

Our Responsibilities

Corporate Governance Report



Corporate Governance Practices

The Company is committed to maintaining high standards of corporate governance. The Company recognises that sound and effective corporate governance practices are fundamental to the smooth, effective and transparent operation of a company and its ability to attract investment, protect the rights of shareholders and stakeholders, and enhance shareholder value. The Group's corporate governance is maintained through a framework of processes, policies and guidelines.

The Company has complied with the applicable code provisions in the Code on Corporate Governance Practices ("Code") set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the year ended 31st December 2011.

Board of Directors

The Board, led by the Chairman, is responsible for the approval and monitoring of Group-wide strategies and policies, approval of annual budgets and business plans, evaluation of the performance of the Group, and oversight of management. Management is responsible for the day-to-day operations of the Group under the leadership of the Group Managing Director.



- Board Leadership, Control and Oversight
- Management Administration and Supervision
- Board Committees Counsel and Review
- Rules Compliance
- Risk Management
- Audit by Internal and External Auditors

As at 31st December 2011, the Board comprised the following Directors:

Executive Directors

Mr. Fok Kin Ning, Canning ⁽¹⁾
(Chairman)

Mr. Tso Kai Sum
(Group Managing Director)

Mrs. Chow Woo Mo Fong, Susan ⁽¹⁾

Mr. Andrew John Hunter

Mr. Kam Hing Lam ^{(2) (4)}

Mr. Li Tzar Kuoi, Victor ⁽²⁾

Mr. Neil Douglas McGee
(Group Finance Director)

Mr. Frank John Sixt ⁽¹⁾

Mr. Wan Chi Tin
(Director of Engineering (Planning & Development))

Mr. Yuen Sui See
(Director of Operations)

Non-executive Directors

Mr. Ronald Joseph Arculli

Mr. George Colin Magnus

Independent Non-executive Directors

Mr. Holger Kluge

Mr. Lee Lan Yee, Francis ⁽³⁾

Mr. Ralph Raymond Shea

Mr. Wong Chung Hin

Alternate Director

Mr. Chan Loi Shun ⁽⁴⁾

Notes:

- (1) Mrs. Chow Woo Mo Fong, Susan is also Alternate Director to Mr. Fok Kin Ning, Canning and Mr. Frank John Sixt.
- (2) Mr. Kam Hing Lam is an uncle of Mr. Li Tzar Kuoi, Victor.
- (3) Mr. Lee Lan Yee, Francis was re-designated from a Non-executive Director to an Independent Non-executive Director on 4th May 2011.
- (4) Mr. Chan Loi Shun is Alternate Director to Mr. Kam Hing Lam.

Biographical information of the Directors are set out in "The Board of Directors" section on pages 8 to 9 of the Annual Report. An updated list of Directors containing biographical information and identifying the Independent Non-executive Directors is maintained on the website of the Company. The Company has also posted the names of all Directors and their roles on the website of Hong Kong Exchanges and Clearing Limited ("HKEx") on 30th March 2012.

The Board meets 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 Company's articles of association. Throughout the year, Directors also participate in the consideration and approval of matters of the Company by way of written resolutions circulated to Directors together with supporting explanatory write-up, coupled with briefings from the Group Managing Director, the Group Finance Director 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.

Directors at all times have full access to information on the Group. A financial summary outlining the financial position and performance of the Group 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 senior management for information on the Group and unrestricted access to the services of the Company Secretary. The Company Secretary advises the Board on governance matters and Board procedures. There is a procedure for Directors to seek independent professional advice whenever deemed necessary by them at the Company's expense.

Directors receive at least 14 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 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 comment before being formally signed by the chairman of the meeting. Copies of the final version 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.

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During the year, the Board held four meetings, and the Chairman and the Non-executive Directors held two meetings without the presence of the Executive Directors. The record of attendance of each Director is as follows:-

	Directors	Board meetings	Meetings between Chairman and Non-executive Directors
Executive Directors	Fok Kin Ning, Canning (<i>Chairman</i>)	3/4	2/2
	Tso Kai Sum (<i>Group Managing Director</i>)	4/4	–
	Chow Woo Mo Fong, Susan	4/4	–
	Andrew John Hunter	4/4	–
	Kam Hing Lam	4/4	–
	Li Tzar Kuoi, Victor	4/4	–
	Neil Douglas McGee	4/4	–
	Frank John Sixt	3/4	–
	Wan Chi Tin	4/4	–
	Yuen Sui See	4/4	–
Non-executive Directors	Ronald Joseph Arculli	2/4	1/2
	George Colin Magnus	4/4	2/2
Independent Non-executive Directors	Holger Kluge	4/4	2/2
	Lee Lan Yee, Francis	4/4	2/2
	Ralph Raymond Shea	4/4	2/2
	Wong Chung Hin	4/4	2/2

All Non-executive Directors have been appointed on annual twelve-month basis. All Directors are required to retire from office by rotation and are subject to re-election by shareholders at the annual general meeting once every three years pursuant to the articles of association of the Company. Directors retiring by rotation and offering themselves for re-election at the forthcoming annual general meeting are Mr. Neil Douglas McGee, Mr. Ralph Raymond Shea,

Mr. Wan Chi Tin and Mr. Wong Chung Hin. Information relating to the said Directors which is required to be disclosed by the Listing Rules is contained in the circular to shareholders dated 17th April 2012. None of the said Directors has a service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

Insurance coverage in respect of Directors' liability has been arranged by the Company.

