

COMBINED REPORT OF THE DIRECTORS

The Boards have pleasure in submitting the annual report together with the audited consolidated financial statements of the Trust and of the Company for the year ended 31 December 2018 (the "consolidated financial statements of the Trust and of the Company").

The Trustee-Manager Board also presents the audited financial statements of the Trustee-Manager for the year ended 31 December 2018.

Principal activities

The Trust is a fixed single investment trust, with its activities being limited to investing in securities and other interests in the Company.

The principal activity of the Company is investment holding, whilst the principal activities of the Group are the generation and supply of electricity in Hong Kong Island and Lamma Island. Particulars of the Company's subsidiaries are set out in note 17 to the consolidated financial statements of the Trust and of the Company.

The Trustee-Manager, an indirect wholly-owned subsidiary of Power Assets, has a specific and limited role to administer the Trust, and is not actively engaged in running the business managed by the Trust Group.

Business review

A review of the business of Trust Group (of which the Group forms part) during the year and an indication of likely future developments in the Trust Group's business are provided in the Chairman's Statement on pages 6 to 8, CEO's Report on pages 14 to 35, Financial Review on pages 36 to 38 and Performance Highlights on pages 2 and 3.

The principal risks and uncertainties facing the Trust Group and how the Trust Group manages these risks and uncertainties are described in Risk Management and Risk Factors on pages 74 to 77.

The Trust Group's relationships with its key stakeholders, environmental policies and performance is discussed in the CEO's Report on pages 14 to 35, whilst its compliance with the relevant laws and regulations that have a significant impact on the Trust Group are included in Risk Factors on pages 76 and 77 and Combined Corporate Governance Report on pages 51 to 70.

These review and discussion form part of this Combined Report of the Directors.

Results

The results for the year ended 31 December 2018 and the financial position as at that date of the Trust Group and the Group are set out in the consolidated financial statements of the Trust and of the Company on pages 86 to 165.

The results for the year ended 31 December 2018 and the financial position as at that date of the Trustee-Manager are set out in the financial statements of the Trustee-Manager on pages 168 to 175.

Distributions and dividends

Distributable income

Distributable income and distributable income per Share Stapled Unit are set out in note 13 to the consolidated financial statements of the Trust and of the Company.

Distribution per Share Stapled Unit

The Trustee-Manager Board has declared a final distribution by the Trust of HK20.12 cents (2017: HK20.12 cents) per Share Stapled Unit for the year ended 31 December 2018, payable on 15 April 2019 to Holders of Share Stapled Units whose names appear on the Share Stapled Units Register on 3 April 2019. This, together with the interim distribution of HK19.92 cents (2017: HK19.92 cents) per Share Stapled Unit, brings the total distribution to HK40.04 cents per Share Stapled Unit for the year ended 31 December 2018 (2017: HK40.04 cents).

In order to enable the Trust to pay the interim distribution and the final distribution, the Company Board declared the payments of a first interim dividend and a second interim dividend, in respect of each of the Company's ordinary shares held by the Trustee-Manager, of HK19.92 cents (2017: HK19.92 cents) and HK20.12 cents (2017: HK20.12 cents) respectively for the year ended 31 December 2018.

The Trustee-Manager Board does not recommend the payment of a dividend for the year ended 31 December 2018.

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Share capital and Share Stapled Units

Share capital

Details of the share capital of the Company are set out in note 28(b) to the consolidated financial statements of the Trust and of the Company. There was no movement during the year.

Details of the share capital of the Trustee-Manager are set out in note 8 to the financial statements of the Trustee-Manager. There was no movement during the year.

Share Stapled Units

There was no movement in the number of issued Share Stapled Units, or individually units in the Trust, or ordinary shares, or preference shares of the Company, during the year.

Donations

Charitable and other donations made by the Trust Group during the year amounted to HK\$2 million (2017: HK\$2 million).

Five-year financial summary

A five-year summary of the results and of the assets and liabilities of the Trust Group and the Group is set out on page 176.

Major customers and suppliers

Sales to the five largest customers combined was less than 30% of the Trust Group's total revenue for the years ended 31 December 2018 and 2017.

Purchases from the largest supplier of revenue items for the year represented 26.7% (2017: 25.3%) of the Trust Group's total purchases of revenue items, and purchases from the five largest suppliers combined accounted for 72.2% (2017: 74.6%) of the Trust Group's total purchases of revenue items for the year ended 31 December 2018.

