

Corporate Governance Report



Corporate Governance Practices

The Company is committed to maintaining high standards of corporate governance and 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 policy is designed to achieve these objectives and is maintained through a framework of processes, policies and guidelines.

The Company has complied with the applicable code provisions in the Corporate Governance Code set out

in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2020, except as stated hereunder.

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 Chief Executive Officer.

During 2020, the Board comprised the following Directors and the record of attendance of meetings in 2020 of each Director is as follows:

|  Directors | Board Meetings | Audit Committee Meetings | Remuneration Committee Meeting | Nomination Committee Meeting | Meetings between Chairman and Independent Non-executive Directors | Annual General Meeting held on 13 May 2020 |
|---|----------------|--------------------------|--------------------------------|------------------------------|---|--|
| Executive Directors | | | | | | |
| Fok Kin Ning, Canning (Chairman) | 4/4 | – | 1/1 | 1/1 | 2/2 | ✓ |
| Tsai Chao Chung, Charles (Chief Executive Officer) | 4/4 | – | – | 1/1 | – | ✓ |
| Chan Loi Shun | 4/4 | – | – | 1/1 | – | ✓ |
| Andrew John Hunter | 4/4 | – | – | 1/1 | – | ✓ |
| Neil Douglas McGee | 4/4 | – | – | 1/1 | – | ✓ |
| Wan Chi Tin | 4/4 | – | – | 1/1 | – | ✓ |
| Non-executive Director | | | | | | |
| Victor T K Li | 4/4 | – | – | 1/1 | – | ✓ |
| Independent Non-executive Directors | | | | | | |
| Ip Yuk-keung, Albert | 4/4 | 3/3 | – | 1/1 | 2/2 | ✓ |
| Lui Wai Yu, Albert ^(Note 1) | 3/3 | – | 1/1 | – | 2/2 | ✓ |
| Ralph Raymond Shea | 4/4 | 3/3 | 1/1 | 1/1 | 2/2 | ✓ |
| Wong Chung Hin ^(Note 2) | 1/1 | 1/1 | – | 1/1 | – | – |
| Wu Ting Yuk, Anthony ^(Note 3) | 4/4 | 2/2 | – | 1/1 | 2/2 | ✓ |

Notes:

- (1) Mr. Lui Wai Yu, Albert was appointed as an Independent Non-executive Director of the Company and a member of the Remuneration Committee and the Nomination Committee on 19 March 2020.
- (2) Mr. Wong Chung Hin resigned as an Independent Non-executive Director of the Company and ceased to be a member of the Audit Committee, the Remuneration Committee and the Nomination Committee on 19 March 2020.
- (3) Mr. Wu Ting Yuk, Anthony was appointed as a member of the Audit Committee on 19 March 2020.

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

Biographical details of the current Directors are set out in the “Board of Directors and Senior Management” section on pages 30 to 33 of the Annual Report. An updated list of Directors containing biographical information is maintained on the website of the Company. The names of all Directors and their role and function are posted on the website of Hong Kong Exchanges and Clearing Limited (“HKEX”).

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

Directors at all times have full and timely access to information of the Group. A financial summary outlining the Group's financial position and performance and containing the actual and budgeted results from different operations, with major variances explained, is sent to Directors each month for their information. Directors also have independent access to 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 expense of the Company, as appropriate.

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

for their comments before being formally signed by the chairman of the meeting. Copies of the final versions of Board minutes are sent to Directors for their information and records. The signed minutes are kept in safe custody by the Company Secretary and are available for inspection by Directors.

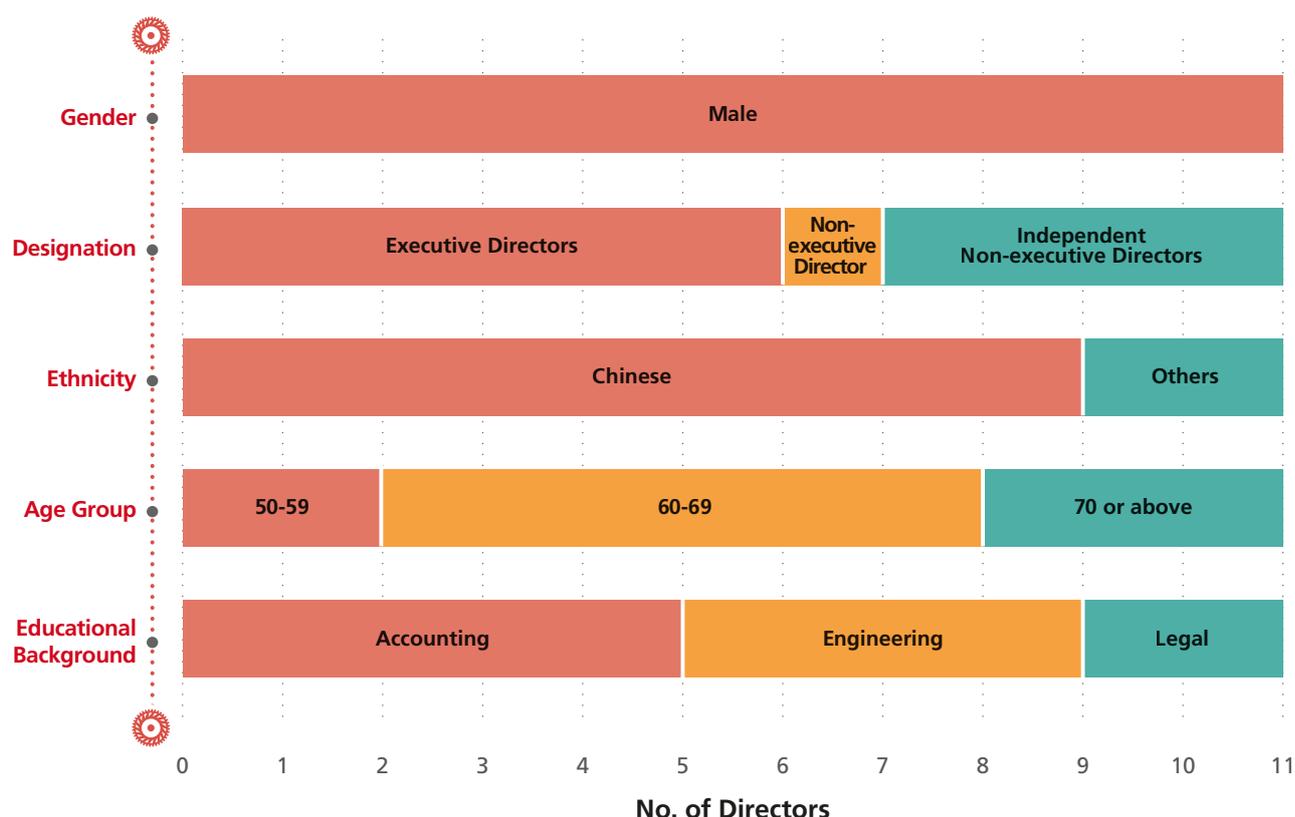
All Directors have been appointed on annual twelve-month basis, subject to retirement from office by rotation and re-election by shareholders at the annual general meeting once every three years pursuant to the articles of association of the Company. Any newly appointed director will be subject to retirement 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). 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. Wu Ting Yuk, Anthony. Information relating to the Directors offering themselves for re-election which is required to be disclosed under the Listing Rules is contained in the circular to shareholders dated 7 April 2021 (the "2021 Circular"). The Company has also expressed the view in the 2021 Circular that each of Mr. Shea and Mr. Wu, the Independent Non-executive Directors who are eligible for re-election, has met the independence factors set out in Rule 3.13 of the Listing Rules and is independent in accordance with the guidelines. 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 full Board is ultimately responsible for reviewing the structure, size, diversity profile and skills matrix of the Board, appointment of new Directors and succession plan for Directors, and delegate their responsibility to the Nomination Committee of the Company. The Company adopted the Director Nomination Policy and the Board Diversity Policy which set out the approach and procedures for nomination and selection of Directors, and the approach to achieving diversity on the Board respectively. These policies, as revised on 1 December 2020, are published on the Company's website.