The Chairman and the Group Managing Director may recommend candidates for election to the Board. The principal consideration is to build an effective and complementary board with the expertise, skills and experience relevant to the Group's businesses. Potential candidates for Independent Non-executive Director will also be reviewed to determine whether they are independent according to the requirements of the Listing Rules, and able to devote sufficient time to Board and committee meetings. Credentials of candidates are put forward to the Board for consideration in respect of any proposed appointment of a new Director, and the appointment is subject to the approval of the Board. Any newly appointed Director will be subject to retirement and re-election pursuant to the articles of association of the Company at the next general meeting (in the case of filling a casual vacancy) and at the next annual general meeting (in the case of an addition to the Board).

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. 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. As part of the continuous professional development exercise, Directors are invited to seminars on subjects relating to corporate governance, directors' duties and other relevant areas.

Directors' Securities Transactions

The Board of Directors of the Company has adopted the Model Code for Securities Transactions by Directors ("Model Code") set out in Appendix 10 of the Listing Rules as the Group's code of conduct regarding 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 31st December 2011.

Senior managers who are likely to be in possession of unpublished price sensitive information regarding the Company and its securities are also required to comply with the Model Code.

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

Directors' Responsibility for Financial Reporting and Disclosure

Annual and Interim Reports and Financial Statements

The Directors 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 Company and of the Group. The annual and interim results of the Company are published in a timely manner within the limits of three months and two months respectively after the end of the relevant periods.

Accounting Policies

The Directors consider that in preparing financial statements, the Group ensures statutory requirements are met and applies appropriate accounting policies that are consistently adopted and makes judgments and estimates that are reasonable and prudent in accordance with the applicable accounting standards.

Accounting Records

The Directors are responsible for ensuring the Group keeps proper accounting records which disclose at any time the financial position of the Group upon which financial statements of the Group could be prepared in accordance with statutory requirements and the Group's accounting policies.

Safeguarding Assets

The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities within the Group.

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Going Concern

The Directors consider that the Group has 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 the Company's ability to continue as a going concern. The Group's financial statements have accordingly been prepared on a going concern basis.

Disclosure

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

Chairman and Group Managing Director

The positions of the Chairman (Mr. Fok Kin Ning, Canning) and the Group Managing Director (Mr. Tso Kai Sum) are held by separate individuals. The Chairman is elected among the Directors by the Board 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 Group Managing Director are subject to retirement from their offices as Directors by rotation and re-election by shareholders 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 Board to ensure that the Board acts in the best interests of the Group. The Chairman approves Board meeting agendas and ensures that Board meetings 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 holds two meetings annually with Non-executive Directors without the presence of Executive Directors. The Chairman also acts in an advisory capacity to the Group Managing Director in all matters covering the interests and management of the Group.

The Group Managing Director, working with the executive management team of each division, 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 Board

for all Group operations. The Group Managing Director attends to developing strategic operating plans and is directly responsible for maintaining the operational performance of the Group. Working with the Group Finance Director, the other Executive Directors and the general manager of each division, 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 Board must satisfy itself that an Independent Non-executive Director does not have any material relationship with the Group. The Board is also guided by the criteria of independence as set out in the Listing Rules in determining the independence of Directors.

Each of Messrs. Holger Kluge, Ralph Raymond Shea and Wong Chung Hin, Independent Non-executive Directors of the Company, has provided to the Company a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Board continues to consider these Directors to be independent.

Mr. Lee Lan Yee, Francis, an Independent Non-executive Director, has made a similar confirmation to the Company, save as mentioned below:

Mr. Lee was a Director (other than an Independent Non-executive Director) of the Company and a Director of The Hongkong Electric Company, Limited ("HK Electric"), a wholly owned subsidiary of the Company, during the two years immediately prior to his re-designation as an Independent Non-executive Director on 4th May 2011, and he has remained as a Director of HK Electric.

The Board has considered these directorships and is satisfied with Mr. Lee's independence having regard to all relevant factors including the fact that Mr. Lee has not held any executive or management function or position in the Group since his designation as a Non-executive Director in August 2008, and that his role on HK Electric's board has been and will be the same as his role on the Company's board.

Interests of Directors in Shares and Underlying Shares of the Company

At 31st December 2011, the interests of the Directors in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SF Ordinance")) as recorded in the register required to be kept under Section 352 of the SF Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to the Model Code were as follows:

Long Positions in Shares of the Company

Name of Director	Capacity	Nature of Interests	Number of Shares Held	Total	Approximate % of Shareholding
Lee Lan Yee, Francis	Beneficial owner	Personal	739	739	≈ 0%
Yuen Sui See	Beneficial owner	Personal	1,500	1,500	≈ 0%
Ronald Joseph Arculli	Interest of controlled corporation	Corporate	2,011	2,011	≈ 0%
Kam Hing Lam	Interest of child or spouse	Family	100,000	100,000	≈ 0%
Li Tzar Kuoi, Victor	Interest of child or spouse	Family	151,000)))	829,750,612	≈ 38.87%
	Beneficiary of trusts	Other	829,599,612) (Notes 1 and 2))		

Notes:

- (1) These shares are held by subsidiaries of Cheung Kong Infrastructure Holdings Limited ("CKI").