At no time during the year have the Directors, their close associates or any Holders of Share Stapled Units (which to the knowledge of the Boards own more than 5% of the number of issued Share Stapled Units) had any interest in the above major customers and suppliers.

Directors

The Directors of the Trustee-Manager and the Company in office during the year ended 31 December 2018 and up to the date of this report were Mr. Fok Kin Ning, Canning, Mr. Li Tzar Kuoi, Victor, Mr. Wan Chi Tin, Mr. Fahad Hamad A H Al-Mohannadi, Mr. Ronald Joseph Arculli, Mr. Chan Loi Shun, Mr. Chen Daobiao (appointed on 22 May 2018), Mr. Cheng Cho Ying, Francis, Mr. Duan Guangming (appointed on 26 February 2019), Mr. Fong Chi Wai, Alex, Mr. Jiang Xiaojun (resigned on 26 February 2019), Mr. Deven Arvind Karnik, Mr. Kwan Kai Cheong, Mr. Lee Lan Yee, Francis, Mr. George Colin Magnus, Mr. Donald Jeffrey Roberts, Mr. Shan Shewu (resigned on 22 May 2018), Mr. Ralph Raymond Shea and Mr. Zhu Guangchao.

Mr. Shan Shewu and Mr. Jiang Xiaojun, both resigned as Directors of the Trustee-Manager and the Company during the year and up to the date of this report due to their other business commitments, have no disagreement with the Boards and do not have any matters in relation to their resignations that should be brought to the attention of the Holders of Share Stapled Units.

During the same period, Ms. Woo Mo Fong, Susan (alias Chow Woo Mo Fong, Susan) served as the Alternate Director to Mr. Fok Kin Ning, Canning, and Mr. Frank John Sixt served as the Alternate Director to Mr. Li Tzar Kuoi, Victor.

Permitted indemnity

Pursuant to the Trust Deed the Directors of the Trustee-Manager shall be entitled to be indemnified out of the Trust property or any part thereof against any actions, costs, claims, damages, expenses, penalties or demands to which they may be put as Directors of the Trustee-Manager of the Trust, save where occasioned by the fraud, wilful default or negligence of the Directors.

The articles of association of each of the Company and the Trustee-Manager provides that every Director shall be entitled to be indemnified out of the assets of the Company or the Trustee-Manager (excluding, for the avoidance of doubt, the Trust property) respectively against any losses or liability incurred or sustained by him as a Director.

A Directors Liability Insurance is currently in place, and was in place during the year to protect the directors of the Trustee-Manager, the Company and their subsidiaries against potential costs and liabilities arising from claims brought against them.

Directors' material interest in significant transaction, arrangement and contract

No transaction, arrangement and contract of significance in relation to the Trust Group's business to which the Trustee-Manager, the Company or their parent companies, subsidiaries or fellow subsidiaries was a party, and in which a Director or his connected entity had, directly or indirectly, a material interest, subsisted at the end of the year or at any time during the year.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Trust Group were entered into or existed during the year.

Arrangement to purchase Share Stapled Units, shares or debentures

At no time during the year was the Trustee-Manager or the Company or any of their parent companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of Share Stapled Units, or shares in, or debentures of, the Trustee-Manager, the Company or any other body corporate.

Equity-linked agreements

No equity-linked agreements were entered into by the Trust Group or the Trustee-Manager during the year or subsisted at the end of the year.

Purchase, sale or redemption of Share Stapled Units

Pursuant to the Trust Deed, the Holders of Share Stapled Units have no right to demand for repurchase or redemption of their Share Stapled Units. Unless and until expressly permitted to do so by the relevant codes and guidelines issued by the Securities and Futures Commission from time to time, the Trustee-Manager shall not repurchase or redeem any Share Stapled Units on behalf of the Trust.

None of the Trust, the Trustee-Manager, the Company nor any of their subsidiaries purchased, sold or redeemed any of issued Share Stapled Units during the year ended 31 December 2018.

Pre-emptive rights

There is no provision for pre-emptive rights under the Company's amended and restated articles of association and the laws of the Cayman Islands which would oblige the Company to offer new Share Stapled Units on a pro-rata basis to existing Holders of Share Stapled Units.

On behalf of the Boards of
HK Electric Investments Manager Limited
and
HK Electric Investments Limited

Fok Kin Ning, Canning

Chairman
Hong Kong, 19 March 2019