Under the Board Diversity Policy, appointment to the Board should be based on merit and attributes that the selected candidate will bring to the Board with an aim to build an effective and complementary board with the skills, experience, expertise and diversity of perspectives appropriate for the Group's businesses. The Board would also take into consideration the benefits of various aspects of diversity, including gender, age, ethnicity, cultural and educational background, professional experience and qualifications and other factors that may be relevant from time to time.

The diversity profile of the Board as at 31 December 2020 is as follows:



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.

Directors' Training

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

The Company arranges and provides continuous professional development training and relevant materials to Directors to help ensure they are apprised of the

latest changes in the commercial, legal and regulatory environment in which the Group conducts its business and to refresh their knowledge and skills on the roles, functions and duties of a listed company director. In addition, attendances at external forums or briefing sessions on the relevant topics also count towards continuous professional development training. The Directors have provided to the Company their records of continuous professional development training during 2020, and they have participated in training activities in the following manner:

1. Reading materials, e-trainings and seminars on directors' duties, compliance issues for listed companies and/or legal and regulatory requirements
2. Reading materials on corporate governance, risk management and internal control
3. Reading materials, e-trainings and seminars on sustainability

| Directors | 1 | 2 | 3 |
|-----------|---|---|---|
|-----------|---|---|---|

| Executive Directors | | | |
|-------------------------------------|---|---|---|
| Fok Kin Ning, Canning | ✓ | ✓ | ✓ |
| Tsai Chao Chung, Charles | ✓ | ✓ | ✓ |
| Chan Loi Shun | ✓ | ✓ | ✓ |
| Andrew John Hunter | ✓ | ✓ | ✓ |
| Neil Douglas McGee | ✓ | ✓ | ✓ |
| Wan Chi Tin | ✓ | ✓ | ✓ |
| Non-executive Director | | | |
| Victor T K Li | ✓ | ✓ | ✓ |
| Independent Non-executive Directors | | | |
| Ip Yuk-keung, Albert | ✓ | ✓ | ✓ |
| Lui Wai Yu, Albert | ✓ | ✓ | ✓ |
| Ralph Raymond Shea | ✓ | ✓ | ✓ |
| Wu Ting Yuk, Anthony | ✓ | ✓ | ✓ |

Directors' Securities Transactions

The Board of Directors of the Company has adopted the Model Code for Securities Transactions by Directors (the "Model Code") set out in Appendix 10 of the Listing Rules as the Group's code of conduct regulating directors' securities transactions. All Directors have confirmed following specific enquiry that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2020.

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

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

The Company has established the Policy on Inside Information and Securities Dealing explaining the meaning of inside information and the illegality of insider dealing, and setting out the restrictions in securities dealing, preventive controls and reporting mechanism for all employees of the Group to comply with when they are in possession of confidential or unpublished inside information in relation to the Company.

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 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 from which, the 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.

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 inside information, announcements and financial disclosures and authorises their publication as and when required.

Chairman and Chief Executive Officer

The positions of the Chairman and the Chief Executive Officer are held by separate individuals, and are subject to retirement from their directorship by rotation and re-election by shareholders at the annual general meeting. During 2020, the Chairman of the Board was Mr. Fok Kin Ning, Canning and the Chief Executive Officer was Mr. Tsai Chao Chung, Charles.

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 meetings of the Board are planned and conducted effectively and that all Directors are properly briefed on issues arising at board meetings. In addition to board meetings, the Chairman schedules meetings annually with Independent Non-executive Directors without the presence of other Directors. The Chairman also acts in an advisory capacity to the Chief Executive Officer in all matters covering the interests and management of the Group.

