

Combined Corporate Governance Report

The Directors of HK Electric Investments Limited (the "Company") present the corporate governance report below for the Company and its subsidiaries (the "Group") for the period from its incorporation on 23 September 2013 to 31 December 2013.

HK Electric Investments, managed by HK Electric Investments Manager Limited (the "Trustee-Manager"), was constituted under the laws of Hong Kong on 1 January 2014 by a Deed of Trust of the same date (the "Trust Deed"). Since HK Electric Investments was not yet constituted during 2013, the Directors of the Trustee-Manager report below on its own corporate governance status for the period from its incorporation on 25 September 2013 to 31 December 2013, to the extent applicable.

Corporate Governance Practices

HK Electric Investments and the Company are committed to maintaining high standards of corporate governance. The Directors of the Trustee-Manager (the "Trustee-Manager Board") and the Directors of the Company (the "Company Board", and together with the Trustee-Manager Board, the "Boards") recognise that sound and effective corporate governance practices are fundamental to the smooth, effective and transparent operation of HK Electric Investments and the Group respectively, and the ability to attract investment, protect the rights of holders of Share Stapled Units and other stakeholders, and enhance holder value. The corporate governance policies of HK Electric Investments and the Company are designed to achieve these objectives and are maintained through a framework of processes, policies and guidelines.

HK Electric Investments and the Company were both listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 29 January 2014 (the "Listing Date"), and are subject to the provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Pursuant to the Trust Deed, the Trustee-Manager is responsible for compliance by HK Electric Investments with the Listing Rules applicable to HK Electric Investments 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.

HK Electric Investments and the Company have adopted the applicable code provisions in the Corporate Governance Code set out in Appendix 14 of the Listing Rules (the "Corporate Governance Code") with effect from the Listing Date.

Boards of Directors

Each of the Trustee-Manager Board and the Company Board, led by the Chairman, is responsible for the 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 Company's management is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer.

The Trust Deed requires that the directors of the Trustee-Manager shall at all times comprise the same individuals who serve as the directors of the Company. In addition, no person shall serve as a director of the Trustee-Manager unless he or she also serves as a director of the Company at the same time and no person shall serve as a director of the Company unless he or she also serves as a director of the Trustee-Manager at the same time.

As at 31 December 2013, the Trustee-Manager Board and the Company Board comprised Mr. Fok Kin Ning, Canning (Chairman), Mr. Wan Chi Tin (Chief Executive Officer), Mr. Chan Loi Shun, Mr. Cheng Cho Ying, Francis, Mrs. Chow Woo Mo Fong, Susan and Mr. Yuen Sui See, all Executive Directors, Mr. Tso Kai Sum (Deputy Chairman) and Mr. Ronald Joseph Arculli, both Non-executive Directors, and Mr. Fong Chi Wai, Alex, Mr. Lee Lan Yee, Francis, Mr. George Colin Magnus and Mr. Donald Jeffrey Roberts, all Independent Non-executive Directors.

Their biographical information are set out in the "Board of Directors and Senior Management" section on pages 12 to 15 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 names of all Directors and their roles are also posted on the website of Hong Kong Exchanges and Clearing Limited ("HKEx").

During the period up to 31 December 2013 the Trustee-Manager Board and the Company Board had one combined meeting to consider and approve matters in relation to the listing of HK Electric Investments and the Company, which was attended by all Directors other than Mr. Tso. Directors are required to declare their interests, if any, in the matters for consideration at board meetings.

Directors at all times have full access to information of HK Electric Investments and the Group. Directors also have independent access to senior management for information on HK Electric Investments and the Group and unrestricted access to the services of the Company Secretary. The Company Secretary 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.

All Directors have been appointed on annual twelve-month basis (with the exception in relation to the appointment for the initial period which is for a period up to 31 December 2014), 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. None of the Directors has a service contract which is not determinable by the Trustee-Manager or the Group within one year without payment of compensation (other than statutory compensation).