The discretionary beneficiaries of each of The Li Ka-Shing Unity Discretionary Trust ("DT1") and another discretionary trust ("DT2") are, inter alia, Mr. Li Tzar Kuoi, Victor, his wife and children, and Mr. Li Tzar Kai, Richard. Each of Li Ka-Shing Unity Trustee Corporation Limited ("TDT1", which is the trustee of DT1) and Li Ka-Shing Unity Trustcorp Limited ("TDT2", which is the trustee of DT2) holds units in The Li Ka-Shing Unity Trust ("UT1") but is not entitled to any interest or share in any particular property comprising the trust assets of the said unit trust. Li Ka-Shing Unity Trustee Company Limited ("TUT1") as trustee of UT1 and its related companies in which TUT1 as trustee of UT1 is entitled to exercise or control the exercise of one-third or more of the voting power at their general meetings ("TUT1 related companies") hold more than one-third of the issued share capital of Cheung Kong (Holdings) Limited ("CKH"). Certain subsidiaries of CKH in turn together hold more than one-third of the issued share capital of Hutchison Whampoa Limited ("HWL"). A subsidiary of HWL in turn holds more than one-third of the issued share capital of CKI.

The entire issued share capital of TUT1 and of the trustees of DT1 and DT2 are owned by Li Ka-Shing Unity Holdings Limited ("Unity Holdco"). Each of Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard is interested in one-third of the entire issued share capital of Unity Holdco. TUT1 is only interested in the shares of CKH by reason only of its obligation and power to hold interests in those shares in its ordinary course of business as trustee and, when performing its functions as trustee, exercises its power to hold interests in the shares of CKH independently without any reference to Unity Holdco or any of Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard as a holder of the shares of Unity Holdco as aforesaid.

By virtue of the above and as a discretionary beneficiary of each of DT1 and DT2 and as a Director of CKH, Mr. Li Tzar Kuoi, Victor is taken to have a duty of disclosure in relation to the shares of CKH held by TUT1 as trustee of UT1 and TUT1 related companies, the shares of HWL held by the subsidiaries of CKH, the shares of CKI held by the subsidiary of HWL and the shares of the Company held by the subsidiaries of CKI under the SF Ordinance as a Director of the Company. Although Mr. Li Tzar Kai, Richard is interested in one-third of the entire issued share capital of Unity Holdco and is a discretionary beneficiary of each of DT1 and DT2, he is not a director of CKH and has no duty of disclosure in relation to the shares of CKH held by TUT1 as trustee of UT1 and TUT1 related companies under the SF Ordinance.

- (2) Mr. Li Tzar Kuoi, Victor, by virtue of his interests as described in Note (1) above and as a Director of the Company, is also deemed to be interested in the shares of subsidiaries and associated corporations (within the meaning of Part XV of the SF Ordinance) of the Company held through the Company under the SF Ordinance.

Save as disclosed above, at 31st December 2011, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SF Ordinance) as recorded in the register required to be kept by the Company under Section 352 of the SF Ordinance, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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Directors' Interests in Competing Business

The interests of Directors in businesses which may compete with the Group's business of development, investment and operation of power generation, transmission and distribution and other energy related infrastructure facilities outside Hong Kong ("Business") were as follows:

Name of Director	Name of Company	Nature of Interests
Fok Kin Ning, Canning	Hutchison Whampoa Limited Cheung Kong Infrastructure Holdings Limited Husky Energy Inc.	Group Managing Director Deputy Chairman Co-Chairman
Tso Kai Sum	Cheung Kong Infrastructure Holdings Limited	Executive Director
Chow Woo Mo Fong, Susan	Hutchison Whampoa Limited Cheung Kong Infrastructure Holdings Limited	Deputy Group Managing Director Executive Director
Andrew John Hunter	Cheung Kong Infrastructure Holdings Limited Spark Infrastructure Group	Deputy Managing Director Non-executive Director (until 31st May 2011)
Kam Hing Lam	Hutchison Whampoa Limited Cheung Kong Infrastructure Holdings Limited	Executive Director Group Managing Director
Li Tzar Kuoi, Victor	Hutchison Whampoa Limited Cheung Kong Infrastructure Holdings Limited Husky Energy Inc.	Deputy Chairman Chairman Co-Chairman
George Colin Magnus	Hutchison Whampoa Limited Cheung Kong Infrastructure Holdings Limited Husky Energy Inc.	Non-executive Director Non-executive Director Director
Frank John Sixt	Hutchison Whampoa Limited Cheung Kong Infrastructure Holdings Limited Husky Energy Inc.	Group Finance Director Executive Director Director
Chan Loi Shun (Alternate Director)	Cheung Kong Infrastructure Holdings Limited Spark Infrastructure Group Envestra Limited	Executive Director and Chief Financial Officer Non-executive Director (until 31st May 2011) Director

The Board is of the view that the Group is capable of carrying on the Business independent of, and at arm's length from the businesses of the above companies. When making decisions on the Business, the above Directors, in the performance of their duties as Directors of the Company, have acted and will continue to act in the commercial best interest of the Group and all its shareholders.