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

Independent Non-executive Directors

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

Mr. Ip Yuk-keung, Albert, Mr. Lui Wai Yu, Albert, Mr. Ralph Raymond Shea and Mr. Wu Ting Yuk, Anthony, Independent Non-executive Directors of the Company, have each provided an annual confirmation of his independence (which also covers his immediate family members) to the Company pursuant to Rule 3.13 of the Listing Rules. The Board continues to consider these Directors to be independent.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2020, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executives of the Company were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the 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 | Approximate % of Shareholding |
|--------------------------|------------------|---------------------|-----------------------|-------------------------------|
| Tsai Chao Chung, Charles | Beneficial owner | Personal | 4,022 | ≈ 0% |

Long Positions in Shares of Associated Corporation

HK Electric Investments and HK Electric Investments Limited

| Name of Director | Capacity | Nature of Interests | Number of Share Stapled Units Held | Approximate % of Issued Share Stapled Units |
|--------------------------|-------------------------------------|---------------------|------------------------------------|---|
| Li Tzar Kuoi, Victor | Interest of controlled corporations | Corporate | 7,870,000 (Note 1) | 0.08% |
| Fok Kin Ning, Canning | Interest of controlled corporation | Corporate | 2,000,000 (Note 2) | 0.02% |
| Tsai Chao Chung, Charles | Beneficial owner | Personal | 880 | ≈ 0% |

Notes:

- (1) Such share stapled units of HK Electric Investments and HK Electric Investments Limited ("HKEI") comprise:
 - (a) 2,700,000 share stapled units of HKEI held by a wholly-owned subsidiary of Li Ka Shing (Global) Foundation ("LKSGF"). By virtue of the terms of the constituent documents of LKSGF, Mr. Victor T K Li may be regarded as having the ability to exercise or control the exercise of one-third or more of the voting power at general meetings of LKSGF; and
 - (b) 5,170,000 share stapled units of HKEI held by Li Ka Shing Foundation Limited ("LKSF"). By virtue of the terms of the constituent documents of LKSF, Mr. Victor T K Li may be regarded as having the ability to exercise or control the exercise of one-third or more of the voting power at general meetings of LKSF.
- (2) Such share stapled units of HKEI are held by a company which is equally owned by Mr. Fok Kin Ning, Canning and his wife.

Save as disclosed above, as at 31 December 2020, 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 SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Interests in Competing Business

In 2020, 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 (the "Business") were as follows:

| Name of Director | Name of Company | Nature of Interests |
|-----------------------|------------------------------------|--|
| Fok Kin Ning, Canning | CK Hutchison Holdings Limited | Group Co-Managing Director |
| | CK Infrastructure Holdings Limited | Deputy Chairman |
| | Husky Energy Inc. | Co-Chairman <i>(Note a)</i> |
| Chan Loi Shun | CK Infrastructure Holdings Limited | Executive Director and Chief Financial Officer |
| Andrew John Hunter | CK Infrastructure Holdings Limited | Deputy Managing Director |
| Victor T K Li | CK Asset Holdings Limited | Chairman and Managing Director |
| | CK Hutchison Holdings Limited | Chairman and Group Co-Managing Director |
| | CK Infrastructure Holdings Limited | Chairman |
| | Husky Energy Inc. | Co-Chairman <i>(Note b)</i> |
| Neil Douglas McGee | Husky Energy Inc. | Director <i>(Note c)</i> |

Notes:

Husky Energy Inc. was delisted on 5 January 2021 following its combination with Cenovus Energy Inc.:-

- Mr. Fok Kin Ning, Canning was appointed as a Director of Cenovus Energy Inc. on 1 January 2021 and ceased to be the Co-Chairman of Husky Energy Inc. on the same date and remained a Director of the company;
- Mr. Victor T K Li ceased to be a Director and the Co-Chairman of Husky Energy Inc. on 1 January 2021; and
- Mr. Neil Douglas McGee ceased to be a Director of Husky Energy Inc. on 1 January 2021.

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.

Nomination Committee

During the year the Board has changed the composition of the Nomination Committee to further enhance the efficiency of the nomination process of Directors. Prior to 1 December 2020, the committee is chaired by Mr. Fok Kin Ning, Canning (the Chairman of the Board) and, while its membership comprises all Directors of the Company, it is assisted by an ad hoc sub-committee (which is chaired by the Chairman of the Board and its membership, comprising a majority of Independent Non-executive Directors, is compliant with the requirements under the Listing Rules for a nomination committee) when discharging its responsibilities. With effect from 1 December 2020, the committee is chaired by Mr. Ip Yuk-keung, Albert (an Independent Non-executive Director), and the other members are Mr. Victor T K Li (a Non-executive

Director) and Mr. Ralph Raymond Shea (an Independent Non-executive Director).

The Nomination Committee reports directly to the Board of Directors. The principal responsibilities of the Nomination Committee are to review the structure, size, diversity profile and skills matrix of the Board, to facilitate the selection and nomination process, to assess the independence of Independent Non-executive Directors having regard to the criteria under the Listing Rules, and to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, as guided by the Director Nomination Policy and Board Diversity Policy. Committee members may seek independent professional advice where necessary to discharge their duties. The terms of reference of the Nomination Committee amended on 1 December 2020 are published on the Company's website and HKEX's website.

The Committee held a meeting in March 2020, during which it reviewed the structure, size and composition of the Board, and the independence of the Independent Non-executive Directors. The Committee also considered and endorsed the ad hoc sub-committee's recommendation for the nomination of Mr. Lui Wai Yu, Albert as a replacement Independent Non-executive Director to fill the vacancy following the retirement of Mr. Wong Chung Hin as an Independent Non-executive Director, and the nomination of all the re-electing Directors for re-election at the 2020 annual general meeting, and recommended to the Board for the abovementioned nominations.

