other necessary announcements are uploaded onto the Company's website.

### Trust Deed and Memorandum and Articles of Association

No changes were made to the Trust Deed and the memorandum and articles of association of each of the Trustee-Manager and the Company during the year ended 31 December 2018.

The current versions of the Trust Deed, and the memorandum and articles of association of each of the Trustee-Manager and the Company are available on the Company's website and HKEX's website.

### Key Dates

Announcement of 2018 interim results	24 July 2018
Payment of 2018 interim distribution (HK19.92 cents per Share Stapled Unit)	17 August 2018
Announcement of annual results for the year ended 31 December 2018	19 March 2019
Record date for 2018 final distribution	3 April 2019
Payment of 2018 final distribution (HK20.12 cents per Share Stapled Unit)	15 April 2019
Closure of registers (annual general meeting)	9 May 2019 to 15 May 2019 (both days inclusive)
2019 annual general meeting	15 May 2019

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### Interests and Short Positions of Holders of Share Stapled Units

As at 31 December 2018, Holders of Share Stapled Units (other than Directors or chief executives of the Trustee-Manager and the Company) who had interests or short positions in the SSUs or underlying SSUs of the Trust and the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Trustee-Manager, the Company and the Stock Exchange were as follows:

#### Substantial Holders of Share Stapled Units

##### Long Positions in Share Stapled Units

Name	Capacity	Number of SSUs Held		Approximate % of Issued SSUs
Power Assets Holdings Limited	Interest of controlled corporation	2,948,966,418	(Note 1)	33.37%
Hyford Limited	Interest of controlled corporations	2,948,966,418	(Notes 1 and 2)	33.37%
Cheung Kong Infrastructure (BVI) Limited	Interest of controlled corporations	2,948,966,418	(Note 2)	33.37%
CK Infrastructure Holdings Limited	Interest of controlled corporations	2,948,966,418	(Note 2)	33.37%
Hutchison Infrastructure Holdings Limited	Interest of controlled corporations	2,948,966,418	(Note 3)	33.37%
CK Hutchison Global Investments Limited	Interest of controlled corporations	2,948,966,418	(Note 3)	33.37%
CK Hutchison Holdings Limited	Interest of controlled corporations	2,948,966,418	(Note 3)	33.37%
State Grid Corporation of China	Interest of controlled corporations	1,855,602,000	(Note 4)	21.00%
State Grid International Development Co., Limited	Interest of controlled corporation	1,855,602,000	(Note 4)	21.00%
State Grid International Development Limited	Beneficial owner	1,855,602,000	(Note 4)	21.00%
Qatar Investment Authority	Interest of controlled corporation	1,758,403,800		19.90%

#### Notes:

- (1) Power Assets is deemed to be interested in 2,948,966,418 SSUs which are beneficially owned by its direct wholly-owned subsidiary, Quickview Limited. Hyford Limited is deemed to be interested in 2,948,966,418 SSUs which interests are duplicated in the 2,948,966,418 SSUs in which Power Assets is interested, as Hyford Limited is entitled to exercise or control the exercise of more than one-third of the issued shares of Power Assets through its direct and indirect wholly-owned subsidiaries.
- (2) CKI is deemed to be interested in the 2,948,966,418 SSUs as referred to in Note (1) above as it holds more than one-third of the issued share capital of Cheung Kong Infrastructure (BVI) Limited, which holds more than one-third of the issued share capital of Hyford Limited. Its interests are duplicated in the interest of CK Hutchison in HKEI described in Note (3) below.
- (3) CK Hutchison is deemed to be interested in the 2,948,966,418 SSUs as referred to in Note (2) above as it holds more than one-third of the issued voting shares of CK Hutchison Global Investments Limited ("CKHGI"). Certain subsidiaries of CKHGI hold more than one-third of the issued voting shares of Hutchison Infrastructure Holdings Limited which in turn holds more than one-third of the issued share capital of CKI.
- (4) State Grid International Development Limited is a direct wholly-owned subsidiary of State Grid International Development Co., Limited and an indirect wholly-owned subsidiary of State Grid Corporation of China ("State Grid"), and the interests of State Grid International Development Limited and State Grid International Development Co., Limited of 1,855,602,000 SSUs each are duplicated in the 1,855,602,000 SSUs held by State Grid.

Save as disclosed above, as at 31 December 2018, there was no other person (other than Directors or chief executives of the Trustee-Manager and the Company) who had interests or short positions in the SSUs or underlying SSUs of the Trust and the Company as recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Trustee-Manager, the Company and the Stock Exchange.

## Public Float

According to information that is available to the Trustee-Manager and the Company and within the knowledge of the Directors, the percentage of the Share Stapled Units which are in the hands of the public exceeds 25% of the total number of issued Share Stapled Units.

## Connected Transaction in 2018

### Framework Agreement for proposed hotel development at Ap Lei Chau, Hong Kong

On 27 February 2018, HK Electric, an indirect wholly-owned subsidiary of the Company, entered into a framework agreement (the "Framework Agreement") with CK Asset Holdings Limited ("CKA") for the proposed development of a hotel, including its ancillary facilities, (the "Hotel Development") at the eastern portion of the property located at 2 Yi Nga Drive, Ap Lei Chau, Hong Kong (the "Property") which is the site of HK Electric's former operational headquarters and carpark building (the "Transaction").