Directors' Interests in Contracts of Significance

No contracts of significance to which the Company or any subsidiaries was a party and in which a Director of the Company had a material interest subsisted at the end of or at any time during the year ended 31st December 2011.

Remuneration Committee

The Remuneration Committee was chaired by the Chairman, Mr. Fok Kin Ning, Canning in 2011 with Mr. Ralph Raymond Shea and Mr. Wong Chung Hin, both Independent Non-executive Directors as members. On 1st March 2012, Mr. Wong Chung Hin was appointed chairman of the Committee in place of Mr. Fok Kin Ning, Canning who remained as a member.

The Remuneration Committee reports directly to the Board of Directors and its principal responsibilities include the review and consideration of the Company's policy for remuneration of Executive Directors and senior management, and the determination of their remuneration packages. The Remuneration Committee reports to the 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 as members of the Committee. The terms of reference of the Remuneration Committee are published on the Company's website and (in March 2012) the 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, as well as remuneration benchmarks in the industry and the prevailing market conditions. Remuneration is performance-based and coupled with an incentive system is competitive to attract and retain talented employees.

In December 2011, the Committee 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 2011 financial year and their remuneration for the next year. None of the Executive

Directors and senior management participated in the determination of their own remuneration. The Committee, authorised by the Board, also reviewed and approved the 2012 wage and salary review proposal.

The emoluments paid to each Director for the 2011 financial year are shown in note 10 to the financial statements on page 95 of the Annual Report.

Audit Committee

The Audit Committee comprises four members. It is chaired by Mr. Wong Chung Hin (an Independent Non-executive Director) and the other members are Mr. Ronald Joseph Arculli (a Non-executive Director), Mr. Holger Kluge (an Independent Non-executive Director) and Mr. Ralph Raymond Shea (an Independent Non-executive Director). The Company Secretary acts as secretary to the Audit Committee. None of the Committee members is a partner or former partner of KPMG, the Group's external auditor.

Regular meetings of the Audit Committee are scheduled during the last quarter of the preceding year providing members with adequate time to plan their schedules to attend. Members receive at least 14 days prior written notice of a regular meeting, and the agenda with supporting papers are sent to them no less than three days prior to a regular meeting. Draft minutes are sent to all members within a reasonable time after each meeting for their comments before being formally signed by the chairman of the meeting. Copies of the final version of the minutes are sent to members for their information and records.

The Audit Committee reports directly to the Board of Directors and its principal responsibilities include the review and supervision of the Group's financial reporting and internal control systems and the review of the Company's interim and annual financial statements. Its terms of reference were amended in March 2012 by adding the responsibilities of acting as the key representative body for overseeing the Company's relations with the external auditor, reviewing the arrangements which employees can use in confidence to raise concerns about improprieties in financial reporting, internal control and other matters, and undertaking duties relating to the corporate governance function of the Board. The Committee also meets regularly with KPMG to discuss the audit process and accounting issues.

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The chairman of the Committee summarises the subjects discussed and decisions or recommendations made in a written report to the Board after each meeting. Committee members may seek independent professional advice at the expense of the Company to discharge their duties as members of the Committee. The terms of reference of the Audit Committee are published on the Company's website and (in March 2012) the HKEx's website.

The Audit Committee held three meetings in 2011. The record of attendance of its members is as follows:-

Members	Audit Committee Meetings
Wong Chung Hin (<i>Chairman</i>)	3/3
Ronald Joseph Arculli	3/3
Holger Kluge	3/3
Ralph Raymond Shea	3/3

During the meetings, the Audit Committee reviewed and considered matters including the Group financial statements and Annual Report for the year ended 31st December 2010, the audit fee and auditor engagement letter for the 2010 Group financial statements, the re-appointment of auditor, the report of the auditor to the Audit Committee in relation to the audit of the 2010 Group financial statements, the internal control assessment declarations for the year 2010 and for the half year to 30th June 2011 in respect of the effectiveness of the system of internal controls of the Group made by the Group Managing Director and Group Finance Director, the Group's risk management report as of December 2010, the non-audit services provided by KPMG in the year 2010, the internal audit plan for 2011, the 4-year cycle internal audit plan for 2011 to 2014, the financial statements for the six months ended 30th June 2011, the performance of the Group's major investments outside Hong Kong for the six months ended 30th June 2011, the Group's outstanding litigation and claims for the six months ended 30th June 2011, KPMG's audit plan for the 2011 Group results and all internal audit reports compiled during the year. Representatives from

KPMG were invited to attend two of the meetings and they discussed the 2010 audited financial statements, the 2011 audit plan and various accounting issues with the Committee.