Remuneration Committee

The Remuneration Committee was chaired by Mr. Wong Chung Hin (an Independent Non-executive Director retired on 19 March 2020), and the other members were Mr. Fok Kin Ning, Canning (the Chairman of the Board) and Mr. Ralph Raymond Shea (an Independent Non-executive Director). Following the retirement of Mr. Wong as an Independent Non-executive Director of the Company, Mr. Shea acts as the Chairman of the Remuneration Committee, and the other members are Mr. Fok and Mr. Lui Wai Yu, Albert (an Independent Non-executive Director appointed on 19 March 2020).

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 Directors and senior management, and the determination of their individual remuneration packages. It 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 the HKEX's website.

The Remuneration Committee receives and considers relevant remuneration data and market conditions. The remuneration of Executive Directors and senior management is determined with reference to the Company's performance and profitability, industry remuneration benchmarks and prevailing market conditions. Remuneration is performance-based and,

coupled with an incentive system, is competitive to attract and retain talented employees.

The Committee held a meeting in December 2020, during which it assessed the performance of the full time Executive Directors and senior management of the Group and considered and determined the performance-based bonus payable to them in respect of the 2020 financial year and their remuneration for the next year. None of the Directors and senior management participated in the determination of their own remuneration. The Committee, authorised by the Board, also reviewed and approved the 2021 wage and salary review proposal.

The emoluments paid to each Director for the 2020 financial year are shown in note 11 to the financial statements on pages 93 to 94 of the Annual Report. The remuneration paid to members of the senior management for the 2020 financial year is disclosed by bands also in note 11 on page 95 of the Annual Report.

Audit Committee

The Audit Committee was chaired by Mr. Wong Chung Hin, and the other members were Mr. Ip Yuk-keung, Albert and Mr. Ralph Raymond Shea. Following the retirement of Mr. Wong as an Independent Non-executive Director of the Company as mentioned above, Mr. Ip acts as the Chairman of the Audit Committee, and the other members are Mr. Shea and Mr. Wu Ting Yuk, Anthony. All the abovementioned past or existing Committee members are Independent Non-executive Directors, and none of them is a partner or former partner of KPMG, the Group's external auditor.

The Audit Committee reports directly to the Board of Directors and its principal responsibilities include the review of the Group's financial reporting, risk management and internal control systems, the interim and annual financial statements, and corporate and compliance issues. The Committee also acts as the key representative body for overseeing the Company's relations with the external auditor, reviewing the whistle-blowing procedure under which employees and external parties 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 delegated by the Board including reviewing the governance structure

of the Group and the compliance status of the Corporate Governance Code. The Committee also meets regularly with KPMG to discuss the audit process and accounting issues. 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 the HKEX's website.

The Audit Committee held three meetings in 2020. During the meetings, members reviewed and considered matters including the Group financial statements and Annual Report for the year ended 31 December 2019, the audit fee and auditor engagement letter for the 2019 Group financial statements, the re-appointment of auditor, the report of the auditor to the Audit Committee in relation to the audit of the 2019 Group financial statements, the non-audit services for the year 2019 and the audit and non-audit services for the half year to 30 June 2020 provided by KPMG, the Group's risk management reports as of December 2019 and June 2020, the assessment and declaration in respect of the effectiveness of risk management and internal control systems of the Group for the year 2019 and for the half year to 30 June 2020, the internal audit plan for 2020, the financial statements for the six months ended 30 June 2020, the statistics on bribery activities and illegal or unethical behaviour of the Group and its major associates for the year 2019 and for the half year to 30 June 2020, the Group's outstanding litigation and claims as at 31 December 2019 and 30 June 2020, the Group's corporate governance structure, the compliance of the Corporate Governance Code by the Company, the disclosure in the Corporate Governance Report 2019, the corporate governance disclosure in the Interim Report 2020, the compliance review of the Deed of Non-competition with HK Electric Investments Limited, the environmental, social and governance reporting in the Annual Report 2019, the continuous professional development activities undertaken by Directors and senior managers during 2019 and the six months ended 30 June 2020, KPMG's audit plan for the 2020 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 2019 audited financial statements, the 2020 audit plan and various accounting issues with the members of the Audit Committee.

Subsequent to the financial year end, the Audit Committee met in March 2021 to review the Group consolidated financial statements for the year ended 31 December 2020 and Annual Report 2020, including the accounting principles and practices adopted by the Group, in conjunction with the external auditor. The Audit Committee resolved to recommend for the Board's approval of the Group consolidated financial statements and also the re-appointment of KPMG as the Company's external auditor for 2021.

Risk Management and Internal Control

Introduction

The Board has overall responsibility for evaluating and determining the nature and extent of the risks they are willing to take in achieving corporate strategic objectives, and overseeing the risk management and internal control systems. The Audit Committee assists the Board in reviewing the effectiveness of the risk management and internal control systems to ensure that appropriate and effective systems are in place.

The Audit Committee reviews all significant aspects of risk management and internal control, including financial, operational and compliance controls; the adequacy of resources, qualifications and experience, training programmes and budgets of the staff of the Group's accounting, internal audit, and financial reporting functions, 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. The Audit Committee also reviews the effectiveness of the internal audit function and its annual work plans, and considers the reports of the Chief Executive Officer and an Executive Director on the effectiveness of the systems of risk management and internal control. These reviews and reports are considered by the Audit Committee before it makes its recommendation to the Board for approval of the annual consolidated financial statements.

At the meetings held in March and July 2020, the Audit Committee has reviewed the effectiveness of the risk management and internal control systems of the Group for the year 2019 and for the half year ended 30 June 2020 respectively, and considered the systems are effective and adequate.

Pursuant to an agreement dated 14 January 2014 between the Company and HK Electric Investments Limited for sharing of support services, HK Electric Investments Limited provides the relevant financial and accounting, treasury and internal audit services to the Company and to support its internal control functions.

Risk Management and Internal Control Environment

Effective risk management is fundamental to the achievement of the corporate strategic objectives, and an enterprise risk management framework is in place to provide top-down and bottom-up approaches to identify, assess, mitigate and monitor key risks at corporate and business unit levels in a pro-active and structured manner. More details are given in the Risk Management and Risk Factors on pages 55 to 59 of the Annual Report.