Insurance coverage in respect of Directors' liability has been arranged by the Trustee-Manager and the Company.

The Trustee-Manager does not have a Remuneration Committee as provided for in the Corporate Governance Code, since under the Trust Deed the Directors of the Trustee-Manager are not entitled to any remuneration.

Neither the Trustee-Manager nor the Company has a Nomination Committee as provided for in the Corporate Governance Code. At present, the Trustee-Manager and the Company do not consider it necessary to have a Nomination Committee as the full Boards are responsible for reviewing the structure, size and composition of the Boards and the appointment of new Directors from time to time, and the Boards as a whole are also responsible for reviewing the succession plan for the Directors, in particular the Chairman and the Chief Executive Officer.

The Trustee-Manager and the Company had adopted a board diversity policy which sets out the approach in achieving board diversity, recognising that board appointment should be based on merit that complements and expands the skills, experience and expertise of the Boards as a whole, taking into account professional experience and qualifications, gender, age, cultural and educational background, and any other factors that the Boards might consider relevant and applicable from time to time towards achieving board diversity. The policy is available on the website of the Company.

Continuing Professional Development Activities of Directors

During the period up to 31 December 2013, the Directors have participated in continuing professional development activities in the following manner:

1. Reading materials and seminars (live and video) on directors' duties, compliance issues for listed companies (including changes to inside information disclosure regime) and/or legal and regulatory requirements
2. Seminars on corporate governance and reporting
3. Seminars on risk management and sustainable growth

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Executive Directors			
Fok Kin Ning, Canning	✓	✓	
Wan Chi Tin	✓	✓	✓
Chan Loi Shun	✓	✓	✓
Cheng Cho Ying, Francis	✓		
Chow Woo Mo Fong, Susan	✓		✓
Yuen Sui See	✓	✓	✓
Non-executive Directors			
Tso Kai Sum	✓	✓	✓
Ronald Joseph Arculli	✓	✓	✓
Independent Non-executive Directors			
Fong Chi Wai, Alex	✓	✓	✓
Lee Lan Yee, Francis	✓	✓	✓
George Colin Magnus	✓		
Donald Jeffrey Roberts	✓	✓	

Directors' Securities Transactions

The Boards have adopted the Model Code for Securities Transactions by Directors (the "Model Code") set out in Appendix 10 of the Listing Rules as their code of conduct regarding Directors' securities transactions. The adoption of the Model Code took effect from the Listing Date and, as such, the Model Code was not applicable during the period up to 31 December 2013.

Senior managers, and other nominated managers and staff who, because of their respective positions in the Group are likely to possess unpublished inside information regarding HK Electric Investments and the Company and their securities are also required to comply with the Model Code with effect from the Listing Date.

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 HK Electric Investments, the Trustee-Manager, the Company and the Group, as appropriate. The annual and interim results of HK Electric Investments, the Group and the Trustee-Manager will be 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 of the Trustee-Manager and the Company consider that in preparing financial statements, the Trustee-Manager and the Company ensure statutory requirements

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are met, 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 HK Electric Investments, the Group and the Trustee-Manager from which the respective financial statements of HK Electric Investments, the Group and the Trustee-Manager could be prepared in accordance with statutory requirements and the appropriate accounting policies.

Safeguarding Assets

The Directors of each of the Trustee-Manager and the Company are responsible for taking all reasonable and necessary steps to safeguard the assets of HK Electric Investments and the Group respectively and to prevent and detect fraud and other irregularities within HK Electric Investments, 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 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 Trustee-Manager and the Group 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 authorise 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 the period up to 31 December 2013, the Chairman of the Trustee-Manager Board and the Company Board was Mr. Fok Kin Ning, Canning while the Company's Chief Executive Officer was Mr. Wan Chi Tin, in each case with effect from 5 December 2013. The Trustee-Manager does not appoint a Chief Executive Officer due to its specific and limited role to administer HK Electric Investments.