Internal Control

Introduction

The Board has overall responsibility for the Group's system of internal control and reviews its effectiveness through the Audit Committee to ensure that policies and procedures in place for the identification and management of risks are adequate.

The Audit Committee assists the Board in meeting its responsibility for maintaining an effective system of internal controls. The Committee reviews all material controls, including financial, operational and compliance controls and risk management functions. It reviews the process by which the Group evaluates its control environment and its risk assessment process, and the way in which business and control risks are managed. It also reviews the annual work plans of the Group Manager, Internal Audit, and considers the report of the Group Managing Director and Group Finance Director to the Committee on the effectiveness of internal controls in the Group's business operations. These reviews and reports are taken into consideration by the Committee when it makes its recommendation to the Board for approval of the annual consolidated financial statements.

Internal Control Environment

The Company's management encourages a risk aware and control conscious environment throughout the Group. Management sets objectives, performance targets or policies for the management of key risks including strategic planning, business operations, acquisitions, investments, legal and regulatory compliance, expenditure control, treasury, environment, health and safety, and customer service. The Company has a well established organisational structure with defined levels of responsibility and authority and reporting procedures. There are inherent limitations in any system of internal control and accordingly the Group's internal control system is designed to provide reasonable and not absolute assurance against material misstatement or loss.

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

Full-time Executive Directors and senior executives are appointed to the boards and board committees of all major operating subsidiaries and associates for monitoring the operations of those companies. There is a comprehensive system for reporting information by those companies to the Company's management.

Budgets are prepared annually by the management of each division and are subject to review and approval firstly by the Group Managing Director and then by the 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 Director 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 Group Finance Director is in charge of the treasury function overseeing the Group's investment and funding activities. The Treasury Department regularly reports on the Group's cash and liquid investments, borrowings, outstanding contingent liabilities and financial derivatives commitments. The Board has approved and adopted a treasury policy governing the management of the financial risks of the Group (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 Committee from time to time.

The Internal Audit Department, reporting to the Group Finance Director and the Audit Committee, provides independent assurance as to the existence and effectiveness of the risk management activities and controls in the Group's business operations. Staff members of the Internal Audit 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, Internal Audit prepares its yearly audit plan which is reviewed and approved by the Audit Committee. Internal Audit's reports on the Group's operations are also reviewed and considered by the Audit Committee. The scope of work performed by Internal Audit includes financial and operations review, recurring and unscheduled audits, fraud investigation, productivity efficiency review and laws and regulations compliance review. Internal Audit follows up audit recommendations on implementation by the operating units and the progress is reported to the Audit Committee. With the assistance of Internal Audit, the Group Managing Director and Group Finance Director assess the Group's internal control system, formulate an opinion on the system and report their findings to the Audit Committee and the Board.

Effective risk management is fundamental to the achievement of the Group's strategic objectives. The Company has in place an enterprise risk management framework that provides a pro-active and systematic approach to the risk management process. More details are given in the Risk Management Report on page 59 of the Annual Report.

An internal control self assessment has been established requiring division general managers and department heads 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 Group Managing Director and Group Finance Director formulate their opinion on the Group's internal control system.

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

Established guidelines where new businesses are being acquired including detailed appraisal and review procedures and due diligence processes are in place.

The Group Managing Director and Group Finance Director have the responsibility of developing and implementing risk mitigation strategies including the deployment of insurance to transfer the financial impact of risk. The Company Secretary, working with each division, is responsible for arranging appropriate insurance coverage for the Group.

Code of Conduct

The Group recognises the need to maintain a culture of corporate ethics and places great emphasis on employees' ethical standards and integrity in all aspects of its 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 of the Group are required to adhere to the standards set out in the Code of Conduct.

The Group prohibits 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 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.

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 Group.

There are fraud reporting guidelines governing the handling of suspected fraud incidents reported by external parties and employees.

It is the responsibility of all Directors and employees who have access to and in control of the Group's information to provide adequate safeguard to prevent any abuse or misuse of that information. The Group strictly prohibits the use of inside information to secure personal advantage.

The Group promotes 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.

External Auditor

Independence

KPMG, the external auditor, have confirmed that they have been for the year ended 31st December 2011 independent of the Group in accordance with the independence requirements of the Hong Kong Institute of Certified Public Accountants.

Rotation of engagement partner

KPMG adopt a policy of rotating every seven years the engagement partner servicing their client companies. The last rotation in respect of the Group took place in the audit of the 2007 financial statements.

Reporting Responsibility

The reporting responsibilities of KPMG are stated in the Independent Auditor's Report on page 73 of the Annual Report.

Remuneration

An analysis of the fees of KPMG and other external auditors is shown in note 8 to the financial statements on page 93 of the Annual Report.

Re-appointment

A resolution for re-appointment of KPMG as auditor of the Company will be proposed at the forthcoming annual general meeting. There has been no change in auditor in any of the preceding three years.