The Company's management encourages a risk aware and control conscious environment, setting 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 systems of risk management and internal control and accordingly the Group's risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Executive Directors review operational and financial reports and key operating statistics and hold regular meetings with responsible managers to review their reports.

Executive Directors and senior executives are appointed to the boards and board committees of all major operating subsidiaries, associates and joint ventures 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 and are subject to review and approval firstly by the Chief Executive Officer 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 has established guidelines and procedures for the approval and control of expenditure. Operating expenditure is subject to overall budget control, with approval levels being set by reference to the level of authority of each executive and officer. Capital expenditure is also subject to overall control within the approved budget of individual projects with more specific control and approval being required for overspending, unbudgeted expenditure and material expenditure within the approved budget. Monthly reports of actual versus budgeted and approved expenditure are also reviewed.

The treasury function, overseeing the Group's investment and funding activities, regularly reports to an Executive Director 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 legal and company secretarial function reports to the Chief Executive Officer, and oversees, among other things, the Group's compliance of the Listing Rules and other legal and regulatory requirements.

The internal audit function reports to an Executive Director and the Audit Committee, and provides independent assurance as to the existence and effectiveness of the

risk management activities and internal controls in the operations of the Group's business units. Staff members 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 on the Group's business units performed by Internal Audit includes financial, operations and information technology review, recurring and ad hoc audit, fraud investigation, productivity efficiency review and laws and regulations compliance review. Internal Audit follows up audit recommendations on implementation by business units and the progress is reported to the Audit Committee regularly.

With the assistance of Internal Audit, the Chief Executive Officer and an Executive Director review, among other things, the profile of the significant risks and how these risks have been identified, evaluated and managed, the changes since the last assessment in the nature and extent of significant risks, and the Group's ability to respond to changes in its business and the external environment, the scope and quality of management's ongoing monitoring of the risk management and internal control systems. In addition, they review the work of internal audit function and other assurance providers, the extent and frequency of communication of monitoring results to the Audit Committee which enables it to assess control of the Group and the effectiveness of risk management, any significant failings or weaknesses in internal control that have been reported, the necessary actions that are being taken promptly to remedy any significant failings or weaknesses, and the effectiveness of the Group's processes for financial reporting and Listing Rules compliance. They also review the results of the self-assessment on internal controls. The assessment of the effectiveness of entity-level controls is the first tier of the internal control self-assessment. Management of each business unit conduct surveys on entity-level controls self-assessment with reference to five components of internal control, namely, Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring Activities. The second tier of internal control self-assessment at key business process level is also

conducted to assess the effectiveness of controls over the operations within their areas of accountability and compliance with applicable laws and regulations. These assessments form part of the bases on which the Chief Executive Officer and an Executive Director formulate their opinion on risk management and internal control systems and report their results to the Audit Committee and the Board.

The Chief Executive Officer and other Executive Directors also have the responsibility of developing and implementing risk mitigation strategies including the deployment of insurance to transfer the financial impact of risk. The insurance function of HK Electric Investments Limited supports the Group with appropriate insurance coverage.

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 appropriate action is to be taken if required.

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

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

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, applicable to 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 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. 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.

Sustainability Governance

The Group is committed to the long-term sustainability of businesses and the communities in which businesses are conducted. The Board has overall responsibility for the Group's sustainability strategy and reporting and adopts a proactive approach.

During the year, to further strengthen the Group's sustainability governance structure, the Board has established its Sustainability Committee on 1 December 2020 to oversee management and advise the Board on the development and implementation of the sustainability initiatives of the Group, including reviewing the related policies and practices, and assessing and making recommendations on matters concerning the Group's sustainability development and risks. The Sustainability Committee is chaired by Mr. Tsai Chao Chung, Charles (the Chief Executive Officer), and the other members are Mr. Chan Loi Shun (an Executive Director) and Mr. Ip Yuk-keung, Albert (an Independent Non-executive Director).

The terms of reference of the Sustainability Committee are published on the Company's website and the HKEX's website.

Sustainability reporting is one of the important platforms for stakeholder engagement. The Group's Sustainability Report 2020 sets out its approach, commitments and strategy to sustainability, highlights its key achievements in 2020 with regard to its sustainability performance, outlines its plans and targets for the future, and addresses other concerns and comments raised by its stakeholders on its sustainability performance and reporting. The report was reviewed by the Sustainability Committee in a meeting held in March 2021 subsequent to the financial year end, and was unanimously recommended by committee members for the Board's approval.

The Sustainability Report 2020, to be published at the same time of this Report in April 2021, is available on the Company's website and HKEX's website.

Company Secretary

The Company Secretary of the Company supports the Board by ensuring good information flow within the Board and that board policy and procedures are followed. The Company Secretary is responsible for advising the Board through the Chairman and/or the Chief Executive Officer on governance matters and also facilitates induction and professional development of Directors. The Company Secretary also acts as the secretary to all board committees.

The appointment and removal of the Company Secretary is subject to approval of the Board. Although the Company Secretary reports to the Chairman and the Chief Executive Officer, all Directors have access for advice and service of the Company Secretary. Mr. Alex Ng, the Company Secretary of the Company, has day-to-day knowledge of the Group's affairs. He has received no less than 15 hours of relevant professional training during the year to refresh his skills and knowledge.

External Auditor

Independence

KPMG, the external auditor and Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance, have confirmed that they have been, for the year ended 31 December 2020, 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 2014 financial statements and the next rotation will take place in the audit of the 2021 financial statements.

Reporting Responsibility

The reporting responsibilities of KPMG are stated in the Independent Auditor's Report on pages 65 to 68 of the Annual Report.

Remuneration

An analysis of the fees of KPMG and other external auditors is shown in note 9 to the financial statements on page 91 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.