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 offices as Directors 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 HK Electric Investments and the Group, as appropriate. 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 regularly schedules two meetings annually with Non-executive Directors 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 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 Chief Executive Officer attends to developing strategic operating plans and is directly responsible for maintaining the operational performance of the Group. Working with the 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 Boards must satisfy themselves that an Independent Non-executive Director does not have any material relationship with the Group. The Boards are also guided by the criteria of independence as set out in the Listing Rules in determining the independence of Independent Non-executive Directors.

Mr. Donald Jeffrey Roberts, an Independent Non-executive Director of the Company, has provided to the Company a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Boards continue to consider Mr. Roberts to be independent.

Mr. Fong Chi Wai, Alex, Mr. Lee Lan Yee, Francis and Mr. George Colin Magnus, Independent Non-executive Directors of the Company, have each made a similar confirmation to the Company and have stated that, during the two years immediately prior to each of their appointment as Independent Non-executive Directors on 5 December 2013, they were Directors of The Hongkong Electric Company, Limited ("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 Holdings Limited ("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 the fact 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 the fact 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.

Directors' Interests

As at 31 December 2013, no register was required to be kept for the interests of the Directors in Share Stapled Units or underlying Share Stapled Units and the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) under Section 352 of the SFO and no such interests were notified to the Company and the Stock Exchange pursuant to the Model Code.

None of the Directors is interested in any business 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.

No contracts of significance to which the Trustee-Manager, or the Company or any of its subsidiaries was a party and in which a Director had a material interest subsisted at 31 December 2013 or at any time during the period up to 31 December 2013.

Corporate Governance Functions

The Trustee-Manager Board and the Company Board delegate their respective responsibility for performing corporate governance duties to the Trustee-Manager Audit Committee and the Company Audit Committee respectively.

The Trustee-Manager and the Company has a policy relating to inside information and securities dealing explaining the meaning of unpublished inside information and the illegality of insider dealing, and setting out the restrictions in securities dealing, preventive controls and reporting mechanism.

The Company also has a whistle-blowing procedure under which employees can use in confidence to raise concerns about improprieties in matters of the Group.

Remuneration Committee of the Company

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

The Remuneration Committee reports directly to the Company Board and its principal responsibilities include the review and consideration of the Group's policy for remuneration of Directors and senior management, and the determination of their individual remuneration packages. The Remuneration Committee 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 as members of the Committee. The terms of reference of the Remuneration Committee are published on the Company's website and the HKEx's website.

No meeting of the Remuneration Committee was held during the period up to 31 December 2013.

Trustee-Manager Audit Committee and Company Audit Committee

The Trust Deed requires that the memberships of the Trustee-Manager Audit Committee and the Company Audit Committee 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 its 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.

The Trustee-Manager Audit Committee reports directly to the Trustee-Manager Board and its principal responsibilities are to assist the Trustee-Manager Board in fulfilling its audit duties through the review and supervision of the

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financial reporting system and internal control system of the Trustee-Manager and HK Electric Investments, to review the financial information of the Trustee-Manager and HK Electric Investments and to consider issues relating to the external auditors and their appointment.

The Company Audit Committee reports directly to the Company Board and its principal responsibilities are to assist the Company Board in fulfilling its audit duties through the review and supervision of the financial reporting system and internal control system of the Group, to review the financial information of the Company and to consider issues relating to the external auditors and their appointment.

No meeting of the Trustee-Manager Audit Committee and the Company Audit Committee was held during the period up to 31 December 2013.

Internal Control

The Trustee-Manager Board has overall responsibility for the system of internal control of the Trustee-Manager and HK Electric Investments and reviews its effectiveness through the Trustee-Manager Audit Committee to ensure that policies and procedures in place for the identification and management of risks are adequate.

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

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 an effective system of internal control. The Audit Committees review all material controls, including financial, operational and compliance controls and risk management functions.

The Trustee-Manager and the Company have in place an enterprise risk management framework that provides a pro-active and systematic approach to the risk management process.