Shareholders

The Company has established a range of communication channels between itself and its shareholders and investors. These include the annual general meeting, the annual and interim reports, notices, letters, announcements and circulars, results highlights published in newspapers, news releases, the Company's website at www.powerassets.com and meetings with investors and analysts. All shareholders have the opportunity to put questions to the Board at the annual general meeting, and at other times by e-mailing or writing to the Company.

Shareholders 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 Company.

The Company handles share registration and related matters for shareholders through Computershare Hong Kong Investor Services Limited, the Company's share registrar, whose contact details are set out on page 136 of the Annual Report.

Pursuant to Section 113 of the Companies Ordinance, shareholders holding not less than one-twentieth of the paid-up share capital of the Company may requisition for the convening of an extraordinary general meeting. The requisition stating the objects of the meeting should be signed by the requisitionists and deposited at the registered office of the Company. Pursuant to Section 115A of the Companies Ordinance, shareholders qualified under sub-section (2) of the said Ordinance may request for inclusion of resolutions in an annual general meeting or for circulating to all shareholders statements with respect to any proposed resolution to be dealt with at a general meeting. The requisition should be signed by the requisitionists and deposited at the registered office of the Company in accordance with the statutory provisions.

On 1st March 2012, the Board adopted a shareholder communication policy which provided a framework to promote effective communication with shareholders.

2011 Annual General Meeting

The annual general meeting is a main channel of communication between Directors and shareholders. The 2011 Annual General Meeting was held at Harbour Grand Kowloon on 18th May 2011. The notice of meeting, the Company's annual report and the circular containing information on the proposed resolutions were sent to shareholders on 6th April 2011 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. All Directors have attended the meeting. The chairman and members of the Audit Committee and the Remuneration Committee respectively were available at the meeting to answer questions from the shareholders. 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 shareholders during the meeting. Computershare Hong Kong Investor Services Limited, the Company's share registrar, was appointed as scrutineer to monitor and count the poll votes cast at the meeting. The resolutions proposed were passed by shareholders at the meeting and the percentage of votes cast in favour of each of them is set out below:-

Ordinary resolutions

- Statement of accounts and the reports of the directors and the auditor for the year ended 31st December 2010 (99.9914%);
- Declaration of a final dividend of HK\$1.49 per share (99.9984%);
- Election of Mr. Fok Kin Ning, Canning (96.8531%), Mr. Tso Kai Sum (98.2760%), Mr. Ronald Joseph Arculli (92.9321%), Mrs. Chow Woo Mo Fong, Susan (97.0862%), Mr. Andrew John Hunter (98.3851%), Mr. Kam Hing Lam (97.6755%), Mr. Holger Kluge (99.4213%), Mr. Li Tzar Kuoi, Victor (96.5875%), Mr. George Colin Magnus (93.8495%) and Mr. Yuen Sui See (90.5665%) as Directors;
- Re-appointment of KPMG as auditor and authorisation of Directors to fix their remuneration (99.8139%);

Our Responsibilities

- General mandates to Directors to issue additional shares of the Company (68.4015%) and to repurchase shares of the Company (99.9843%), and extension of the general mandate to issue shares (71.3828%).

The results of the poll which included the number of shares voted for and against each resolution were posted on the Company's and the HKEx's websites on the same day of the meeting.

Extraordinary General Meeting for Change of Name of the Company

An Extraordinary General Meeting was held at Harbour Grand Kowloon on 26th January 2011 for the purpose of approving the change of the Company's name from Hongkong Electric Holdings Limited 香港電燈集團有限公司 to Power Assets Holdings Limited 電能實業有限公司. Particulars of the change of name and the meeting have been disclosed in announcements posted on the respective websites of the Company and the HKEx on 6th December 2010, 26th January 2011 and 17th February 2011, the circular to shareholders dated 30th December 2010 and the last year's Corporate Governance Report included in the 2010 Annual Report.

Company's Website

The Company maintains a website at www.powerassets.com. It contains a wide range of information of interest to investors and other stakeholders. For the dissemination of published information, the Company uploads such information including press releases, financial results, notices of meetings, announcements required under the Listing Rules, circulars to shareholders and other necessary announcements onto its website.

Memorandum and Articles of Association

The name clause of the memorandum of association of the Company was changed following the change of the name of the Company from Hongkong Electric Holdings Limited 香港電燈集團有限公司 to Power Assets Holdings Limited 電能實業有限公司 effective on 16th February 2011. No other changes were made to the memorandum of association during the year ended 31st December 2011.

No changes were made to the articles of association of the Company during the year ended 31st December 2011.