Dividend Policy

The Board has adopted a dividend policy which outlines the principles of payment on dividend. The dividend policy states that the Board is committed to maintaining an optimal capital structure and investment grade credit ratings. This is pursued to deliver returns to shareholders and ensure that adequate capital resources are available for business growth and investment opportunities.

Subject to business conditions, market opportunities and maintenance of the Company's strong investment grade credit ratings, the Board aims to deliver a sustainable dividend that improves over time in line with the Company's underlying earnings performance, consistent with its long-term growth prospects.

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, 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 general meetings, and at other times by emailing or writing to the Company. The Board has adopted a communication policy which provides a framework to promote effective communication with shareholders. The policy is available on the website of 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 140 of the Annual Report.

Pursuant to section 566 of the Companies Ordinance, shareholders representing at least 5% of the total voting rights of all the shareholders of the Company having a right to vote at general meetings may request for the convening of a general meeting. The request stating the general nature of the business to be dealt with at the meeting should be signed by the requisitionists and sent to the Company in hard copy form or in electronic form. Pursuant to sections 580 and 615 of the Companies Ordinance, shareholders qualified under sub-section (3) and sub-section (2) of the respective sections may request for the Company's circulation of statements with respect to proposed resolutions to be considered at a general meeting and the Company's giving of notice of a resolution intended to be moved at an annual general meeting. The request should be signed by the requisitionists and sent to the Company in hard copy form or in electronic form in accordance with the statutory provisions. Pursuant to article 122 of the articles of association of the Company, shareholders may propose a person other than a retiring director of the Company for election as a director of the Company at any general meeting, the procedures for which are posted on the Company's website.

2020 Annual General Meeting

The annual general meeting is a main channel of communication between Directors and shareholders. The 2020 Annual General Meeting was held at Harbour Grand Kowloon on 13 May 2020. With the outbreak and spreading of the COVID-19 pandemic, a live webcast of the 2020 Annual General Meeting proceedings was arranged for the registered shareholders not attending the meeting in person to access online.

The notice of meeting, the annual report and the circular containing information on the proposed resolutions were sent to shareholders on 3 April 2020 which were more than 20 clear business days (as defined in the Listing Rules) and more than 21 clear days (as required by the Company's articles of association) prior to the meeting. The chairman and members of the Audit Committee, the Remuneration Committee and the Nomination Committee respectively were available at the meeting to answer questions from the shareholders. Representatives from KPMG, the external auditor, were also available at the meeting to answer questions. A separate resolution was proposed by the Chairman in respect of each substantially separate issue, and voting on each resolution was conducted by way of a poll. The poll voting procedure was explained fully to 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

- Audited Financial Statement, Report of the Directors and the Independent Auditor's Report for the year ended 31 December 2019 (99.718223%);
- Declaration of a final dividend of HK\$2.03 per share (99.860326%);
- Election of Mr. Andrew John Hunter (75.674099%), Mr. Ip Yuk-keung, Albert (84.776871%), Mr. Li Tzar Kuoi, Victor (66.266601%), Mr. Tsai Chao Chung, Charles (94.706443%) and Mr. Lui Wai Yu, Albert (99.007959%) as Directors;

- Re-appointment of KPMG as auditor and authorisation of Directors to fix their remuneration (96.204839%); and
- General mandates to Directors to issue and dispose of additional shares of the Company (64.097725%) and to repurchase shares of the Company (99.789979%), and extension of the general mandate to issue shares (64.771102%).

Special Resolution

- Amendments to the articles of association of the Company (99.652781%)

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

Company's Website

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

Articles of Association

At the 2020 Annual General Meeting of the Company held on 13 May 2020, the Company's articles of association were amended by passing of a special resolution in order to allow the Company to hold general meetings as hybrid meetings where shareholders may participate by means of electronic facilities in addition to physical attendance, and to provide for other flexibility in relation to the conduct of general meetings.

The updated version of the articles of association of the Company is available on the Company's and HKEX's websites.

Interests and Short Positions of Shareholders

As at 31 December 2020, shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange were as follows:

Substantial Shareholders

Long Positions in Shares of the Company

| Name | Capacity | Number of Shares Held | Approximate % of Shareholding |
|---|---|-----------------------|-------------------------------|
| Venniton Development Inc. | Beneficial owner | 153,797,511 (Note 1) | 7.21% |
| Interman Development Inc. | Beneficial owner | 186,736,842 (Note 1) | 8.75% |
| 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 | 767,499,612 (Note 2) | 35.96% |
| CK Infrastructure Holdings Limited | Interest of controlled corporations | 767,499,612 (Note 2) | 35.96% |
| Hutchison Infrastructure Holdings Limited | Interest of controlled corporations | 767,499,612 (Note 3) | 35.96% |
| CK Hutchison Global Investments Limited | Interest of controlled corporations | 767,499,612 (Note 3) | 35.96% |
| CK Hutchison Holdings Limited | Interest of controlled corporations | 767,499,612 (Note 3) | 35.96% |

Notes:

- (1) These are direct or indirect wholly-owned subsidiaries of Hyford Limited ("Hyford") and their interests are duplicated in the same 767,499,612 shares of the Company held by Hyford described in Note (2) below.
- (2) CK Infrastructure Holdings Limited ("CKI") is deemed to be interested in the 767,499,612 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 CK Hutchison Holdings Limited ("CK Hutchison") in the Company described in Note (3) below.
- (3) CK Hutchison is deemed to be interested in the 767,499,612 shares of the Company as referred to in Note (2) above as it holds more than one-third of the issued voting shares of CK Hutchison Global Investments Limited ("CKHGI"). Certain subsidiaries of CKHGI hold more than one-third of the issued voting shares of Hutchison Infrastructure Holdings Limited which in turn holds more than one-third of the issued share capital of CKI.

Save as disclosed above, as at 31 December 2020, 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 SFO, or as otherwise notified to the Company and the Stock Exchange.