Pursuant to the Framework Agreement, CKA was appointed as the project manager of the Hotel Development and would (or would through its subsidiaries) be responsible for overseeing, amongst other things, the construction of the Hotel Development and its business and financial performance. No remuneration will be payable to CKA for the services to be provided by it in its capacity as the project manager in view of the opportunity for participation in the Hotel Development in the manner as set out in the Framework Agreement.

The Property and the Hotel Development will at all times be owned by HK Electric, and CKA will not have any property or other interest in the land and/or the hotel erected thereon.

Pursuant to the Framework Agreement, each of CKA and HK Electric (or through their respective subsidiaries) will provide funding in the amount of HK\$550 million and HK\$113.41 million respectively for the sum of premium amount of HK\$663.41 million payable to the Government for the lease modification of the Property (the "Premium Amount"). Each party will be entitled to a return to be paid, from time to time, from its Pro Rata Portion of Free Cash Flow (as defined in the announcement issued by the Trustee-Manager and the Company dated 27 February 2018 (the "February

2018 Announcement") as attributed to its funding amount, provided that CKA's entitlement will cease on the date on which an internal rate of return of 9% has been achieved for the funding amounts made by CKA for the Hotel Development (the "Termination Date") and HK Electric will be entitled to all return of the Hotel Development thereafter.

In addition, CKA has granted to HK Electric an option (the "Option"), exercisable in HK Electric's sole discretion within a period of 3 months from the date of the Framework Agreement, to require CKA to assume all or part of HK Electric's portion of funding for the Premium Amount, in which case CKA will be entitled to the Pro Rata Portion of Free Cash Flow as attributed to the exercise of the Option, provided that CKA's entitlement will still cease on the Termination Date. On 28 May 2018, the Boards announced that HK Electric did not exercise the Option, and accordingly, the Option lapsed on 26 May 2018.

Given Mr. Li Ka-shing, Mr. Victor T K Li (who is a Director of the Trustee-Manager and the Company) and the Li Trust (as defined in the February 2018 Announcement) have been deemed as a group of connected persons by the Stock Exchange and they directly and/or indirectly hold an aggregate of approximately 31.47% of the issued share capital of CKA as at the date of the February 2018 Announcement, CKA may be regarded as a connected person of the Trust Group under the Listing Rules. As such, the Transaction constituted a connected transaction for the Trust Group under Chapter 14A of the Listing Rules. As all of the applicable percentage ratios of the Trust Group for the Transaction, based on its contributions to the total funding amount (including the Premium Amount, HK Electric's contribution for the Hotel Development prior to the Framework Agreement for an amount of HK\$31.1 million and any other amounts as may be made for the Hotel Development in the future), exceed 0.1% but are less than 5%, the Transaction is subject to Trust Group's compliance with the announcement and reporting requirements, but is exempt from the independent Holders of Share Stapled Units' approval requirements, under Chapter 14A of the Listing Rules.

Holders of Share Stapled Units have been informed of the entering into of the Framework Agreement and the lapse of Option in the announcements posted on the Company's website and HKEX's website on 27 February 2018 and 28 May 2018 respectively.

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### Disclosure under the Trust Deed

Pursuant to the Trust Deed, the Trustee-Manager Board confirms that:

- (i) Any charges paid and payable out of the trust property of the Trust to the Trustee-Manager for the year ended 31 December 2018 are in accordance with the Trust Deed;
- (ii) The connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or obtained from independent third parties, with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Holders of Share Stapled Units as a whole; and
- (iii) It is not aware of any violation of duties of the Trustee-Manager which would have a material adverse effect on the business of the Trust or on the interests of all Holders of Share Stapled Units as a whole.

### Conflict of Interests

The Trustee-Manager and the Company have implemented the following measures to deal with potential conflict of interest issue between (1) the Trust; and (2) any unitholder holding 30% or more of the units in issue, or any Director or shareholder of the Trustee-Manager holding 30% or more of the issued shares in the Trustee-Manager:

- (i) If a Director has a conflict of interest in a matter to be considered by the Trustee-Manager Board or the Company Board which the relevant board has determined to be material, the matter will be dealt with by a physical board meeting instead of a circulating written resolution and independent non-executive directors who, and whose associates, have no material interest in the transaction must be present at that board meeting;

- (ii) Pursuant to clause 2.6 of the Trust Deed and article 90 of the articles of association of the Trustee-Manager, a Director of the Trustee-Manager must give priority to the interest of all the registered holders of units as a whole over the interest of the Company in the event of a conflict between the interest of all the registered holders of units as a whole and the interest of the Company; and
- (iii) The Trustee-Manager Audit Committee and the Company Audit Committee comprising majority of Independent Non-executive Directors regularly review the internal control systems and internal audit reports of the Trustee-Manager and the Company.

The Company and Power Assets entered into a non-competition deed on 14 January 2014 (the "Non-Competition Deed") pursuant to which Power Assets agreed to the Company that save for the exceptions provided therein, Power Assets would not, and it would procure that none of its members would carry on, or be engaged in or interested in the business of generation, transmission, distribution and supply of electricity in Hong Kong. Power Assets has provided the Company with a written confirmation in respect of compliance by the Power Assets group with the terms of the Non-Competition Deed during the year ended 31 December 2018 and its consent to the inclusion of such confirmation in the Annual Report. A committee comprising all Independent Non-executive Directors has been formed with the responsibility to overseeing compliance by the Power Assets group with the Non-Competition Deed, and the committee has confirmed its view that Power Assets complied with the terms of the Deed during the year under review.