Key Dates

Announcement of 2011 interim results	27th July 2011
Payment of 2011 interim dividend (62 cents per share)	6th September 2011
Announcement of audited results for the year ended 31st December 2011	7th March 2012
Closure of register of members (annual general meeting)	18th May 2012 to 23rd May 2012
2012 annual general meeting	23rd May 2012
Closure of register of members (final dividend)	29th May 2012 to 31st May 2012
Payment of 2011 final dividend	7th June 2012

Interests of Substantial Shareholders and Other Person in Shares and Underlying Shares of the Company

According to the register kept under Section 336 of the SF Ordinance and information received by the Company, at 31st December 2011, shareholders (other than Directors or chief executives of the Company) who had interests in the shares and underlying shares of the Company were as follows:

Substantial Shareholders

Long Positions in Shares of the Company

Name	Capacity	Number of Shares Held		Approximate % of Shareholding
Interman Development Inc.	Beneficial owner	186,736,842	(Note 1)	8.75%
Venniton Development Inc.	Beneficial owner	197,597,511	(Note 1)	9.26%
Univest Equity S.A.	Beneficial owner	279,011,102	(Note 1)	13.07%
Monitor Equities S.A.	Beneficial owner & interest of controlled corporation	287,211,674	(Note 1)	13.46%
Hyford Limited	Interest of controlled corporations	829,599,612	(Note 2)	38.87%
Cheung Kong Infrastructure Holdings Limited	Interest of controlled corporations	829,599,612	(Note 2)	38.87%
Hutchison Infrastructure Holdings Limited	Interest of controlled corporations	829,599,612	(Note 3)	38.87%
Hutchison International Limited	Interest of controlled corporations	829,599,612	(Note 3)	38.87%
Hutchison Whampoa Limited	Interest of controlled corporations	829,599,612	(Note 3)	38.87%
Cheung Kong (Holdings) Limited	Interest of controlled corporations	829,599,612	(Note 4)	38.87%
Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust	Trustee	829,599,612	(Note 5)	38.87%
Li Ka-Shing Unity Trustee Corporation Limited as trustee of The Li Ka-Shing Unity Discretionary Trust	Trustee & beneficiary of a trust	829,599,612	(Note 6)	38.87%
Li Ka-Shing Unity Trustcorp Limited as trustee of another discretionary trust	Trustee & beneficiary of a trust	829,599,612	(Note 6)	38.87%
Li Ka-shing	Founder of discretionary trusts & interest of controlled corporations	829,599,612	(Note 6)	38.87%

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Other Person

Long Position in Shares of the Company

Name	Capacity	Number of Shares Held	Approximate % of Shareholding
Capital Research and Management Company	Investment Manager	170,522,000	7.99%

Notes:

- (1) These are direct or indirect wholly-owned subsidiaries of Hyford Limited ("Hyford") and their interests are duplicated in the same 829,599,612 shares of the Company held by Hyford described in Note (2) below.
- (2) Cheung Kong Infrastructure Holdings Limited ("CKI") is deemed to be interested in the 829,599,612 shares of the Company as referred to in Note (1) above as it holds more than one-third of the issued share capital of Hyford indirectly. Its interests are duplicated in the interest of Hutchison Whampoa Limited ("HWL") in the Company described in Note (3) below.
- (3) HWL is deemed to be interested in the 829,599,612 shares of the Company as referred to in Note (2) above as it holds more than one-third of the issued share capital of Hutchison International Limited, which holds more than one-third of the issued share capital of Hutchison Infrastructure Holdings Limited ("HIH"). HIH holds more than one-third of the issued share capital of CKI.
- (4) Cheung Kong (Holdings) Limited ("CKH") is deemed to be interested in the 829,599,612 shares of the Company as referred to in Note (3) above as certain subsidiaries of CKH hold more than one-third of the issued share capital of HWL.
- (5) Li Ka-Shing Unity Trustee Company Limited ("TUT1") as trustee of The Li Ka-Shing Unity Trust ("UT1") is deemed to be interested in those shares of the Company described in Note (4) above as TUT1 as trustee of UT1 and its related companies in which TUT1 as trustee of UT1 is entitled to exercise or control the exercise of one-third or more of the voting power at their general meetings hold more than one-third of the issued share capital of CKH.
- (6) By virtue of the SF Ordinance, each of Mr. Li Ka-shing, being the settlor and may being regarded as a founder of each of The Li Ka-Shing Unity Discretionary Trust ("DT1") and another discretionary trust ("DT2") for the purpose of the SF Ordinance, Li Ka-Shing Unity Trustee Corporation Limited ("TDT1") as trustee of DT1 and Li Ka-Shing Unity Trustcorp Limited ("TDT2") as trustee of DT2 is deemed to be interested in the same block of shares TUT1 as trustee of UT1 is deemed to be interested in as referred to in Note (5) above as all issued and outstanding units in UT1 are held by TDT1 as trustee of DT1 and by TDT2 as trustee of DT2. More than one-third of the issued share capital of TUT1 and of the trustees of the said discretionary trusts are owned by Li Ka-Shing Unity Holdings Limited ("Unity Holdco"). Mr. Li Ka-shing owns one-third of the issued share capital of Unity Holdco.

Save as disclosed above, at 31st December 2011, there was no other person (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SF Ordinance.

Public Float

According to information that is available to the Company, the percentage of the Company's shares which are in the hands of the public exceeds 25% of the Company's total number of issued shares.

Connected Transactions

Provision of turnkey solution service

On 17th June 2011, Associated Technical Services Limited ("ATS"), a wholly owned subsidiary of the Company, entered into an agreement ("Agreement") with Green Island Cement Company, Limited ("GIC"), pursuant to which ATS agreed to undertake a turnkey solution project (which includes design, supply, delivery, installation, testing and commission) for replacing two existing units of transformers at GIC's cement plant with two new 132/6.6kV 35MVA oil insulated transformers together with the associated civil, electrical and mechanical modification works, at a consideration of HK\$26,165,000. The consideration was payable by GIC to ATS in cash by progress payments against equipment delivered and works completed.