Public Float

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

Continuing Connected Transactions during 2020

Services Agreements between HMGP and Husky Energy's affiliates

Pursuant to an investment agreement dated 25 April 2016 entered into between the Company, CKI and Husky Energy Inc. ("Husky Energy") and upon completion of transactions contemplated under the agreement, Husky Midstream General Partnership ("HMGP", a wholly-owned subsidiary of Husky Midstream Limited Partnership ("HMLP")) entered into the services agreements as set out in no. (1) to (5) in the below table (collectively, the "HMGP Services Agreements"), in each case subject to pre-agreed annual caps and with effect from 1 July 2016 and up to 31 December 2036.

On 16 March 2018 and following the entering into of supplemental agreements to expand the businesses and affairs of the HMLP Group to cover the management of gas processing projects and related activities, (a) HMLP and its subsidiaries HMGP, HoldCo, PipeCo and FinanceCo and its general partner GPCo entered into a revised annual cap agreement with HOOL, HEMP and Blender GP# (each a wholly-owned subsidiary of Husky Energy) (the "Revised Annual Cap Agreement") to revise the annual caps for the continuing connected transactions under the HMGP Services Agreements; and (b) HMGP and HOOL entered into a midstream services agreement as set out in no. (6) in the below table (the "Midstream Services Agreement").

| Services Agreement (Parties) | Nature of Services | Payment |
|--|--|--|
| (1) Management and Operating Services Agreement (HMLP, HMGP, GPCo*, PipeCo*, HoldCo*, FinanceCo* and HOOL*) | HOOL is engaged to provide operating services in respect of the pipeline and terminal system and any other assets owned by HMGP and management services to the relevant subsidiaries of HMLP, including but not limited to exercising and performing HMGP's rights and obligation under various HMGP Services Agreements, preparing and submitting various budgets, plans and proposals to GPCo and conducting businesses on its behalf. | HMLP and its relevant subsidiaries is required to pay their respective shares of all costs and expenses incurred by HOOL in the performance of its duties and responsibilities, including reasonable professional, legal, accounting and administrative costs and expenses, on at costs basis. |
| (2) Construction Services Agreement (HMGP and HOOL) | HOOL is engaged as the contractor to provide engineering, procurement and construction services and to perform necessary works to complete certain specified projects of HMGP. | HMGP is required to reimburse HOOL for all costs and expenses incurred by HOOL in performing or completing any work or otherwise under the agreement, other than any construction capital incurred by HOOL in excess of the target costs for a project. If the actual construction capital incurred is less than the target cost, HOOL is entitled to the amount equal to the target cost for the project. |

|  Services Agreement (Parties) | Nature of Services | Payment |
|--|---|--|
| (3) Blending Services Agreement# (HMGP and HEMP#) | HEMP is provided with access to the HMGP system to carry out blending services on behalf of HMGP in respect of all procurement, administrative and other activities required relating to the blending of dry crude delivered by shippers with diluent to allow for transportation of blend on the HMGP system, and is granted the sole and exclusive right to conduct ancillary blending activities on the HMGP system on its sole account. | HEMP is required to pay HMGP a pre-agreed annual fee (or a pro-rated amount for any contract year that is not an entire 12-month period). |
| (4) Transportation and Terminalling Services Agreement (HMGP and HEMP (as shipper)) | HMGP provides transportation and terminalling services for HEMP, including the receipt, blending and commingling of products, provision of laboratory services and the facilitation of measurement of products. | HEMP is required to pay HMGP a pre-agreed annual revenue amount based on expected volume throughput and tariffs. If the revenue generated from/by HEMP's throughput and tariffs is less than such amount, HEMP is required to pay the pre-agreed amount and is entitled to receive credits to use for reducing the base tariff amount in any subsequent month where the revenue generated from HEMP's throughput is greater than the pre-agreed amount. If the amount paid by HEMP based on actual throughput and tariffs in a year less the total amount of all credits received by HEMP (due to throughput and tariffs in earlier months being less than the pre-agreed amount) exceeds the pre-agreed amount, HEMP is entitled to a rebate equal to 25% of the amount of such difference. |
| (5) Storage Agreement (HMGP and HEMP) | HMGP provides storages services to HEMP, including but not limited to the receipt, delivery and transfer of products, making available capacity in the storage facilities owned or operated by HMGP (including designated storage tanks, on a sole and exclusive basis, and additional storage capacity in the non-dedicated facilities, on a non-exclusive basis). | HEMP is required to pay HMGP a pre-agreed fee for reservation and utilisation of storage capacity in storage tanks for HEMP's use regardless of the volume of product delivered into or withdrawn in a month, and agreed tolls in respect of non-dedicated storage facilities. |



Services Agreement
(Parties)

Nature of Services

Payment

| | | |
|---|---|---|
| (6) Midstream Services Agreement (HMGP and HOOL) | HMGP provides services to HOOL in connection with receiving, processing and handling petroleum, natural gas, natural gas liquids and related hydrocarbons (the "Inlet Substances") in the natural gas processing facility near Edson, Alberta and the outlet residue pipelines and related ancillary facilities; delivery of substances processed from the Inlet Substances to specified delivery points; and handling, transportation, disposal and delivery of all associated waste substances removed from the Inlet Substances. | HOOL is required to pay to HMGP a monthly service fee payable in the sum of the fee for processing a fixed amount of Inlet Substances which HMGP commits to process monthly for HOOL; HOOL's share of the monthly budgeted operating costs; and an additional fee for processing the Inlet Substances produced by third parties. If the fee payable for the first component is less than the monthly threshold amount prescribed under the Midstream Services Agreement, HOOL will be required to pay HMGP an amount equivalent to the shortfall. |
|---|---|---|

The original contracting party was Husky Blend General Partnership ("Blender GP"), a wholly-owned subsidiary of Husky Energy. On or about 1 January 2020, Blender GP assigned its entire right, title and interest under the Blending Services Agreement to Husky Energy Marketing Partnership ("HEMP"), another wholly-owned subsidiary of Husky Energy, by virtue of which HEMP became the succeeding contracting party.