Sustainability Reporting

The Group is firmly committed to sustainable development and considers sustainability reporting to be one of the important platforms for stakeholder engagement. The Sustainability Report 2013 of HK Electric Investments and the Company, their first report and available on the Company's website at www.hkei.hk, sets out the approach, commitments and strategy to sustainability.

External Auditor

Independence

KPMG, the external auditor, have confirmed that they have been, for the period from the respective dates of incorporation to 31 December 2013, independent of the Trustee-Manager and 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.

Reporting Responsibility

The reporting responsibilities of KPMG are stated in the Independent Auditor's Reports on pages 25 and 40 of the Annual Report.

Remuneration

Fees for KPMG are shown in note 4 to the consolidated financial statements of the Company on page 33 and note 3 to the financial statement of the Trustee-Manager on page 46 of the Annual Report.

Appointment/Re-appointment

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

Holders of Share Stapled Units

The Trustee-Manager and the Company use 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, material results highlights published in newspapers, news releases, the Company's website at 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.

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 55 of the Annual Report.

Pursuant to the Company's articles of association, any two or more shareholders of the Company may request 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 HK Electric Investments holding not less than 5% of the units of the HK Electric Investments for the time being in issue and outstanding) at any time convene a meeting of registered holders of units at such time or place in Hong Kong. The registered holders of units of HK Electric Investments and shareholders of the Company should 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 holders of Share Stapled Units.

The Company Board has adopted a communication policy which provided a framework to promote effective communication with holders of Share Stapled Units. The policy is available on the website of the Company.

Annual General Meeting

The annual general meeting is a main channel of communication between Directors and holders of Share Stapled Units. The first annual general meeting will be held in May 2014.

Company's Website

The Company maintains a website at www.hkei.hk. It contains a wide range of information of interest to investors and other stakeholders. For the dissemination of published information, the Trustee-Manager and the Company upload such information including financial results, notices of meetings, announcements required under the Listing Rules, circulars to holders of Share Stapled Units, press releases and other necessary announcements onto the Company's website.

Trust Deed, Memorandum and Articles of Association

No changes were made to the memorandum and articles of association of each of the Trustee-Manager and the Company during the period after their respective dates of incorporation up to 31 December 2013. The Trust Deed

constituting HK Electric Investments was entered into between the Trustee-Manager and the Company on 1 January 2014. On the same day the Trustee-Manager also adopted a new set of memorandum and articles of association and the Company restated and amended its memorandum and articles of association.

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

Interests of Substantial Holders and Other Persons in Share Stapled Units and Underlying Shares Stapled Units

As at 31 December 2013, the Trust was not constituted and the Company was a wholly-owned subsidiary of Power Assets, a company listed on the Main Board of the Stock Exchange. No register was required to be kept for the interests of substantial holders (other than Directors or chief executive of the Company) of Share Stapled Units or underlying Share Stapled Units under Section 336 of the SFO. No Share Stapled Unit was issued as at 31 December 2013.

Public Float

According to information that is available to the Company, 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 Transactions

HK Electric Investments and the Company were not listed during the period up to 31 December 2013 and accordingly requirements under the Listing Rules relating to connected transactions did not apply to them during the period.

Status of Novation of the Dapeng Supply Agreement to the Group

As disclosed in the prospectus dated 16 January 2014 jointly issued by HK Electric Investments and the Company, it was the intention of Power Assets and the Group that, once the consent of Guangdong Dapeng LNG Company Limited ("Guangdong Dapeng") is obtained and the novation deed between Power Assets, HK Electric and Guangdong Dapeng becomes effective, the gas sales contract entered into between Power Assets and Guangdong Dapeng dated 30 April 2004 (as amended) ("Dapeng Gas Supply Contract") would be novated by Power Assets to the Group. Such novation deed was entered into on 1 April 2014, and the novation of the Dapeng Gas Supply Contract was completed and became effective on the same date.