GIC is an indirect wholly owned subsidiary of CKI, a substantial shareholder holding approximately 38.87% of the issued share capital of the Company, and the Agreement therefore constituted a connected transaction for the Company under the Listing Rules.

Shareholders have been informed of the Agreement in an announcement posted on the respective websites of the Company and the HKEx on 17th June 2011, and the particulars thereof are herein disclosed pursuant to Rule 14A.45 of the Listing Rules.

Provision of financial assistance

On 18th November 2011 and 13th December 2011, PAI Utilities Development Limited ("PAIUD", formerly known as HEI Utilities Development Limited) and CKI Utilities

Development Limited ("CKIUD"), partners holding a 25.5% interest each in ETSA Utilities, entered into an agreement with Commonwealth Bank of Australia ("CBA") and Australia and New Zealand Banking Group Limited ("ANZ"), pursuant to which each of PAIUD and CKIUD (and each of the remaining three partners of ETSA Utilities) guaranteed jointly and severally a cash advance facility of up to A\$75,000,000 provided by each of CBA and ANZ to ETSA Utilities Finance Pty Limited ("EUF"), a company held as to 100% by ETSA Utilities. PAIUD and CKIUD are each indirectly held as to 54.76% by the Company (hence technically considered as non-wholly owned subsidiaries of the Company under the Listing Rules, but since the Company has no effective control over their board composition and decision making on significant matters, are accounted for as associated companies in the Company's group financial statements). The aggregate liability of PAIUD and CKIUD under the guarantees was estimated not to exceed A\$158,250,000 (which comprised the principal amount of the cash advance facilities together with interest, costs and fees thereon). The guarantees were entered into to meet the financing requirement of EUF which would on-lend the cash advance facilities to ETSA Utilities for working capital purpose. ETSA Utilities is a partnership which operates and manages an electricity distribution network in the State of South Australia, Australia.

Under the Listing Rules, EUF is an associate of a substantial shareholder of certain indirect non-wholly owned subsidiaries of the Company (as defined by the Listing Rules). Pursuant to Rule 14A.11(4) of the Listing Rules, EUF is a connected person of the Company and therefore the guarantees are treated as connected transactions of the Company.

Shareholders have been informed of the guarantees in an announcement posted on the respective websites of the Company and the HKEx on 13th December 2011, and the particulars thereof are herein disclosed pursuant to Rule 14A.45 of the Listing Rules.

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Continuing Connected Transactions

Operation and Management Contract in respect of power plant investments in mainland China

Pursuant to an agreement dated 2nd April 2009 ("Agreement") entered into between Outram Limited ("Outram"), an indirect wholly owned subsidiary of the Company, and Cheung Kong China Infrastructure Limited ("CKCI"), CKCI agreed to provide Outram with services in relation to the operation and management of Outram's power plant investments in mainland China. The Agreement is for an initial term of three years and Outram may, at its option, renew the Agreement for further term(s) of three years each on the same terms by giving notice to CKCI at least six months prior to the scheduled expiry of the term. The fees payable to CKCI for the services are equivalent to CKCI's costs for provision of such services and are paid in cash on a monthly basis subject to a maximum of HK\$35,000,000 per year.

CKCI is a wholly owned subsidiary of CKI, a substantial shareholder of the Company, and therefore CKCI's provision of the services to Outram constitutes continuing connected transactions ("Continuing Connected Transactions") for the Company under the Listing Rules. The aggregate amount paid for the year ended 31st December 2011 attributable to the Continuing Connected Transactions subject to annual review requirements under the Listing Rules was HK\$31,480,925.

All the Independent Non-executive Directors have reviewed the Continuing Connected Transactions in the 2011 financial year and confirmed that those transactions had been entered into (i) in the ordinary and usual course of business of the Group; (ii) either on normal commercial terms or, if there were not sufficient comparable transactions to judge whether they were on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditor of the Company, KPMG, have confirmed in a letter to the Board that nothing has come to their attention that caused them to believe that the Continuing Connected Transactions in the 2011 financial year (i) had not been approved by the Board of the Company, (ii) were not entered into in all material respects in accordance with the relevant agreement governing such transactions, and (iii) had exceeded the cap amount of HK\$35,000,000 disclosed in the announcement of the Company dated 5th February 2009 and in the circular to shareholders dated 26th February 2009.

Extension of the term of the Agreement

On 30th September 2011, Outram issued a notice to CKCI to extend the term of the Agreement for a period of three years from 2nd April 2012 to 1st April 2015 on the same terms and for the same purposes contained in the Agreement.

Shareholders have been informed of the extension of the term of the Agreement in an announcement posted on the respective websites of the Company and the HKEx on 30th September 2011, and the particulars thereof are herein disclosed pursuant to Rule 14A.46 of the Listing Rules.