

Respecting our Shareholders

We

Embrace
Accountability and
Transparency

Enhance
Shareholder
Value

HKEI is committed to maintaining high standards of corporate governance.

We recognise that sound and effective corporate governance practices are fundamental to the smooth, effective and transparent operation of an organisation. With a strong corporate governance structure in place, we are also able to attract investment, protect the rights of shareholders and other stakeholders, and enhance shareholder value. HKEI's corporate governance policies are designed to achieve these objectives and are maintained through a framework of processes, policies and guidelines.

We strive to maintain standards of openness, probity and accountability by following our corporate governance practices, which are based on the Corporate Governance Code set out in the Listing Rules.

We have established long-term strategies that guide us in achieving our Vision to excel in the power business and enhancing our sustainability performance. We run our business on prudent financial and efficient principles, that enable us to serve Hong Kong with a world-class supply of electricity at affordable prices, while generating stable and growing returns for our long-term investors.

HKEI is included in the MSCI HK Index and the Euronext Vigeo World 120 Index.

>1,100

shareholders and
guests visited Lamma
Power Station



Shared Concerns

Accountability and Transparency | Shareholder Value

- Shareholders expect their rights and equity value to be well protected.
- HKEI has a responsibility to secure stable returns and long-term value for its shareholders through solid financial performance.
- Hong Kong's mature electricity market offers limited opportunities for growth. An additional challenge is the uncertainty surrounding Hong Kong's future electricity market.



2

new gas-fired units
under construction

Embrace Accountability and Transparency

Risk Management and Internal Control

We have an Enterprise Risk Management Framework, which allows us to identify, assess, mitigate and monitor risks effectively. We have also established a Crisis Management Plan with a broad outline of the Group's abilities to respond to an emergency that could damage our long-term business plans. At the same time, our individual business units have their own contingency plans for maintaining business continuity.

We are committed to promoting a risk-aware environment with appropriate controls. Responsibility for risk management resides at all levels of the organisation. For minimising our compliance risk, we have engaged internal experts in specific areas and developed a structured Compliance Framework to manage our compliance obligations on a company-wide basis. We abide by all ordinances and statutory requirements in relation to our business operations and had no instances of material non-compliance during the year.

To ensure we are on track to achieve our strategic objectives, we have robust systems of risk management and internal control. During the year, we continued to enhance the Enterprise Risk Management and Internal Control Frameworks.

Responsible Conduct

We recognise the need to maintain an ethical corporate culture and place great emphasis on employees' ethical standards and integrity. Our Code of Conduct provides guidance in dealing with ethical issues and reporting unethical conduct, with the aim of promoting a culture of honesty and accountability. All employees are required to adhere to the standards set out in the Code of Conduct. A whistleblower hotline, connected directly to the Group Manager, Internal Audit, is in place so that employees and external parties can report any possible improprieties and actual or alleged violations, including fraud, bribery and illegal acts.

We also conduct a biannual anti-bribery and anti-corruption control assessment to evaluate the effectiveness of our controls for managing bribery risks. Additionally, we have set up a monitoring mechanism to review our compliance with anti-corruption laws and the Code of Conduct. In 2016, no concluded legal cases regarding corrupt practices were brought against HKEI or its employees.

In 2016, we developed a Fraud Prevention and Awareness Policy. This policy is designed to ensure that adequate deterrent measures have been taken to minimise our exposure to fraud risk and to promote a fraud-free culture within the Group by increasing employees' awareness of fraud prevention and detection.

Regular training in anti-corruption and anti-fraud is provided to employees either internally by the Human Resources Division or externally by bodies such as the ICAC.

Encouraging Communication

Our communication with shareholders and investors are conducted through a variety of channels. These include the Annual General Meetings, our Annual and Interim Reports, notices, letters, announcements and circulars, results highlights published in newspapers, news releases, our website and meetings with investors and analysts.

To give our shareholders a better understanding of our operations, we organised 24 tours of our Lamma Power Station in 2016. More than 1,100 shareholders and their guests participated in these visits.

With regard to the transparency of our economic, social and environmental performance, we communicate with stakeholders through the publication of our annual Sustainability Reports and participation in initiatives such as the Carbon Disclosure Project (CDP). To enhance the credibility of our disclosures, we have established a verified greenhouse gas inventory based on the ISO 14064 requirements and report to the CDP every year.

For more information about our corporate governance practices, please refer to our Annual Report or visit our website.





Lamma Power Station and its Extension.

Enhance Shareholder Value

We are dedicated to providing our shareholders with stable returns and achieving long-term sustainable growth.

In Hong Kong's highly developed electricity market, we are committed to performing as a world-class utility and making pragmatic investments that help us maintain and enhance our reliability, efficiency, service and environmental performance. We also take advantage of business opportunities that contribute to Hong Kong's transformation into a low-carbon city, as well as its social and economic developments. For this reason, we have begun construction of two new gas-fired combined-cycle generating units and will adopt new technologies, wherever practicable, that enable us to generate electricity more efficiently, with lower carbon emissions.

To obtain a secure and competitive long-term gas supply, HK Electric and CLP Power Hong Kong Limited are studying the feasibility of constructing an offshore LNG terminal. The terminal will provide us with direct access to the international gas market and enhance our bargaining power in securing gas supplies.

We will continue to support electrification of Hong Kong's transport system in order to meet growing transport demand and reduce roadside emissions. For the new

cross-harbour MTR line, the Shatin to Central Link, we are now developing the necessary electrical infrastructure and associated installations to meet the project's target completion date. In 2016, MTR opened its South Island Line and we were pleased to see our efforts in providing the electrical infrastructure for the Line are now contributing to the development of the community.

During the year, we launched a number of services to promote the wider use of EVs in Hong Kong, while continuing to promote electric living. Please refer to the "Sharing the Same Planet" chapter for further details.

HK Electric is currently in discussions with the Government about improvements to the future regulatory framework following the expiry of the current Scheme of Control Agreement in 2018. In our view, the scheme to be agreed must enable operators to make long-term investments that are conducive to the continued provision of safe, reliable and clean electricity to customers at affordable prices.

The Government has published its Climate Action Plan 2030+ which sets an aggressive target to reduce Hong Kong's carbon intensity by 65-70% by 2030 from the 2005 level in response to the Paris Agreement reached at the 2015 UN Climate Change Conference (COP21). We have pledged to render our full support and contribute to a greener Hong Kong.