* Husky Midstream General Partner Inc. ("GPCo") is the general partner of HMLP. LBX Pipeline Ltd. ("PipeCo"), Husky Midstream GP 1% Partner Ltd. ("HoldCo") and Husky Canada Group Finance Ltd. ("FinanceCo") are wholly-owned subsidiaries of HMLP. Husky Oil Operations Limited ("HOOL") and HEMP are wholly owned by Husky Energy.

HMLP is considered as a material joint venture of the Company. For the year ended 31 December 2020, Husky Energy was a connected person of the Company, and the transactions under the HMGP Services Agreements (as amended by the Revised Annual Cap Agreement with the revised annual caps) and the Midstream Services Agreement constituted continuing connected transactions (the "HMGP Continuing Connected Transactions") for the Company under the Listing Rules. The annual caps applicable to the Management and Operating Services Agreement, the Construction Services Agreement, the Blending Services Agreement, the Transportation and Terminalling Services Agreement, the Storage Agreement and the Midstream Services Agreement were CAD55.5 million, CAD21.5 million, CAD30.0 million, CAD238.0 million, CAD33.8 million and CAD29.0 million respectively, and the amount paid/received in respect of such year subject to annual review requirements under the Listing Rules were approximately CAD28.5 million, approximately CAD2.5 million, CAD30.0 million, approximately CAD169.9 million, approximately CAD32.0 million and approximately CAD17.4 million respectively.

Shareholders have been informed of the continuing connected transactions contemplated under the Revised Annual Cap Agreement and the Midstream Services Agreement in the announcements posted on the respective websites of the Company and HKEX on 16 March 2018 and 9 May 2018 and the circular to shareholders dated 11 April 2018.

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

Pursuant to an operation and management contract dated 2 April 2009 entered into between Outram Limited (“Outram”), an indirect wholly-owned subsidiary of the Company, and Cheung Kong China Infrastructure Limited (“CKCI”), as supplemented by notices issued by Outram to CKCI on 30 September 2011, 30 September 2014 and 29 September 2017 by which its term was extended to 1 April 2021, CKCI agreed to provide Outram with services in relation to the operation and management of Outram’s power plant investments in Mainland China. 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\$20.0 million for year 2020.

CKCI is an indirect wholly-owned subsidiary of CKI, a substantial shareholder of the Company, and therefore CKCI’s provision of the services to Outram constituted continuing connected transactions (the “Outram Continuing Connected Transactions”) for the Company under the Listing Rules. The aggregate amount paid for the year ended 31 December 2020 attributable to the Outram Continuing Connected Transactions subject to annual review requirements under the Listing Rules was approximately HK\$19.98 million.

All the Independent Non-executive Directors have reviewed the HMGP Continuing Connected Transactions and the Outram Continuing Connected Transactions in the 2020 financial year and confirmed that those transactions had been entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) in accordance to the agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the auditor of the Company have been engaged to report on the HMGP Continuing Connected Transactions and the Outram Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants. The auditor have issued an unqualified letter to the Board containing their finding and conclusions in respect of the HMGP Continuing Connected Transactions and the Outram Continuing Connected Transactions, in which they have confirmed that nothing has come to their attention that caused them to believe that the continuing connected transactions in the 2020 financial year (i) had not been approved by the Board; (ii) were not entered into, in all material respects, in accordance with the relevant agreement governing such transactions; and (iii) had exceeded the annual cap amount for the 2020 financial year.

Other Transactions

In connection with the spin-off and separate listing of the Group’s electricity business in Hong Kong in January 2014 the Company entered into the following transactions:

Non-competition Deed with HK Electric Investments Limited

The Company entered into a deed of non-competition dated 14 January 2014 (the “Non-competition Deed”) with HK Electric Investments Limited, pursuant to which the Company has undertaken that save for certain exceptions the Group will not on its own account or with each other or in conjunction with or on behalf of any person, firm or company, carry on, or be engaged in or interested in, directly or indirectly, whether as a shareholder, partner, agent or otherwise (other than through its holding of share stapled units in HKEI), the business of generation, transmission, distribution and supply of electricity in Hong Kong.

The Company has complied with the Non-competition Deed during 2020 and has, in accordance with the Non-competition Deed, provided HK Electric Investments Limited with its annual written confirmation.

Deed relating to investment opportunity in power projects with CK Infrastructure Holdings Limited

The Company entered into a deed relating to investment opportunity in power projects dated 10 January 2014 (the “Investment Opportunity Deed”) with CKI to further enhance the delineation between the future business focus of the Company and CKI in power projects and projects other than power projects respectively. Pursuant to the Investment Opportunity Deed, CKI has undertaken that if it is offered an opportunity to invest in any power projects it will inform the Company and offer the opportunity to the Company, and CKI may only invest in any power project if (i) the Company (with the endorsement of its independent non-executive directors or a committee thereof) invites CKI to participate as a co-investor and (ii) the investment opportunity is in respect of a power project of an enterprise value exceeding HK\$4 billion. Any co-investment by the Company and CKI will be subject to compliance with the applicable requirements of the Listing Rules, including independent shareholders’ approval (if required).

The Investment Opportunity Deed also requires CKI and the Company to review the deed’s implementation as part of its internal audit plan and the respective audit committee of CKI and the Company to review the deed’s compliance.

In accordance with the Investment Opportunity Deed, a committee comprising all its independent non-executive directors has reviewed the compliance by CKI with the terms of the deed and any decision by the Group regarding any exercise of the rights under the deed. Having considered the Company’s internal control framework of ensuring the deed’s compliance, Internal Audit’s compliance review report, CKI’s annual compliance confirmation to the Company and other relevant documents, the committee has confirmed its view that during 2020, CKI complied with the terms of the Investment Opportunity Deed and the Group’s decisions regarding any exercise of the rights under the deed are made in accordance with the requirements thereof.